



December 2017: Market Review

Global equity markets rose in December, as the Trump administration's tax bill was approved by Congress and signed into law late in the month. The Dow Jones Industrial Average gained 1.92% in December and ended the year up 28.11%. The S&P 500 Index returned 1.11% and added 21.83% in 2017. The NASDAQ Composite Index was up 0.43% in December, bringing its 2017 return to 28.24%.

In U.S. economic news, Congress approved a \$1.5 trillion tax bill that reduces the corporate tax rate from 35% to 21%. The tax bill may encourage corporations that have been holding cash overseas to repatriate those assets to take advantage of the lower rate. The Federal Reserve raised interest rates at its December meeting, and is projecting three rate hikes in 2018. Jerome Powell will replace Janet Yellen as Fed Chair in early February. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.17% in October, while on a year-over-year basis, prices were 6.17% higher than a year ago. Among commodities, WTI crude oil ended December at \$60 a barrel, up from November's closing price of \$57. Gold closed the month at \$1,306 per troy ounce, up from \$1,273 at the end of November.

Growth-style equities outperformed value stocks by a wide margin in 2017. Among large cap stocks, the Russell 1000 Growth Index rose 0.78% in December and gained 30.21% in 2017, while the Russell 1000 Value Index added 1.46% during the month and rose 13.66% for the year. For small cap stocks, the Russell 2000 Growth Index gained 0.12% in December and returned 22.17% for the year, while the Russell 2000 Value Index dipped (0.95%), but added 7.84% in 2017. The Russell Midcap Index added 0.93% for the month and closed 2017 up 18.52%.

International equities were positive in December, adding to solid gains for the year. The MSCI EAFE Index was up 1.61% for the month and added 25.03% in 2017. The MSCI Europe Index rose 1.51% in December and 25.51% for the year. The MSCI Pacific Index added 1.69%, lifting its gain for the year to 24.64%. The MSCI Emerging Markets Index gained 3.59% in December and rose 37.28% in 2017, leading all major equity benchmarks for the year. Major EM countries like South Africa (+8.81%), India (+4.88%), Brazil (+4.59%), Russia (+2.85%), and China (+1.91%) were all positive during the month.

U.S. fixed income markets were positive in December, even as the newly-approved tax cuts may lead to additional economic growth and inflation. The yield on the 10-Year Treasury closed December at 2.41%, down slightly from November's close of 2.42%. The Bloomberg Barclays U.S. Aggregate Bond Index rose 0.46% and added 3.54% in 2017. The Bloomberg Barclays U.S. Treasury Index gained 0.31% in December and 2.31% for the year. The Bloomberg Barclays Treasury 20+ Year Index added 1.81% during the month, finishing the year up 8.98%. The Bloomberg Barclays Corporate High Yield Index rose 0.30%, lifting its gain for the year to 7.50%.

U.S. equity markets hit record highs in 2017, their best year since 2013. Market valuations continue to be the main focus as stocks approach nine years of gains following the financial crisis of 2007-2008. Investors also will be closely watching the corporate reaction to the new tax bill.