Market Update

December 31, 2017

The fourth calendar quarter of 2017 produced the best quarterly equity market returns of the year.  The S&P 500 was up 6.1%, the Dow Jones Industrial index was up 10.3%, and the NASDAQ index was up 6.3%.  When added to the market returns of the first three quarters of 2017, full year returns for these indices ranged from 20-30%, the best results since 2013.

The worst performing segment of the equity markets was small capitalization U.S. stocks, up 14.6% for the year.  The best performing segment was Emerging Markets, up 34.6% in 2017.

Both the Dow Jones Industrials and the S&P 500 recorded more than 60 record high closing prices during the year, an average of more than one a week.  This performance was made possible by the lack of any market correction downward of more than 3% during the year.  Consequently, the VIX index, the most common method of measuring market volatility, wound up at historically low levels and stayed there throughout the year.

Overall economic growth continued to exceed 3%, and surprised economists when the third quarter GDP came in at 3.2% after the economic carnage caused by Hurricanes Hugo, Irma and Maria.  Fourth quarter GDP growth is expected in the 3% range once again.  Forecasts for calendar year 2018 are generally in the 3+% range, as the recent tax cut spurs capital spending by corporations, and underpins the extension of the current economic expansion.

Interest rates, particularly on the 10 year U.S. Treasury, were relatively benign, ending the year at 2.4%, roughly the same level as the beginning of 2017.  The Federal Reserve raised short term interest rates by one quarter of a percentage point three times during the year.  The biggest impact was on two year U.S. Treasury Notes which rose by roughly 60 basis points (0.6%) in 2017.  The Federal Reserve announced their intention to raise short term interest rates by a quarter percentage point three more times in 2018.

The U.S. dollar wound up depreciating by 7.5% in 2017, a major surprise given the strength of the U.S. economy and the rising level of interest rates in the U.S.  Many currency traders expect the dollar to stabilize or increase in value relative to other currencies in 2018.

In summary, 2017 was a very good year.  We expect 2018 to be another good year and our client portfolios are invested accordingly.

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