

Economic & Market Summary **January 2018**

The US economy exits 2017 with increasing momentum. GDP growth exceeded 3% annualized in both the second and third quarters despite the hurricanes' negative impact. If this pace continues in the fourth quarter, as data suggest it will, this will be the first time the US has grown at 3% for three consecutive quarters since 2004. Consumers have largely driven the economy's post-recession recovery, while business investment, until recently, has been conspicuously low. Tax reform and deregulation could further accelerate growth by incentivizing the private sector to more aggressively deploy capital. In addition to a meaningful decrease in the corporate tax rate from 35% to 21%, companies may write off 100% of their capital expenditures for the next five years. With business investment improving and consumer confidence high, we believe the economy could surprise to the upside in 2018 with GDP growth near 3%.

The IMF forecasts global growth of 3.7% in 2018, the strongest showing since 2010. This step-up appears to be sustainable because growth is synchronized worldwide and global monetary policy remains accommodative. The European Union's economy is expected to expand 2.2% in 2018, well above its post-crisis average of 1.4%. Brazil continues to recover from its recent recession and China and India are still recording strong growth rates. The European Central Bank, the Bank of Japan, and the Bank of England may raise rates modestly in 2018, but only the Federal Reserve is shrinking its balance sheet.

In December, the Fed raised rates for the third time in 2017 citing solid economic growth, a robust labor market, and a belief that inflation will eventually reach its 2% target. Core inflation has stayed below 2% since the first quarter of 2012. However, we see signs that inflation may pick up due to accelerating global economic growth, wage increases, and rising industrial commodity prices. We continue to prefer high-quality, short-duration bonds where the primary goals are principal preservation, liquidity, and income.

Healthy double-digit earnings growth in 2017 and expectations for similar growth in 2018 supported a robust total return of 21.8% for the S&P 500. Entering 2018, the investment landscape looks encouraging with global growth accelerating, global monetary policy expected to remain accommodative, and a recently signed pro-growth U.S. tax bill. Stock market valuations are near the high-end of historical averages but do not appear excessive in light of this fundamental backdrop. We are always mindful of significant risks, such as North Korea's nuclear activity, higher-than-anticipated inflation, and changes in investor sentiment which is currently bullish, as evidenced by the rapid price appreciation of certain emergent technology stocks and the parabolic rise in cryptocurrency prices. We note volatility was unusually low in 2017 which could reverse even with an improving economic environment. While there is always the potential for short-term disruptions, our focus continues to be on long-term results.

Mark J. Sprtel – Analyst

To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.