Financial & Economic Review

The fourth quarter of 2017 closed out with considerable momentum, as the first year of the Trump presidency came to a conclusion. The buzz affecting the broader markets in Q4 was the passing of the Tax Cuts and Jobs Act, the first tax overhaul in our nation since the 1980's. With its passing, the majority of American taxpayers will have an increase in disposable income, but it could take several months before they adjust to the new reality of higher take home pay. We believe the 2018 economy will be driven by growing purchasing power and an increased taxpayer willingness to spend their additional cash. To that point, we believe the probability of recession is relatively low and the U.S. economy should continue to expand in the near term. Retail sales accelerated in Q4 and are up 6% year-over-year, the pace of job creation is solid and unemployment rates are low and decreasing across most demographics. Market expansions do not die of old age, but rather from external shocks or policy missteps. The current expansion is in its ninth year with the average expansion since WWII lasting five years. Worthy of note, is that the yield curve is approaching its flattest level since 2008-9, with short-term Treasuries at the highest and 30-yr Treasuries the lowest since that decline. The yield curve inverted before the 1981, 1991 and 2000 recessions, as well as predicted the 2008 financial crisis. It suggests investors would prefer to tie their money up for a longer period of time, rather than have it returned and need to reinvest it sooner at lower rates.

The best performing equity sectors in Q4 were Consumer Cyclical and Natural Resources, returning 8.7% and 7.2%. Energy Limited Partnership and Utilities were the worst, returning -0.8% and 0.3% respectively. In fixed income, the U.S. Aggregate Bond index rose 0.4%, while the 10-year Treasury yield ended the quarter up slightly from 2.33% to 2.40%. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index returned 6.6%, 10.9% and 6.5% in the fourth quarter respectively. Basic Materials continued to be the most overvalued sector, trading at a 39% premium price/fair value of Morningstar's coverage universe. Communication Services was the only sector trading at a discount of price/fair value, at 0.93 respectively. Overall price/fair value of covered stocks in the Morningstar universe was 1.06[1] or 6% overvalued to end the year. We are diligently searching for new investment opportunities in an otherwise fully to overvalued market, being cautious not to blindly jump into the market while most equity assets are not on sale.

We hope for a prosperous 2018, filled with investment success and personal joy in each of your lives. We want to sincerely thank you for allowing us to manage your investable assets and look forward to continually earning your business and your referrals.

Jack A. Kennedy
Chief Investment Officer

[1] Results referenced from Morningstar.com

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