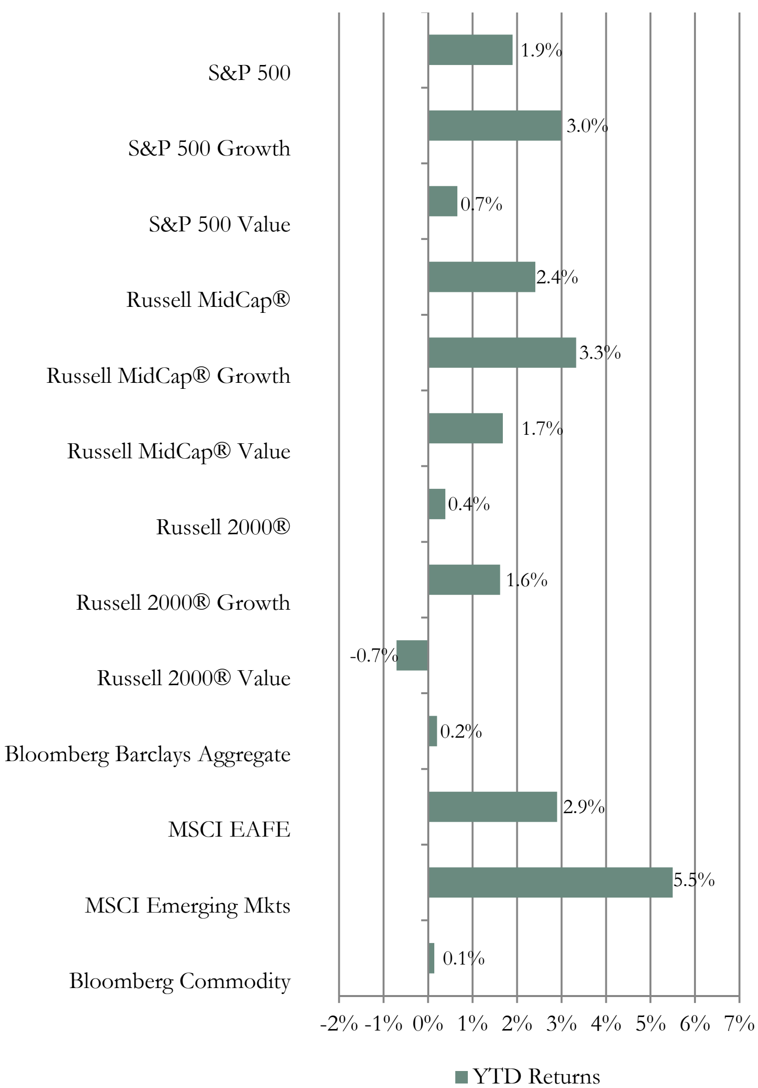
Monthly Market Summary – January 2017

Post-election optimism continued into January driving equity indices higher in the U.S. and most other regions. Throughout the month, the S&P 500, Nasdaq Composite, and the United Kingdom (UK) FTSE 100 index each set new all-time highs. But one much anticipated milestone was not reached until January 25 when the Dow Jones Industrial Average finally closed over 20,000 for the first time. Equities moved higher on data reports showing economic growth in the U.S. and Europe as well as corporate earnings that beat analysts' estimates. In a positive sign, the better than expected earnings reports came from companies in various industries. For example, UnitedHealthcare, Procter & Gamble, 3M, Comcast, Microsoft, Intel, Goldman Sachs, and JP Morgan all reported earnings above analysts' expectations. The U.S. dollar declined throughout the month reversing much of the post-election rally. One reason for the declining dollar was that stronger economic data from various international regions lowered expectations for a wider difference between economic growth in the U.S. and other countries. For example, the composite purchasing managers' index (PMI) in the UK increased to the highest level in five years. In addition, industrial production in the euro area rose 1.5%, which was above expectations with strong gains in France, Italy, and Spain. While in the U.S. the first estimate of fourth quarter gross domestic product (GDP) was 1.9% which was down from the strong third quarter growth rate of 3.5% due to weakness in exports.

Market Indices – January 2017



Major U.S. equity market index returns were mostly positive for the month of January. Small capitalization (cap) stocks consolidated the hefty gains from the post-election rally in the fourth quarter of 2016 and started 2017 with the lowest returns. This was especially true for the Russell 2000® Value index that posted a small negative return in January after posting a 14% return for the fourth quarter 2016. In a change from the fourth quarter, growth stocks outperformed value stocks in each of the market cap categories. Information technology stocks, which are mostly growth stocks, rallied in January on strong earnings reports. The information technology sector was the second best performing sector in the large and mid-cap indices. Healthcare, also mostly growth stocks, had solid gains in January helped by a rally in biotechnology stocks that had been weak for most of 2016. Healthcare was the top performing sector in the mid and small-cap indices. Materials was the top performing sector in the S&P 500 as industrial and precious metals prices rose strongly. The energy sector, which was a top performer in 2016, sold-off in January despite oil trading in a tight range and President Trump acting on previously stalled pipeline projects. In the large and mid-cap indices energy was the weakest sector with a negative return. Energy also had a negative return and was the second weakest sector in the small-cap index. Consumer staples had the lowest return in the small-cap index.

The MSCI EAFE index of developed international market equities and the MSCI Emerging Markets (EM) index had returns for January of 2.9% and 5.5% respectively on a U.S. dollar basis. Currency moves had a positive impact on the returns for U.S. investors as the dollar weakened. On a local currency basis the EAFE and EM index returns were 0.1% and 4.0% respectively. Just as in the U.S. equity markets, growth stocks outperformed value in the EAFE and EM indices. Information technology stocks rallied and were the second best performing sector for the month behind materials. Energy was the weakest sector among developed countries while consumer staples was the weakest in EM. On a geographic basis, among developed international countries commodity heavy economies, such as New Zealand, Australia, and Canada had the highest returns boosted by the price gains in precious and industrial metals. Among the emerging economies, Brazil and Poland had the highest returns of over 10%. Technology heavy economies also had among the best returns, such as Korea and Taiwan reflecting the rally in information technology stocks. Russia, which was one of the best performing countries in 2016, retreated in January and was one of the few countries that had a negative return for the month.

U.S. bond market returns were mostly positive, but modest, for January leading the Bloomberg Barclays U.S. Aggregate Bond index to post a return of 0.2%. The benchmark 10-year U.S. Treasury bond yield was little changed from year-end 2016 and ended the month at 2.4%. The U.S. corporate high yield sector had the highest return for the month helped by improving economic conditions. The U.S. mortgage-backed bond sector was the weakest performing sector with a return that was essentially flat.

The Bloomberg Commodity index had a return for January of 0.1%. Gains of over 7% for the industrial metals sub-index and over 6% for the precious metals sub-index drove the broad commodity index higher offsetting the sizeable negative return for the energy sub-index. West Texas Intermediate crude oil traded in a relatively tight range during January and ended the month at $52.81 which was down less than 2% from the end of December. However, the price of natural gas dropped about 16% for the month.

Vogel Consulting, LLC (Vogel) Tactical Recommendations

No changes were made to our tactical asset allocation recommendations during January since economic conditions, monetary policy, political uncertainty in the U.S. and other regions, and asset valuations are little changed from the prior month.

Our tactical asset class recommendations include an equal weight position in U.S. large-cap, mid-cap, and small-cap stocks. Economic data is showing improvement. In addition, expectations continue to be high that business-friendly economic policies such as tax cuts and infrastructure spending favored by President Trump will lead to higher economic growth in the U.S. even though the details and timing of policy changes are uncertain. We also recommend an equal weight position in emerging market equities due to improving economic conditions and country fundamentals. We recommend an underweight to developed international equities even though there are some signs of improving economic conditions because uncertainty remains high in Europe due to several upcoming elections in addition to Brexit (the UK leaving the European Union) issues. Also, the U.S. dollar is likely to strengthen due to higher interest rates relative to other developed countries. A stronger dollar could dampen international equity returns for U.S. investors. We continue to recommend an equal weight to hedge fund strategies and an underweight to fixed income. We favor hedge fund strategies over fixed income for the lower expected volatility portion of portfolios since bond yields are near historically low levels and are likely to rise and bond prices fall as central bank polices are adjusted. Within fixed income we continue to recommend a focus on short to intermediate term bonds. We also continue to favor non-Treasury bonds for the yield advantage they provide compared to Treasury bonds. Since our expectation is for a moderate rate of inflation to continue, we recommend an equal weight to real assets. Despite the low volatility experienced in January, we would not be surprised if financial markets experience bouts of volatility as more details emerge about any fiscal, monetary, or political policy changes. Therefore, we continue to recommend using periods of market strength to raise any cash needed to support spending needs over the coming 12-24 months.