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Market Update

April 2017 Review

"Investors Continue to Hold On"

We have had a powerful rally since the November election with the S&P 500 gaining about 15% since that time. However, as mentioned in our last market commentary, investors are starting to doubt the pace at which the pro-growth policies may be implemented, given the recent stumbles President Trump has run into over immigration and health-care reform. Similar to what happened in March, this translated into higher volatility during April. Geopolitical risks also dominated headlines during the month and economic growth data was weak, further contributing to volatility. But despite all the uncertainty, markets still finished strong due to a solid start to first quarter earnings reports and new releases about tax reform.

A number of geopolitical tensions made the headlines in April after the President dropped the largest non-nuclear weapon in Afghanistan and ordered a military strike in Syria in retaliation for its use of chemical weapons. Additionally, after North Korea attempted several missile launches, China moved around 150,000 troops near the North Korean border in anticipation of a pre-emptive strike by the U.S. Overall it seems like markets have ignored these geopolitical flare-ups and investors continue to hold on.

Most of the optimism at the end of the month stemmed from positive earnings that have been posted so far. About two thirds of the S&P 500 companies have reported earnings and most of them have beat earnings and sales expectations, setting the stage for this to potentially be the best quarter for earnings in 5 years. Additionally, the Trump administration has been releasing details about the tax reform plan. National Economic Director Gary Cohn said that the plan is to simplify the income tax system from a 7 bracket to a 3 bracket system 10%/25%/35%. It remains to be seen when and to what extent this fiscal plan will actually turn into legislation. The timing of this announcement, though, was important for the markets, as first quarter GDP growth came in very weak at only 0.7%. So this release essentially shifted investors' focus back on Trump's pro-growth fiscal policies.

	April 2017	YTD
DJIA	1.45%	6.71%
S&P 500	1.03%	7.16%
NASDAQ	2.30%	12.34%
MSCI EAFE	2.54%	9.97%
MSCI Emerging Markets	2.19%	13.88%
Barclays Aggregate	0.77%	1.59%
Barclays Corp High Yield	1.15%	3.89%
	4/30/2017	3/31/2017
US 10-Year Treasury Yield	2.29%	2.40%

The 10-year Treasury Yield has dropped from 2.6% in mid-March to 2.3% at the end of April, representing a flight to safety over uncertainty on the expected pace and details of Trumps' policy plans. Despite the ups and downs during the month, most equity indices finished positive with the tech-intensive NASDAQ posting the largest gain at 2.3%, boosting its year-to-date performance to the double digits at 12.3%. The S&P 500 Index was also positive at 1.0% bringing the year-to-date number to 7.2% while the Dow tacked on 1.5% and has gained 6.7% so far this year.

Internationally, the focus continues to be on political issues in Europe with France being the latest country holding elections. Stock markets surged after Emmanuel Macron won the first round of the French presidential election on April 23rd, easing fears of a victory for the far-right candidate, Marine Le Pen. As a result, the MSCI EAFE Index gained an impressive 2.5% in April and is up close to 10.0% for the year. Emerging markets, represented by the MSCI Emerging Market Index, added 2.2% for the month and have been the best performing index since the beginning of the year, posting a 13.9% gain. Overall, from a valuation perspective, developed markets and emerging markets still have room to grow as they are trading below their historical levels. However, volatility in these regions could spike due to the political risk posed by future elections. Although France has so far avoided a Brexit-like situation, the UK elections are on June 8th and Germany is preparing for its elections in October.

Fixed income markets seemed comfortable with the Federal Reserve's move to raise interest rates last month and may allow the Fed an additional window to act. Federal Reserve Chair Yellen has indicated that future economic indicators continue to meet expectations so if there is no change in projections, we may see two additional hikes this year and possibly three next year. The pace and frequency of these future hikes is expected to have a negative impact on fixed income sectors. However, so far this year the Barclays Aggregate Bond Index has added 1.6% and gained 0.8% in April. The corporate focused Barclays U.S. High Yield Index posted a 1.2% gain in April and has earned 3.9% since the start of the year.

Since the presidential election, we have seen a big surge in confidence which has led to healthy gains in the equity markets. The economic numbers don't seem to be moving as fast as investors' confidence though, which may make some cautious about the rate at which this market continues to grow, even 9 years after the Great Recession. In addition to softer economic data, uncertainty about pro-growth fiscal plans and geopolitical concerns may all be contributing to continued volatility. But it remains to be seen if this volatility will translate to slower growth in the equity markets.

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.

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