USI Advisors, Inc.

MARKET UPDATE
JANUARY 2018 REVIEW

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"There's no sign of slowing down...yet!"

Markets opened the year with a bang, surging yet again in the month of January. The Dow Jones Industrial Average ended 2017 at a staggering 24,719.22, then proceeded to blow right through the 25,000s, surged all the way to 26,616.71 then ended the month at 26,149.39.

In what has become a pattern of sorts, political turmoil reared its ugly head yet again in January, this time in the form of a government shutdown. Three days after it began, the Senate approved a temporary bill to end the shutdown, allowing hundreds of thousands of federal employees who had been facing furloughs to go back to work on January 22nd. The agreement, which will fund the government through February 8th also extended funding for the Children's Health Insurance Program (CHIP) for six years. The program, which insures nearly 9 million children, was on the brink of being terminated after 2 decades, as Congress had allowed funding for the program to expire in September. Although the agreement failed to address the fate of the young undocumented immigrants, it did allow an immigration vote in the coming weeks. This will set the stage for a battle over the so-called Dreamers, young undocumented immigrants who were brought to the United States illegally as children. An estimated 700,000 young immigrants have been protected from deportation under an Obama-era initiative known as DACA, or the Deferred Action for Childhood Arrivals. The Trump administration had rescinded the program in September and gave Congress until March 5th to come up with a replacement program. This will surely be a fierce political battle in the coming months.

Following news of the agreement, markets jumped significantly with the Dow Jones Industrial Average gaining 142.88 (+0.6%) on the day, while the S&P 500 tacked on 22.67 points (+0.8%). Interestingly, history has shown that markets do not tend to react too negatively to government shutdowns, as four of the seven shutdowns over the past 35 years were accompanied by price declines that averaged only 1.0% and required less than two weeks to get back to break-even levels. This government shutdown did not slow the market down either.

For the month of January, the Dow Jones Industrial Average posted an impressive 5.9% return following an astounding 28.1% gain in 2017. The S&P 500 Index was not far behind, adding 5.7% for the month, while the NASDAQ beat both domestic indices by a significant margin, gaining 7.4%.

	January 2018	YTD
DJIA	5.88%	5.88%
S&P 500	5.73%	5.73%
NASDAQ	7.36%	7.36%
MSCI EAFE	5.02%	5.02%
MSCI Emerging Markets	8.33%	8.33%
Barclays Aggregate	-1.15%	-1.15%
Barclays Corp High Yield	0.60%	0.60%
	1/31/2018	12/31/2017
US 10-Year Treasury	2.72%	2.40%

Developed international markets also performed quite well for the month as economic conditions overseas continue to improve, as does the economic outlook. As such, the MSCI EAFE Index posted a 5.0% gain in January after surging 25% in 2017. Even more impressive was the return posted by the MSCI EM Index which measures emerging markets. The index jumped an astounding 8.3% in January following a 37.3% gain in 2017.

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As well as equity markets performed in January, fixed income markets had no such luck. Interest rates jumped across the board in January, sending bond prices lower. The long end of the yield curve, which saw rates drop in 2017, experienced a significant rise in rates, with the 20-year Treasury yield jumping from 2.58% to 2.83% and the 30-year Treasury yield rising from 2.74% to 2.95%. As a result, the Bloomberg Barclays US Aggregate Govt-Treasury Long Index plunged 3.2% for the month. Moreover, the Bloomberg Barclays US Aggregate Index fell 1.2%. On the bright side, investors continued to search for yield in junk bonds, as the Bloomberg Barclays US High Yield Index gained 0.6%.

While 2017 was a remarkable year for the equity markets across the board, investors might have expected the markets to start out a bit sluggish in 2018. Clearly though, that was not the case. With a strong start to the year in equities, investors will be laser focused on 4th quarter earnings releases and, more importantly, earnings guidance from some of the noteworthy companies in each sector. As indicated in last month's Market Commentary, at nearly 9 years old, the current bull market is now the second oldest and second strongest in history. And while that may make investors uneasy, current economic data suggests that this expansion has room to continue its run.

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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