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Investment Review and Outlook
Fourth Quarter 2017

U.S. large company stocks gained an impressive 6.6% (S&P 500) in the recent quarter, while small company stocks produced a return of 3.3% (Russell 2000). International stocks also performed exceptionally well, up 3.9% (EAFE index). Bonds returned 0.4% (Barclays Aggregate Bond index) in the quarter.

Rebounding corporate earnings growth, supported by solid economic data and low inflation, propelled stock prices globally in 2017. U.S. stocks got an additional spark with the passage of the Republican tax plan, reflecting investors' optimism about its potential to further boost corporate after-tax profits.

For the full year, U.S. large company stocks produced an outstanding 21.8% return. Technology stocks led the way. Specifically, a few prominent growth companies (Apple, Microsoft, Amazon, and Alphabet) collectively accounted for about one-quarter of the year's gains within the S&P 500 index. Small company stocks returned a very respectable 14.6%. International stocks returned 21.8% in 2017, while bond holdings produced an overall return of 3.5%.

In Europe, the uncertainties stemming from the 2016 surprise Brexit vote continued into 2017. Investors were relieved after French elections suggested that populist forces might be receding – yet more upheaval surfaced with the recent Catalan vote in which the pro-independence parties in favor of breaking away from Spain secured a narrow victory. Political uncertainties notwithstanding, Europe is continuing its economic recovery, as Europe is matching the United States in terms of economic growth and appears to be on track to generate its strongest growth since 2007.

So, what's in store for 2018? The consensus view of the "experts" is that there is little risk of a U.S. or global economic recession in 2018 as further economic growth is anticipated. And without a recession, a bear market in stocks is unlikely – although a 5% to 10% "correction" can happen at any time and an unexpected event could cause a larger drop.

Currently, we are positioning portfolios based on our outlook that stocks should outperform fixed income investments over the next several years. Within the overall stock allocation, small-cap, large-cap value, and real estate are underweighted, while large-cap growth and international exposures are overweighted. On the bond side, exposures are typically allocated to short and intermediate-term holdings.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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