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INVESTMENT SUMMARY

4th Quarter 2017

The widely followed S&P 500 equity benchmark registered a 6.6% return in the fourth quarter, capping a terrific 2017 for investors. It was also one of the calmest years in the market, with all twelve months registering a positive gain (last achieved in 1958). Not to be left out, the Dow Jones also posted record highs, with the index hovering near 25,000 at year end. Market leadership came from the technology sector, with large cap stocks such as Apple, Microsoft, and Google contributing to the 40% annual return for this industry group. In the U.S. and abroad, markets continued to be propelled higher by accommodative monetary policy, strong corporate earnings, and rebounding industrial production.

The year 2017 concluded with the passage of U.S. tax cuts which are expected to boost the profitability of American businesses. The U.S. consumer is also coming to life on the spending front; according to a recent Mastercard survey, Americans substantially increased their holiday spending by 4.9% from the prior year. China, the world's second largest economy, enjoyed accelerating growth for the first time in years. Chinese GDP growth is expected to register near 6.8% for 2017, with the outlook for China and surrounding Asian economies looking very bright as we move into the New Year.

With the global economy growing in a synchronized way, policymakers and investors alike will be on the lookout for signs of overheating business conditions in the form of inflation. Commodity prices have been rising at a strong clip, and are poised to continue that trend as oil prices push towards $65 a barrel (a two-year high). To counteract these signs of an over-charged global economy, we expect the central banks to drain liquidity from the markets. Specifically, the Fed and the European Central Bank are targeting a $1 trillion reduction of their balance sheets in 2018 alone. This substantial reduction of liquidity from global markets is designed to stabilize asset prices, but can also have a dampening effect on economic activity and financial markets in general.