DFM
Diversified Financial Management

80 Washington Street • Building E-13 • Norwell, MA 02061
781.792.0440 • Fax 781.792.0606
dfm@dfmwealth.com

ECONOMIC AND INVESTMENT FORECAST
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The signing of the Tax Cuts and Jobs Act is a significant development and caps a terrific period for investors, with 2017 marking the ninth year of this enduring bull market and economic expansion. While there is much to parse through in this major tax legislation, corporations will find a substantially lower tax rate of 21%, and individuals will see the same seven individual tax brackets, but at lower rates. There are many additional provisions in the tax reform bill which will have varying impacts on the amount of taxes paid by individuals and businesses. Finally, divisive politics is contributing to varied opinions on the winners and losers of this major tax overhaul. With President Trump expected to sign the legislation shortly, we all look forward to learning more about the finer details of this bill.

Prospects for lower business and individual tax rates in the U.S., coupled with expectations for steady revenue and earnings growth on the part of corporations, have created a healthy economic outlook. With the all-important consumer confidence index recently registering at its highest reading since 2000, the U.S. economy has the underpinnings to achieve 3% GDP growth in the 4th quarter and sustain that rate of expansion into 2018. On the investment front, many major stock indices have achieved gains north of 20% for the year, leaving investors feeling bullish, and maybe a bit overconfident, with their forecasts for future market returns.

Achieving this kind of robust economic growth in the U.S. will require accommodative monetary policy administered by the Federal Reserve, which has been a hallmark of this enduring economic expansion. With the recent change of leadership at the Fed, new Chair Jerome Powell is taking the helm and is believed to be supportive of the status quo (i.e., easy monetary policy). A steady hand on the part of the Federal Reserve's Chairman is important, as the market has found the measured pace of rate increases to have a calming effect on asset prices. Looking ahead, we are forecasting at least two interest rate hikes in 2018.

With elevated levels of business confidence and investor optimism comes the potential for disappointment, with risks to the economic expansion and bull market not to be ignored. Despite solid equity market fundamentals, stocks in general are certainly not undervalued, thus making a repeat of 2017's equity market performance unlikely next year. A surge in inflation and interest rates is an additional concern in 2018. With almost all major economies at full employment, higher wages could be around the corner, triggering interest rate hikes by the major Central Banks. Historically, we know that rising interest rates can be a precursor to recession. Noting that 2017 was absent of even a 3% correction in the S&P 500 Index (a new record), investors should expect more normal levels of volatility in 2018. With that in mind, diversification, risk management, and careful investment selection will continue to define our approach to managing portfolios as we transition into 2018.