Market Currents

· **<u>A Year to Remember.</u>** Wall Street's eight-year love affair with stocks kicked into overdrive in 2017. Spurred by a stronger economy, healthy corporate earnings, prospects of favorable political developments, and a lack of compelling investment alternatives, equities finished the year at all-time highs yet again.

· **<u>Volatility, or the Lack Thereof.</u>** Remarkable not only for its strong returns, the equities market was also distinct 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 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.

· **<u>Broad-Based Rally.</u>** While tech stocks were the clear market leaders, rising close to 40% on aggregate, the market rally was relatively broad-based. Discretionary, materials, industrials, financials and healthcare all returned about 20%. Defensive bond-proxy sectors such as utilities, telecommunications and REITs, however, lagged over the year.

· **<u>Synchronized Global Expansion.</u>** 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 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.

· **<u>Trump Finally Registered a Win</u>**. After struggling to repeal and replace the Affordable Care Act, President Trump scored a major win by successfully passing a sweeping tax reform that will broadly cut taxes, particularly for corporations, in an effort to stimulate higher GDP growth. It is estimated that corporate tax cuts in the U.S. could boost average earnings of companies in the S&P by about 8-10%. We will pay close attention to any color commentary provided by management in the upcoming Q1 earnings season for deeper insights.

· **<u>Reasons for Optimism</u>**. Although the age of the expansion often prompts questions of 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 macro conditions remain supportive of risk assets, even as valuations suggest moderate return potential and slightly higher tail risk.

Christopher Lai
Portfolio Manager
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