McBork Report
2nd Quarter 2017

May 17, 2017

Dear Clients:

I'm reaching out to you on this beautiful spring day to send my best wishes and to fill you in on the world of investments. The news is generally positive. The most broadly cited measure of U.S. stock market performance, the S&P 500 Index, is up a healthy 7% year to date and is trading at all-time highs. Also remarkable is performance of the Volatility Index (VIX), a widely cited forward-looking measure of market risk and investor fear. Typically a VIX reading of 30+ suggests high investor fear and market volatility while a VIX reading of less than 20 presumes a market under less stress and complacency. Last week the VIX reading was in the single digits for the first time since December of 1993, suggesting low market volatility.

As noted above, 2017 has been quite positive for U.S. equities, but overseas stocks have performed better. The Dow Jones Global ex. US Index is up almost 11% year to date. This is a notable turnaround. International stocks registered quite lackluster performance compared to the U.S. stocks for the past several years. In fact, from 2011 through 2016 the composite return of the S&P 500 Index was +77% while the composite return of the Dow Jones Global ex. US Index for the same period was just + 22%...and almost half of that occurred in the first four months of this year. I believe that this investor sentiment shift toward international equities will continue, at least over the short term. Consequently we are currently looking to add to our international equity positions in client portfolios.

The market's post-election optimism fueled a rally that lasted through mid-February on expectations that three economic drivers would soon kick-in: lower taxes, reduced regulation, and infrastructure spending. The S&P 500 has essentially stalled since mid-February because these expectations have not been met. U.S. stock indices, however, continue to trade near all-time highs.

I expect President Trump's strong push for regulatory reform to continue. Next on the agenda, it appears, is his controversial plan to repeal Dodd-Frank, the massive bank regulation introduced after the housing market collapse in 2008.

Predictions for introduction of tax reform legislation in August of this year are now being modified. Such legislation may not happen until sometime in spring 2018…just months before mid-term elections. If the health care fight is any indication, any expectations for a massive overhaul of the tax code may be greatly overblown. Many Republicans may balk at unfunded tax cuts and defense spending increases as perilous to deficit reduction. Many Democrats will balk at spending cuts aimed at their constituencies as well as tax breaks that appear to favor the affluent. If the administration's tax reform proposals stall in congress, stock market enthusiasm may wane. The market could conclude that economic growth initiatives may be neither as robust nor as rapid as expected.

President Trump has proposed a 10 year/$1 trillion focus on infrastructure spending for roads, bridges, schools, hospitals and airports. He has promised to release more details about this massive outlay designed to both stimulate the economy and put many people to work. However, Robert Doll, Chief Equity Strategist for Nuveen Asset Management LLC, believes that the final outlay will be closer to $250 to $300 billion. The more modest the stimulus, the more modest the predicted market response.

Remember, security markets like certainty. Recent increased uncertainty has surely played a role in stalling the markets over the last three months. All of this argues for continued cautious investment over the short-term but none of this convinces me that it would be wise to exit the markets all together. If you have any questions or concerns, please call 312-923-8700 or email me at gregory.bork@lpl.com. I welcome the opportunity to check in with you periodically, both about your investment portfolio or about more general life planning issues.

Take care. Here is hoping for a great start to summer!!

Sincerely,

Gregory Bork Jr.
LPL Registered Principal

VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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Investing involves risk including loss of principal

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

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