CFM Tax & Investment Advisors

www.CantyFinancial.com

New York
20 Church Avenue
Ballston Spa, NY 12020
Telephone: 518.885.3230
Fax: 518.885.2835

Florida
5129 Castello Drive #1
Naples, FL 34103
Telephone: 239.435.0090
E-Fax: 239.236.0928

Key Economic Statistics

Leading Economic Index 130.9
Recent Trend: Increasing (was 130.4 in October)
(Source: The Conference Board)

Consumer Confidence Index 122.1
Recent Trend: increasing
(Source: The Conference Board)

US 2017 Inflation Rate: 2.20%
Overall FED Goal: 2%
Recent Trend: stable
(Source: Inflationdata.com)

US Unemployment Rate: 4.1%
Recent Trend: historically low
(Source: US Dept of Labor (BLS))

Interest Rates:
Fed Fund Target Rate: **1.25-1.50%**
2-year US Gov't Bond Yield: **1.96%**
10-year US Gov't Bond Yield: **2.48%**
30-year US Gov't Bond Yield: **2.83%**
Recent Trend: Interest rates continue to be low.
(Source: Wall St Journal Market Data)

Total Returns: YTD
US: S&P 500 (SPY): **19.42%**
US: Dow Jones Ind. Avg. (DIA):**25.08%**
US: NYSE Composite (NYA): **15.84%**
US: Aggregate Bond Index (AGG):**3.55%**
Europe: FTSE Europe (VGK): **26.98%**
Canada: I-Shares (EWC): **15.74%**
China: Large Cap (FXI): **36.22%**
Hong Kong: I-Shares (EWH): **36.5%**
Japan: I-Shares (EWJ): **24.27%**
Brazil: I-Shares (EWZ): **23.66%**
Gold: I-Shares: (IAU): **12.91%**
(Source: Morningstar Office)

Annual Investment Commentary: 2017

One year ago, domestic equity markets began an optimistic rally in hope for a government that eased tension between the private and public sectors. Over the course of 2017 we saw a U.S. stock market that developed a new sense of optimism and enthusiasm. As corporations began reporting better than expected earnings this sense of confidence continued to build on itself.

The S&P 500 surged 19.42% over the course of 2017 while it grew earnings 14.77% year over year. However, the U.S. was far from the only country that saw sizable gains over the past 12 months. The MSCI China index was up 54.3%, MSCI Japan was up 24.4%, and MSCI Germany was up 28.5%. These are just a few of the many countries that saw double digit returns over 2017. According to the IMF, global GDP rose 3.6% in 2017. The return of worldwide economic growth is evident in the advance of global GDP and the outperformance of international equity indexes.

Looking forward we forecast a continued advancement in equity markets for multiple reasons; our primary driver being the increase in corporate earnings and the global economic expansion. We also believe a reduction in the U.S. corporate tax rate will contribute to increases in profits as well. The new tax bill also provides provisions for the repatriation of corporate cash held overseas at a one-time rate of 15.5% compared to 35% previously. With estimates ranging from $1 to $3 trillion in repatriated cash coming back into the United States, there will be a large incentive for share buybacks and direct reinvestment.

Positive investor sentiment is also among the drivers of the stock market's recent rally. According to the AAII Investor Sentiment Survey, 59.8% of investors are bullish on the stock market over the next 6 months which exceeds the historical average of 38.5%. This statistic is significantly supported in the

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resiliency of the stock market over the past year. Turmoil from geopolitical conflict to natural disasters has done little to offset global equity markets.

Over the next 12 months we expect to see substantial gains in equity markets. We continue to believe that international equity markets show some of the greatest opportunity, but also stress a sizable position in domestic corporations. Moving forward we see outperformance in the technology and financial sectors, which will benefit greatly from repatriation and the cut in corporate tax rates. We also expect to see inflation return to normal levels in the near future. With the Federal Reserve raising interest rates and inflation expectations picking up we express caution in long duration fixed income securities.

Some of the risks over the next year include geopolitical uncertainties as the rise of populism gains a foothold in global politics. An additional risk is the increased flattening of the yield curve. If long term interest rates do not begin to move higher we may be at risk of an inverted yield curve. This inversion is often used as a precursor for a nearing recession, but we do not have immediate concerns for this circumstance. Lastly, one of the greatest risks over the next year is irrational exuberance among investors. Even in the healthiest of markets there is always the possibility of overextension. The global stock market has a bright horizon over the next 12 months; nevertheless we are always cautious on markets moving too quickly through the emotions of investors.

By Ed Canty, Registered Investment Advisor Rep.

"International Stock Market Performance • Novel Investor." *Novel Investor*, novelinvestor.com/international-stock-market-performance/.

"Real GDP Growth." *Request Rejected*, www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD.

"S& P Earnings: 1960-Current." *S&P Earnings History*, pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/spearn.htm.