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- Equities across the globe have had a strong start to the year, extending their momentum from 2017

- Synchronized global expansion, regulatory reforms and the GOP tax package are fueling market optimism

- Rising interest rates may soon provide stronger competition for stocks

- We're overbought in the short term. We are still optimistic for equities, on a longer view

The new year is only a month old, and already about $2.5 trillion has been added to the market capitalization of global equities. Almost every major yardstick for global stock prices ended January on a strong note, as the prospects of sturdy corporate earnings and solid economic growth have enabled a steady bid for equities. At the same time, the Trump administration's continued push for a lighter regulatory framework should be an incremental positive for investors. Even more significant over the longer term is the new GOP tax package, which cut corporate taxes, and personal taxes for most Americans.

We will get increasing clarity on the impact of tax reform over the fullness of time. At present, companies are not hoarding all their tax gains solely to benefit shareowners. A broad swath of companies have announced wage increases and bonuses for their employee stakeholders, although a good deal of this beneficence might simply amount to bowing to the realities of a tight labor market. Still, the benefits felt by middle wage workers are real, with higher earnings and a lessened tax burden. Household confidence is at historically strong levels, which should translate to higher consumer spending down the road, providing an additional boost to the economy.

Rising enthusiasm for investing is displacing the dour, "wall of worry" climate of the last several years following the financial crisis. Animal spirits are once again loose in the markets. According to a survey by the American Association of Individual Investors, nearly 60% of retail investors think that the stock market will go higher in the next six months, the highest percent since 2010. Another 25% are neutral, and 15% are bearish. In other words, for every bearish investor, there are nearly four bulls. Ironically, sentiment surveys can be a contrarian indicator; when too many investors are too bullish, we are often set up for disappointing forward returns. We don't think sentiment is at concerning levels at present, but we are mindful of the matter.

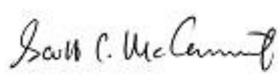
Markets don't normally move relentlessly higher in a straight line. Even were that true, it wouldn't be healthy, counter-intuitive as that may sound. The market rewards investors for taking on risk. Without the threat of losses, there will be no future reward. Market volatility –

a phenomenon that was largely absent last year – is what keeps the risk-reward balance in-line, and serves as discipline to complacency on the part of investors. We need pullbacks, such as happened in the last few trading days of the month, for a check on overbought conditions and excessive investor enthusiasm.

A concern for our outlook is that an overheating global economy could push central bankers to remove stimulus efforts more quickly than markets expect. Interest rates are already moving higher in anticipation of tighter monetary conditions. The 10-year US Treasury has pushed to 2.7%, and the trend is now accompanied by higher rates overseas as well, something we have not previously seen. The Federal Reserve, under the new leadership of Jerome Powell, is expected to hike rates three times this year. While we fully expect to see rates trend higher at long last, primarily in response to price pressures resulting from firming economic growth, we are wary that too sharp of an increase could threaten the economic recovery, and provide stronger competition for stocks among investments.

Absent a substantial shift in macro drivers, however, we believe conditions remain supportive for investing. There is ample evidence that the global landscape today is stronger than at any previous point in the current expansion. Corporate earnings and outlooks are coming in strong, and we believe the lift from lower taxes and more a more forgiving regulatory environment will provide companies with a substantial boost to their bottom lines.

Respectfully submitted,



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