ADVISOR BRIEFING

QUARTERLY ECONOMIC COMMENTARY | Q1 | 2017

The Trump rally continued globally into the first quarter, with the U.S. stock market earning 6%, and foreign markets performing even better, with a 7% return. Style and sectors reversed in the quarter, with today's winners being last year's losers. Markedly, developed international markets returned 7.25% in just three months this year yet barely climbed 1% in all of last year. On the other hand, natural resources were down 4% through the first quarter despite soaring 30% in 2016. Most bonds were relatively flat for the period, perhaps due to the Fed's signaling of more interest rate hikes to come.

There were three key market events that defined Q1. First, Donald Trump's Presidency has inspired investor optimism. Trump's economic agenda calls for tax cuts, less government regulation, and greater infrastructure spending. Recently, some investor skepticism has manifested in the markets, in part due to the defeat of a White House-sponsored health care bill. This setback is raising questions about whether Mr. Trump can get other legislation, like tax reform, through Congress. Second, the Fed increased the fed-funds rate to 1% on March 15 and will likely institute two more rate increases this year. Many economists perceive such rate adjustments as a healthy sign of the state of the economy and return to more normal inflation. Third, oil prices have surged 60% over the past twelve months. This sector's resurgence has helped a variety of investment classes, from high yield bonds that own a high percentage of energy companies' debt to natural resources that focus on energy.

We believe that Mr. Trump and the Republicans that control Congress share common goals and will successfully achieve tax reform. That said, continued geo-political unrest in the Middle East and North Korea could dampen investor sentiment. Nonetheless, longer term, it's a growing economy and expectation for higher profits that will support stocks. Despite the prospects of higher interest rates, bonds will continue to serve as a necessary ballast that provide stability during volatile cycles in the equity market.

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Sources: Going Up: Events and Investments in Q1 2017, Horsesmouth, April 10, 2017
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