

## Market Update

March 31, 2017

In the first calendar quarter of 2017, the S&P 500 had its best returns in more than five years, up 5.5%. However, the real story within capital markets is the contrast when compared to 2016 fourth quarter trends.

These 2017 first quarter trends surfaced across all capital markets, to the surprise of many economic and market forecasters. The Federal Reserve was not expected to raise interest rates on Federal Funds until June 2017. When they raised rates in March 2017, surprisingly the yield on the 10 Year U.S. Treasury declined and finished the quarter at 2.4%, down from 2.5% at the end of 2016. The Federal Reserve's action was based on its forecast of improving economic conditions. However, according to the Atlanta Federal Reserve Bank, first quarter real GDP growth is likely to be just over 1%, actually down from the fourth quarter of 2016.

All currency forecasts at the start of 2017 assumed the dollar would strengthen against other major currencies. However, the dollar actually declined by 4% relative to other major currencies during the first quarter. Due to these currency translation effects, profits of large multinational corporations should be better than expected.

International equity markets were down during the fourth quarter of 2016, but up strongly during the first quarter of 2017. Developed international markets were up 7.9% while emerging markets were up even more strongly, gaining 12.5%. Small cap U.S. stocks that were up strongly during the fourth quarter of 2016, lagged behind large capitalization indices, gaining only 3.4%. Medium cap stocks did better, up 5.9%.

Within the U.S. business community, the greatest optimism is found among small business owners, who are apparently anticipating both a reduction in regulations and income taxes. They are hiring more people in preparation for that eventuality.

As a small business we share that general optimism. We expect good things to develop that will positively affect equity values throughout the remainder of 2017.

Raymond A. Beplat, CFA  
Chief Investment Officer