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summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors April 2017

Market Commentary

The financial markets continued to post solid gains in the first quarter of 2017, following on the heels of a very strong 2016. Many market commentators (ourselves included) attribute the gains to expectations that business conditions will improve if there is deregulation and tax reform, both important planks of President Trump's campaign. Indeed, measures of consumer and business confidence have indeed strengthened since the elections.

The results for the major indices are shown below.

	2016	Q1 2017
Domestic Equities		
S&P 500 Large Cap	11.96%	6.07%
S&P 400 Mid Cap	20.74%	3.94%
S&P 600 Small Cap	26.56%	1.06%
International Equities		
MSCI EAFE Dlvp Int'l	1.00%	7.25%
MSCI Emerging Mkt	11.19%	11.44%
Bonds		
Barclays US Agg	2.65%	0.82%

It has also been widely reported that the most well known stock market benchmarks (Dow Jones Industrials, Standard & Poor's 500 Stock Index) continue to achieve all time highs. While this is true, what is often overlooked is that the average annual return of these aforementioned benchmarks for the decades of 2000 and 2010 has been significantly below long term trends. Put differently, whereas the average annual compound return of the Dow Jones Industrial Average was in the high single digits for the last 80 years or so, in the last 17 years, the return has been about half that. A regression to the mean would suggest further gains ahead.

Concerns have recently been raised for the bond markets as the Federal Reserve Board, led by Chair Janet Yellen, increased the Federal Funds rate. Additional increases have been telegraphed. While bonds with longer maturities may suffer near term price compression, we view this development as a welcomed "return to normalcy" from the economic crisis of 2008-09 and particularly in the face of overwhelming evidence that economic activity is now showing signs of acceleration. For those who lived through the period of the inflation-wracked 1970's, it is clear that sustained price increases can be as harmful to the economy as a weakening of prices. In our view, the actions of the Fed are sensible. We also look forward to the days when investors can earn reasonable returns on their fixed income investments.

Before closing, we would be remiss if we did not suggest that a host of uncertainties and risks exist with a still untested and unproven Trump administration. Miscues can be expected – and they will rattle markets. However, we do believe that the attention we pay to individual financial circumstances modulates the risks as they materialize.

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President