2017 YEAR END COMMENTARY **JANUARY 2018**

And just like that, we have another year in the books! Without question, 2017 was a strong year for equities, both U.S. and International alike. In 2017, the S&P 500 Index posted a total return of 21.82%. Nine of the 11 sectors were up on a total return basis. The top-performer was Information Technology, up 38.83%, while the worst showing came from Telecommunication Services, down 1.25%. From 11/8/2016 (the date Donald Trump was elected 45th President) through 12/29/2017, the S&P 500 Index posted a total return of 27.88%. All 11 sectors were up on a total return basis. The top-performer was Financials, up 42.60%, while the worst showing came from Energy, up 7.88%. Bloomberg's consensus estimated earnings growth rates for 2018 and 2019 for the S&P 500 Index were 10.75% and 10.35%, respectively, as of 12/31/2017. Companies boosted their dividend distributions for U.S. common stocks increased by a net (increases less decreases) 56.9% to $37.1 billion in 2017. There were 2,642 dividend increases in 2017, up slightly from the 2,634 dividend increases in 2016. The number of dividends cut or suspended in 2017 totaled 445, down from the 659 cut or suspended in 2016.

From a return standpoint, 2017 was a relatively average year for U.S. Fixed Income – on a total return basis, the Bloomberg Barclays US Aggregate Bond Index returned 3.54%, 48 basis points lower than its 10-year annualized return 4.02%. What was not normal however, was the movement in U.S. Treasury yields, as the yield curve flattened significantly during the year; and the spreads between the 10-year and two-year and the 30-year and five-year Treasuries finished 2017 at 51 and 41 basis points, respectively, close to the narrowest these spreads have been in the last decade. Within U.S. fixed income, convertible bonds were among the best performing assets as the strong U.S. equity market drove up prices in these instruments – the SPDR Barclays Convertible Bond ETF (CWB) returned 15.69% during 2017 on a total return basis. Meanwhile, driven by a weakening dollar – the NYCE U.S. Dollar Index (DX/Y) was down 9.85% for the year, and U.S. investors were rewarded for exposure to foreign bonds. The SPDR Bloomberg Barclays International Treasury Bond ETF (BWX) had a total return of 9.93% on the year. The yield on the benchmark 10-year Treasury note (T-Note) stood at 2.41% on 12/29/2017, unchanged from the end of November. The Fed has already raised the Funds Rate five times, dating back to its first hike on 12/16/2015. Each hike totaled 25 basis points. The rate increased from 0.25% to 1.50%, where it stood at the end of 2017. The year-over-year rate of inflation, as measured by the Consumer Price Index, increased from 0.7% on 12/31/2015 to 2.2% on 11/30/2017 (most recent), according to data from the Bureau of Labor Statistics. Ironically, despite the 125 basis point increase in the federal funds target rate, the yield on the 10-year T-note rose just 11 basis points over the same period, from 2.30% on 12/16/2015 to 2.41% on 12/29/2017, according to Bloomberg.

* Please note that some of the above statistics were obtained from First Trust Advisors, LP and Dorsey Wright Associates.

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