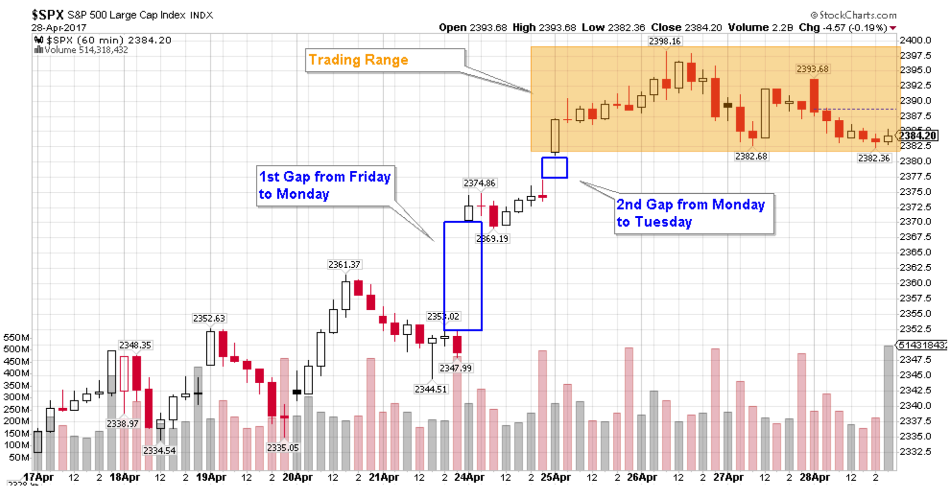
GBA Financial

Monthly Newsletter
May 2017

COMMENTARY

The final weekend of April was a market-moving event. President Trump tweeted that the White House would be announcing the much-anticipated tax reform plans; as if that weren't big enough news for investors, the first run-off of the French election took place. Both provide enough optimism that investors bid up the S&P 500 heading into the opening bell Monday morning. An hourly bar chart of the S&P 500 (below) shows the market gapping up from its close on Friday to the opening trade on Monday morning (1st Gap) and also shows the continued strength with a 2nd Gap the following morning. Wednesday through Friday witnessed the market trade in a range as investors took profits and digested the details of the tax reform announcement (which occurred on Wednesday, April 26). The tax reform announcement provided very general detail of what the White House wants to work toward with Congress. There were ten primary amendments to the tax policy: corporate tax rate of 15%, allow pass-through rate for business owners, no border-adjustment tax, a slight adjustment to individual tax rates, doubling of the standard individual tax deduction, a one-time repatriation tax, elimination of the estate tax, elimination of itemized tax deductions other than charitable donations and mortgage payments, repeal a 3.8% tax on net investment income, and repeal the alternative minimum tax.



This is going to be a very large and difficult task, which comes with immense pressure to get passed. Rewind back to just after the election and you'll recall the markets making large gains as investors priced in a pro-growth President that could spur the economy forward. After a failed initial attempt to repeal the Affordable Care Act (ACA), investors are concerned that the super majority the Republicans have won't be enough to get a tax reform bill and/or an infrastructure bill passed. We believe the market has priced in somewhere between 50-75% of a tax reform and infrastructure spending, so failing to pass one or both could see the market sell off. As of right now, a selloff could provide a buying opportunity with the health of the economy, but we'll wait to make that call if/when either bill isn't passed.

(cont. on reverse)

ECONOMIC HIGHLIGHTS

S&P 500	2,388.13
DJIA	20,980.46
NASDAQ	6079.15
Oil	$46.88/barrel
Gold	$1,229.00/ounce
10 Year Treasury Yield	2.36%
Unemployment	4.5%
GDP	0.7% (Q1 advance estimate)
Consumer Price Index (CPI)	-0.3% 12 month change: +2.4%
Core CPI	-0.1% 12 month change: +2.0%

☺ **ISM Manufacturing Index -** Based on surveys of more than 300 manufacturing firms by the Institute of Supply Management, the index has beat consensus seven months in a row. ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries.

😐 **Consumer Confidence -** Consumer confidence index was solid again, but did back down from the level it was at in March. We suspect this is just a minor blip in the larger picture.

☹ **GDP -** First quarter GDP estimate came in very weak at 0.7% annualized growth. Consumer spending only rose 0.3%, which is the worst showing since the fourth quarter of 2009.

(cont.)

Across the ocean, France held the first round of the 2017 French presidential election. The results didn't produce a candidate winning the majority, so a run-off election between the top two candidates (Emmanuel Macron and Marine Le Pen) will be held on May 7. This election is being watched very closely. Marine Le Pen is trailing in the polls (not that the polls have been spot on lately, cough… Brexit and President Trump… cough), but if she's able to claim victory, her first priority will be working on leaving the European Union (EU) like the U.K. is doing. This would be a major hit to the EU and call into question its continued existence. As we watch for data points and negotiations to be finalized, our team will determine if and when our best-, worst-, and base-case scenarios for Europe change. We expect there to be an opportunity in international developed markets with Quantitative Easing and improving economic numbers, but the risk of Brexit negotiations versus the reward is not tilted in the reward's favor enough to be very aggressive.

Many economic and technical indicators point to a bullish economy and stock market. U.S. large-cap stocks have been performing well the last two years and we expect this to continue but also believe that small- and mid-caps are positioned to take the lead as risk appetite increases. That said, we recently made the decision to increase the exposure to small-caps and reduce exposure to large-caps. We feel a shift into small-caps should benefit the portfolio over the next three to five years. An improving economy and strong balance sheets for US consumers and businesses should continue to drive the economy forward. As investors' risk appetites grow, we believe this will also benefit small-caps.

Sector-wise, we are bullish on Technology, Industrials, and Financials, but are cautious in Utilities, Health Care, and Consumer Staples. Emerging Markets valuations look very attractive, and we do believe there will be an opportunity to benefit from these valuations, but again we are in a wait-and-see mode regarding Trump and his policies on trade agreements. Our fixed income positions have been weighted towards low duration, which historically tend to do better in a rising interest rate environment; we believe this is still the best positioning, as we think rates have more room to go. We continue to be tactically underweight to government bonds and overweight to corporate, high-yield, floating rate, and global bonds. With our daily monitoring, we'll continue to rebalance models when they fall outside their target threshold.

Economic Highlights

Index	3 Mo	1 Yr	3 Yr	5 Yr
S&P 500	5.16	17.92	10.47	13.68
MSCI EAFE	7.09	11.83	1.32	7.27
BarCap Agg Bond	1.40	0.83	2.66	2.27

Data as of 4/30/2017. Investments cannot be made directly into an index.

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