MARKET UPDATE
DECEMBER 2017 REVIEW

CORPORATE OFFICE:

95 Glastonbury Blvd.
Suite 102
Glastonbury, CT 06033
860.652.3239

USI Consulting Group is the parent company of both USI Advisors, Inc. and USI Securities, Inc.

USI CONSULTING GROUP OFFICES:

350 Fifth Avenue
Suite 3700
New York, NY 10118

900 South Gay Street
Knoxville, TN 37902

312 Elm Street 24th Floor
Cincinnati, OH 45202

50 Cabot Street
Needham, MA 02492

2400 East Commercial Blvd
Suite 600
Fort Lauderdale, FL 33308

5200 N. Palm Ave
Fresno, CA 93704

6501 So Fiddlers Green Circle
Suite 100
Greenwood Village, CO 80111

2711 N. Haskell Ave
Suite 2000
Dallas, TX 75204

601 Union Street, Suite 1000,
Seattle, WA 98101

"What a Year!"

Markets continued to set record highs in December. In light of the tax reform bill passing, most indexes rang in the New Year on a very high note. 2017 will most likely be remembered as one of the most remarkable years on record, not only for the double digit market gains, but also for the extremely low volatility associated with these returns amidst rising geopolitical risks, natural disasters, conflicts in Washington, and tighter monetary policy.

On December 20th, the Senate passed the much anticipated tax reform bill. This is considered to be the biggest legislative accomplishment by President Trump and the first significant tax reform in the U.S. since 1986. The main provision of the bill on the corporate side includes lowering the corporate tax rate from 35% to 21%. This is expected to incentivize companies to use the tax savings to create jobs and pay down debt, as well as return foreign profits held overseas. On the individual side, the seven personal income brackets will remain the same but the top rate will drop from 39.6% to 37%. A chained CPI measure is also being adopted which is less generous than regular CPI for individual investors over time. It means that people will be moved into higher tax brackets faster than before. Chained CPI will likely not have any impact in the first few years as it will be covered by the tax cuts. But those expire in eight years and that's when this provision of the bill will really start to pick up steam. It is designed as a way to raise money to pay for the tax cuts. The country still remains politically divided on many issues including the tax legislation. Specifically, Democrats argue that the tax reform is favoring corporations and the wealthy, whereas the Republican side argues that it will help boost economic growth over the long term. Neither of these statements, however, is necessarily true. In the bill's final version, 77% of net tax cuts go to individuals and 23% go to corporations. The tax reform could prove to be a significant stimulus to the economy in the coming years as it can boost consumer and corporate spending. At the same time, it could also overheat the economy and lead to higher inflation considering it is being implemented during a time when the economy is at full employment and the global economy is booming.

Investors were highly anticipating the tax reform plan and when signed into a bill, it helped to push the major domestic indexes to finish the year at record levels. The Dow Jones Industrial Average posted a 1.9% return in December and raced 28.1% higher in 2017, making this its best year since 2013. The S&P 500 Index and NASDAQ returned 1.1% and 0.4% respectively in December and also had their best years since 2013. Both produced impressive double digit returns for the year.

	December 2017	YTD
DJIA	1.92%	28.11%
S&P 500	1.11%	21.83%
NASDAQ	0.43%	28.24%
MSCI EAFE	1.61%	25.03%
MSCI Emerging Markets	3.59%	37.28%
Barclays Aggregate	0.46%	3.54%
Barclays Corp High Yield	0.30%	7.50%
	12/31/2017	11/30/2017
US 10-Year Treasury	2.40%	2.42%

Developed international markets also fared well for the year as many European countries that held general elections refuted the populist movement, lowering overall political risk in the region. Combined with improving economic and solid financial conditions, the Eurozone is set for a self-sustaining recovery that could last for years to come. The MSCI EAFE Index posted double digit gains for the year at 25.0%. The best performing market for the year was Emerging Markets, rising an impressive 37.3% as measured by the MSCI EM Index.

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws or regulations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Despite the three rate hikes this year, fixed income markets also had a good year. Global investors searching for yield pushed domestic demand up leading to higher prices in bonds. The Bloomberg Barclays US Aggregate Index was up 3.5% while the Bloomberg Barclays US High Yield gained 7.5%.

Technology wound up being the best performing sector but the majority of sectors in the S&P 500 posted double digit returns in 2017. In terms of investment style, growth outperformed value and large caps outperformed small caps. Smaller companies typically pay higher taxes than larger companies, therefore, they are expected to benefit the most from the tax plan which could translate to better performance for small cap vs. large cap next year.

Although 2017 was a remarkably strong year for the equity markets, some investors sat on the sidelines and remained fearful of record setting new highs considering the length of this economic cycle. We have repeatedly been reminded of the average length of recoveries in the U.S. being around eight and a half years. At nearly 9 years old, the bull market is now the second oldest and second strongest in history. However, current economic data suggests that this expansion has room to stretch into at least another year. We are heading into 2018 with a lot of momentum: the unemployment rate stands at 4.1%; we have had back-to-back quarterly economic growth of 3% or higher; consumer and business confidence are climbing and housing is picking up again. Even if the tax plan had not passed, we should have still expected to achieve a decent growth rate in 2018. While adding this stimulus could push the economy into an even lower unemployment rate and higher growth rate, higher growth may overheat the economy and lead to higher inflation in the future. Most investors are expecting the tax cuts to mostly have a positive effect on the economy but the ultimate impact over the long-term is still uncertain. This may be a wild card that investors will watch closely in 2018.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.