First Quarter Commentary, April 2017

Is the Bull Market Accelerating?

Over the last eight years, the S&P 500 index has returned more than 300%. However, the tail end of this run seems to have accelerated the trend. The first quarter of 2017 provided the highest returns for U.S. large-cap stocks since the last three months of 2013. The Nasdaq index has booked its 21st record close of the year so far, and the indices have recorded a 30% rise over the past six quarters, marking the fastest advance since 2006.

Equities

The first quarter of 2017 has seen the Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rise 5.72%, while the comparable Russell 3000 index gained 5.91% in the first quarter. Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 6.01% in the first quarter. The Russell 1000 large-cap index finished the first quarter with a 6.23% performance, while the widely-quoted S&P 500 index of large company stocks was up 5.53% in the first three months of 2017.

Meanwhile, the Russell Midcap Index gained 5.15% in the first quarter. As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies posted a relatively modest 2.26% gain over the first three months of the year. The comparable Russell 2000 Small-Cap Index finished the quarter up 2.20%, while the technology-heavy Nasdaq Composite Index rose 9.83% in the first quarter, continuing its record-breaking climb.

International

Even the international investments were soaring through the start of the year. The broad-based EAFE index of companies in developed foreign economies gained 6.47% in the first three months of calendar

2017. In aggregate, European stocks gained 6.74% for the quarter, while EAFE's Far East Index gained 5.13%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, rose 11.14%.

Commodities and Hard Assets

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, eked out a 0.03% gain during the year's first quarter. The S&P GSCI index, which measures commodities returns, lost 2.51%, in part due to a 5.81% drop in the S&P crude oil index. Gold prices shot up 8.64% for the quarter and silver gained 14.18%.

Fixed Income

In the bond markets, rates are incrementally rising from practically zero to not much more than zero. Coupon rates on 10-year Treasury bonds now stand at 2.39% a year, while 30-year government bond yields have risen to 3.01%.

Outlook

Wall Street analysts have been telling us that the market's sudden meteoric rise—which really accelerated starting in December of last year—is the result of what they call the "Trump Trade," shorthand for an expectation that companies and individuals will soon be paying fewer taxes and be burdened by fewer regulations, leading to higher profits and greater overall prosperity. Add in a trillion dollars of promised infrastructure spending, and the expectation was an economic boom across virtually all sectors.

However, there is, as yet, no sign of that boom; just a continuation of the slow, steady recovery that the U.S. has experienced since 2009. The latest reports show that the U.S. gross domestic product—a broad measure of economic activity—grew just 1.6% last year, the most sluggish performance since 2011. The U.S. trade deficit widened in January, and both consumer spending and construction activities are weakening from slower-than-average growth rates.

The good news is that corporate profits increased at an annual rate of 2.3% in the fourth quarter, which shows at least incremental improvement. However, the previous three months saw a 6.7% rise in profits, suggesting that the trend may be downward going forward.

Although this longstanding bull market seems to be picking up speed, it is aging, and we have to keep looking over our shoulders and wondering when and how it will end. If we have learned anything, it is that the markets have a way of surprising us. Therefore, staying committed to solid, long term goals and a well thought out strategy has been shown to pay off over the long run. We're confident it will continue to do so.

We appreciate your trust in our firm and for referring new clients to us. Feel free to call us with any questions you may have.

Disclosure