MURRAY
INVESTMENT MANAGEMENT

2nd Quarter 2017 Update

Equity markets performed well during the 2nd quarter with the S&P 500 posting a 3.09% return. For the year, the index is up 9.34%. The technology, consumer discretionary and health care sectors have been the better performers while the energy sector produced the weakest results. With the strength in the technology space, the Nasdaq is up over 14% year to date. The broad International market is up 13.81% for the year and outperformed the S&P 500 by over 4% with emerging markets showing particular strength (up 18.60%). The strength in the International space is a change from recent years when the S&P 500 soundly outperformed International.

The U.S. Federal Reserve raised interest rates .25% to a range of 1% - 1.25% in June and expects to make 1 additional increase by the end of the year. The Fed raising rates is a good sign as it indicates that the overall economic environment is improving, and the higher rates provide more attractive returns for fixed income investments. Rates remain at historically low levels, however, and the fixed income space is generally not very attractive. Given the potential for rate increases, I have chosen to hold a larger than typical cash position in the fixed income allocation of most portfolios, but this will likely change as rates rise and better fixed income investment opportunities present themselves.

The U.S. economy is expected to continue to grow modestly and potentially drive corporate earnings higher, which should be good for the equity markets. The Trump economic plan, which includes lower taxes, increased federal spending and a reduced regulatory environment, should provide a favorable economic backdrop if the administration is able to get the plan implemented. The success of the policy implementation will likely impact markets throughout the 2nd half of the year.

As interest rates rise, there is concern that investors could pull cash from the equity markets to seek higher yielding fixed income securities, which could weigh on equities. In addition, domestic equity market valuations remain on the higher end of their long-term averages and have been trading with extremely low volatility. This low equity volatility will not last forever, and we will likely have higher volatility with some market pullbacks over the next 12-18 months. That being said, equity markets can still grind higher with an improving economy and stronger corporate earnings. In this environment, I will continue to look for attractively priced securities and will consider any sort of market correction as an opportunity for potential investments.

Please give me a call with any questions.

Source: Morningstar, federalreserve.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 06/30/2017. Index returns are total returns except for MSCI EAFE which is a net return.

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