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2017… The Year That Was

- ✓ Equities were strong performers around the globe
- ✓ Interest rates remained low, although we expect more Fed rate increases in 2018
- ✓ Synchronized global expansion is fueling investor optimism
- ✓ Regulatory reforms and the GOP tax package are market-friendly developments

Although the calendar has turned over to 2018, the stock and bond markets are looking much as they did in 2017, with a steady bid for equities, and with interest rates at still-low levels. Although a repeat of 2017's strong stock market performance is unlikely, it is not impossible, given the tailwinds both domestically and in the global economy.

Domestically, the stock market had a broad-based rally. The S&P 500 index advanced 19.4% on the year, and 21.6% when considering dividends. Large technology stocks were the clear market winners, rising close to 40% in the aggregate. In other market sectors, consumer discretionary, materials, industrial, financial and healthcare stocks all returned about 20%. Defensive bond-proxy sectors such as utilities, telecommunications and REITs lagged over the year, as investors preferred more economically-sensitive exposures.

The stock market was also distinctive for its consistency and the lack of volatility. The S&P 500 delivered positive returns in every single month of 2017, a feat not seen since 1958. The year passed without a stock correction; the maximum drawdown for the index was less than 3%, versus an intra-year average of about 14%, demonstrating the resiliency of the market and the willingness of investors to step in whenever mild weakness surfaced.

Interest rates remained low both here and abroad. The 10-year US Treasury ended the year right were it began, at 2.4%. Rates overseas were lower still, the result of bond purchases by the European Central Bank. Low interest rates continue as a major underpinning to stock market prices. In the new year, we expect to see rates trend a bit higher at long last, due primarily to price pressures resulting from firming economic growth.

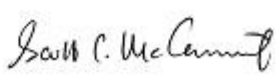
Nearly all countries (94% globally) generated positive economic growth for the year, with more than half of all countries (61%) experiencing an acceleration in economic growth. Domestically, the economy's breadth of participation has deepened, from housing to consumption to manufacturing and services. Unemployment fell to the lowest level since

2000, and business investment accelerated. All the world's major economic regions are expected to post further growth in the new year.

The Trump Administration's continued push for regulatory simplification and rollback is having an effect. Apart from substantive rule changes affecting industries, the confidence level in both businesses and households is historically strong at present. Even more significant is the recently enacted GOP tax package, which cut corporate taxes, and also personal taxes for a majority of Americans. We will learn of the tax package's effects over the fullness of time, but we believe the measure is pro-growth. With a lower tax burden, companies are immediately more profitable, helping to boost earnings forecasts in 2018.

Although the duration of the current expansion often prompts questions of its sustainability, we note that previous bull markets seldom die of old age. There is ample evidence that the global landscape is stronger today than at any previous point in the current expansion. The macro environment remains fertile ground for most asset markets. Absent a shift in macro drivers, we believe conditions remain supportive for investing, although with more moderate returns than in the remarkable year just finished.

Respectfully submitted,



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