

DeMarche Dashboard

Data and Commentary for Periods Ended 12/31/17

Global Economy and Markets

Global Overview – Global markets finished a strong 2017 with mostly positive returns. Europe, Japan, and the United States were all positive. The Federal Reserve increased interest rates by 25 bps, a move that was widely expected. Economic data was generally positive, with U.S. third quarter GDP coming in strong, and European unemployment reaching its lowest level since 2009. Yield curves flattened, with longer dated government debt, particularly in the United States, showing little change while short yields increased.

- **Developed markets** – The tax cut bill in the United States was widely viewed as a positive for future inflation and growth, though opinions as to whether the growth would come from increased asset valuations rather than wage increases were decidedly more mixed. The euro strengthened, which weighed on European equities in December. Inflation in the common currency area continued to rise, up from below 1% at the same point in 2016.
- **Emerging Markets** – Emerging countries finished the year ahead of developed countries, driven by stronger expectations of global growth and cheaper valuations relative to more developed economies. China followed the U.S. Fed's announcement with its own rate hike in December, and also announced a reduction in banks' required reserve ratios to take effect in 2018. Despite tensions with Pyongyang, South Korea rallied on the potential warming of relations with China. In contrast, Mexico, while positive for the year, ended 2017 with concerns over currency weakness and uncertainty surrounding the future of trade pacts with the United States.

U.S. Economy and Markets

- The S&P 500 Index gained 1.1% in December. Eight out of 11 sectors were positive for the month.
 - Telecomm Services, Energy, and Consumer Discretionary were the strongest performing sectors. Utilities, Health Care, and Real Estate were the weakest performing sectors.
- Small cap stocks trailed large cap stocks. Value stocks led in the larger market capitalizations, while growth led in the smaller capitalizations.
- The Russell 2000 Index lost -0.4%. Five out of 11 sectors were positive.
 - Energy, Biotech, and Consumer Discretionary were the strongest performing sectors. Utilities, Financials, and Technology were the weakest performing sectors on a relative basis.
- Payrolls increased by 148,000 in December, a number that was viewed to be somewhat disappointing given forecasts of gains around 200,000. The unemployment rate remained steady at 4.1%. Employment increased in health care, construction, and manufacturing. Labor force participation was 62.7%, the same level it began 2017. Wage growth remained mostly steady at 2.5%, again close to its 2017 average.

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- The Consumer Confidence Index decreased in December. The Index ended the year at 122.1 vs. 128.6 in November. Consumers' assessments of short term conditions and job outlooks over the next several months declined.
- The 10-year Treasury yield once again showed little movement during the month. Opening the month at 2.42%, yields reached 2.50% before finishing finished the month at 2.40%. Investment grade corporate spreads tightened, ending at 0.98% from their 1.03% start. High-yield spreads were little changed, finishing at 3.58% against their December open of 3.61%.
- The Bloomberg Barclays Aggregate Index gained 0.5% for the month, while the Investment Grade Corporate Index and Bloomberg Barclays US High Yield Index rose 0.9% and 0.3% respectively.

International Markets

- The MSCI EAFE Index posted a return of 1.6% in December. The Pacific region excluding Japan was the strongest performer on a regional basis, driven by strong rallies in New Zealand and Australia. Europe was weighed down by underperformance in the central and southern part of the continent, particularly Portugal, Italy, and Spain. As they did in November, small cap stocks outperformed large caps. The MSCI EAFE Small Cap Index posted a gain of 2.7%.
- By style, international developed market growth stocks did slightly better than value. The MSCI EAFE Growth Index gained 1.7%, while the MSCI EAFE Value Index rose 1.5%.
- The MSCI Japan Index gained 0.7%, while Asia, excluding Japan, rose 2.7%. The Europe-wide index gained 1.5%, and the United Kingdom gained 5.0%. The MSCI EMU, representing the common currency countries of the EU was up 3.3%.
- The MSCI Emerging Markets Index gained 3.6% as emerging markets outpaced developed countries. Greece, Chile, Qatar, and Turkey were the strongest performing countries. The UAE, Mexico, and Pakistan were the weakest performing countries.
- MSCI's China Index advanced 1.9%. Mainland Chinese equities (A Shares) performed better, gaining 2.9%. Brazil, Russia, and India were all positive to end the year.
- The MSCI Frontier Markets Index gained 3.1%. Kazakhstan, Vietnam, and Estonia were the strongest performing countries. Bahrain, Lithuania, and Kenya were the weakest performing countries.
- Government bond yields ended the final quarter of 2017 mostly lower. The German yield curve continued to flatten, with the JPM German government Bund index returning 0.2%, while 10 year government debt ended the month yielding 0.4%. The Bloomberg Barclays Euro Universal Index gained 0.2% in dollar terms. The Bloomberg Barclays Global Treasury Ex-US Index was essentially flat for December. Emerging Markets hard currency debt gained 0.5%.



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Looking Ahead

- Global markets enter 2018 with most participants expecting continued positive returns. The optimism is driven partly by the impact of policy changes in the United States, and partly by increased economic activity across the developing world. While headline asset valuations appear high, many observers also note a lack of widespread inflation pressures, continued strong corporate earnings, and relative valuations between asset classes as reasons to expect the long market rally to continue into 2018.
- 2018 begins with plenty of geopolitical uncertainties. The Korean nuclear standoff shows little sign of resolution. The end of December brought widespread protests in Iran, adding tension to a region already caught up in proxy conflicts between Iran and Saudi Arabia. Russian presidential elections are scheduled for March, and while a Putin victory is a forgone conclusion, investors will be watching closely for signs of unrest and discontent from voters already faced with a weakened economy and sanctions.
- December saw the passage of a corporate and personal income tax reduction bill in Congress. The bill makes the cuts in the corporate rate permanent, and institutes temporary personal rate reductions. Any potential for additional fiscal stimulus from the cuts will be closely watched by the Federal Reserve, and may well impact the course of interest rates hikes. Most estimates have 3 to 4 rate hikes in 2018. The Fed will also be under new leadership in February as Jerome Powell takes over from Janet Yellen.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$	
	Latest	2017 ^A	2018 ^A	(Most recently available)	Sovereign Bonds, 10 Year ^B	Current	1 Year Ago
United States	2.30	2.20	2.40	4.10	2.37	-	-
China	6.80	6.80	6.50	4.00	3.92	6.61	6.88
Japan	2.10	1.50	1.30	2.80	0.05	111.88	114.34
United Kingdom	1.50	1.50	1.30	4.30	1.19	1.35	1.26
Euro Area	2.60	2.20	2.10	8.80	0.88	1.19	1.06
Germany	2.80	2.40	2.30	3.60	0.43	1.19	1.06
France	2.20	1.80	1.90	9.40	0.81	1.19	1.06
Italy	1.70	1.50	1.40	11.10	2.02	1.19	1.06
Canada	3.00	3.00	2.30	5.90	2.05	1.27	1.33
India	6.30	6.50	7.40	5.00	7.33	64.50	67.81
Mexico	1.50	2.10	2.10	3.40	7.67	18.62	20.74
Brazil	1.40	0.80	2.50	12.20	9.80	3.26	3.47

A. *The Economist* or The Economist Intelligence Unit estimate/forecast

B. Most recently available data

Sources: Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.35	5.51	22.40	22.40	9.26	11.64	5.03
	BBgBarc US Agg Bond TR USD	0.46	0.39	3.54	3.54	2.24	2.10	4.01
	Russell 3000 TR USD	1.00	6.34	21.13	21.13	11.12	15.58	8.60
	DJ Industrial Average TR USD	1.92	10.96	28.11	28.11	14.36	16.37	9.28
	NASDAQ Composite PR USD	0.43	6.27	28.24	28.24	13.38	17.98	10.04
	MSCI EAFE NR USD	1.61	4.23	25.03	25.03	7.80	7.90	1.94
	Citi Treasury Bill 3 Mon USD	0.10	0.28	0.84	0.84	0.38	0.24	0.34
	Bloomberg Commodity TR USD	2.99	4.71	1.70	1.70	-5.03	-8.45	-6.83
Domestic Equities	S&P 500 TR USD	1.11	6.64	21.83	21.83	11.41	15.79	8.50
	S&P MidCap 400 TR	0.22	6.25	16.24	16.24	11.14	15.01	9.97
	S&P SmallCap 600 TR USD	-0.52	3.96	13.23	13.23	12.00	15.99	10.43
	Russell 1000 TR USD	1.11	6.59	21.69	21.69	11.23	15.71	8.59
	Russell 1000 Growth TR USD	0.78	7.86	30.21	30.21	13.79	17.33	10.00
	Russell 1000 Value TR USD	1.46	5.33	13.66	13.66	8.65	14.04	7.10
	Russell Mid Cap TR USD	0.93	6.07	18.52	18.52	9.58	14.96	9.11
	Russell Mid Cap Growth TR USD	0.54	6.81	25.27	25.27	10.30	15.30	9.10
	Russell Mid Cap Value TR USD	1.24	5.50	13.34	13.34	9.00	14.68	9.10
	Russell 2000 TR USD	-0.40	3.34	14.65	14.65	9.96	14.12	8.71
	Russell 2000 Growth TR USD	0.12	4.59	22.17	22.17	10.28	15.21	9.19
	Russell 2000 Value TR USD	-0.95	2.05	7.84	7.84	9.55	13.01	8.17
	International Equities	MSCI ACWI Ex USA NR USD	2.24	5.00	27.19	27.19	7.83	6.80
MSCI EAFE NR USD		1.61	4.23	25.03	25.03	7.80	7.90	1.94
MSCI EAFE Growth NR USD		1.68	5.24	28.86	28.86	9.15	8.78	2.67
MSCI EAFE Value NR USD		1.53	3.24	21.44	21.44	6.35	6.95	1.15
MSCI Japan NR USD		0.70	8.49	23.99	23.99	11.62	11.16	3.17
MSCI AC Asia Ex Japan NR USD		2.70	8.23	41.72	41.72	10.72	7.95	3.82
MSCI Europe NR USD		1.51	2.21	25.51	25.51	6.69	7.37	1.34
MSCI United Kingdom NR USD		4.96	5.72	22.30	22.30	4.14	5.21	1.55
MSCI EAFE Small Cap NR USD		2.67	6.05	33.01	33.01	14.20	12.85	5.77
MSCI EM NR USD		3.59	7.44	37.28	37.28	9.10	4.35	1.68
Fixed Income	BBgBarc US Govt/Credit TR USD	0.52	0.49	4.00	4.00	2.38	2.13	4.08
	BBgBarc US Govt/Credit Interm TR USD	0.11	-0.20	2.14	2.14	1.76	1.50	3.32
	BBgBarc US Govt/Credit Long TR USD	1.89	2.84	10.71	10.71	4.52	4.43	7.26
	BofAML US HY Master II TR USD	0.29	0.41	7.48	7.48	6.39	5.80	7.89
	Credit Suisse HY USD	0.32	0.54	7.03	7.03	6.36	5.68	7.58
	S&P/LSTA Leveraged Loan TR	0.40	1.11	4.12	4.12	4.44	4.03	4.85
	Citi WGBI NonUSD USD	0.08	1.57	10.33	10.33	1.99	-0.29	2.44
	BBgBarc Gbl Agg Ex USD TR USD	0.27	1.63	10.51	10.51	1.77	-0.20	2.40
REITs	FTSE NAREIT All REITs TR	-0.11	2.37	9.27	9.27	6.90	9.90	7.73
	Wilshire US REIT TR USD	-0.13	1.70	4.18	4.18	5.21	9.35	7.28

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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