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MARKET COMMENTARY: 2017 Q1

Wow, what a difference a year can make! Some of you may recall that at this time last year we were writing about how the S&P 500 had sold off more than 10% in February before snapping back to a modest 1.35% return in the first quarter. Fast-forward a year and in 2017 the same index had a strong first-quarter and one-year performance (thru 03/31/2017), up 6.07% and 17.17%, respectively.

On a different note, I have received feedback in the past that at times the market commentary uses terminology and discusses principles that are a bit technical. The thought with this installment is I would take a step back and for those that desire, I have attached the market commentary from our home office that discusses markets in more detail. For this brief writing, I want to give a sense of where we are today as part of what may be viewed as our "elevator speech" for the market commentary.

Current market valuation levels:

I don't feel the S&P 500 is cheap at current levels but I don't have an immediate fear it is becoming too overvalued either. Additionally, recessionary risks seem low in the U.S. and low throughout most of the world based on favorable growth policies. To be clear, we continue to have a positive outlook on many markets outside the U.S. and think they offer attractive, risk-adjusted opportunities relative to the U.S. In fact, both International Developed markets (MSCI EAFE Developed Markets Index) and International Emerging markets (MSCI Emerging Markets Index) outpaced the S&P 500 during the first-quarter of 2017. One reason to look outside the U.S. is that a lot of that growth is in the early stages of an economic expansion whereas the current U.S. expansion is later-stage. Viewed another way, the U.S. has been at the punch bowl for a while and the rest of the world is now joining us.

Where U.S. markets go from here:

Perhaps the most widely asked question from our clients is "what is going to happen next to U.S. markets"? The answer is quite simple: no one knows *definitively*. What we do know is there are many data points investors and analysts research and regress to forecast that answer. Furthermore, a lot of that data would lead us to believe that even though the U.S. market has had a great market run (that is now entering its eighth year) things can go higher. It is interesting to know that since 1937, the S&P 500 has posted a positive return 76% of the time (with an average return of 11.5%) in years following the index closing positive at least 10%. Does this mean the S&P 500 still has room to run? We think so but don't know for sure. From a historical perspective, perhaps we shouldn't be surprised if it does.

In my view, the near-term risk to an otherwise positive outlook lies in the difficulty of incorporating shocks into a model in an economically feasible way. By definition, a shock is an unknown or unanticipated event and those that take place outside of the financial system (exogenous shocks) are a key focus. These shocks generally lead to a market sell-off and may be compared to "wild-card" events – maybe an aggressive President Trump Tweet – that can lead to some chaos. Important to know is that these types of shocks are always present and have existed historically. Longer-term the market makes its way through the event and we generally look back and say "that wasn't so bad after all".

Please know I appreciate your trust and confidence as much as ever. If you wish to discuss our specific situation in more detail, please do not hesitate to reach out to my office.

Jeff

Disclosure:

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S&P 500® Index: Capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The total return version of the index is used, which reflects the effects of dividend reinvestment.

MSCI EAFE Developed Market Index: The Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE) Index is composed of all the publicly traded stocks in developed non-U.S. markets. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.