STRAIGHT TALK

3rd Quarter 2017

Steven F. Mosshart AIF®, Chief Investment Strategist   Sonny Mehra, Director of Research

Market Returns

Domestic Large
S&P 500
14.24%

Domestic Small
Russell 2000
10.94%

Intl Developed
MSCI EAFE
19.96%

Emerging Markets
MSCI EM
27.78%

Fixed Income
BBgBarc US
Aggregate Bond
3.14%

**Market data is from Morningstar and is through 09/30/17. All returns are with dividends reinvested*

The economy continued its steady pace of expansion in the third quarter and investors liked what they saw. Historically low levels of stock market volatility and a very small intra-year decline demonstrates investors' comfort with the economic and investment outlook. Looking ahead we must be cautious and avoid complacency, but we see a positive end to the year.

We expect the Fed will continue its regular pattern of rate increases this year and next. During the September meeting the Fed signaled that another rate hike in December is likely, and markets are now pricing in the likelihood of such an event. Additionally, as expected, they announced plans for so called "Quantitative Tightening" which will revolve around letting bonds that were bought during Quantitative Easing roll off the Fed's balance sheet. They will increasingly allow bonds to mature and not reinvest the proceeds, as they have been up to this point. Despite a strong labor market, low inflation has provided cover for the Fed to tighten monetary policy in a very gradual manor. We believe that inflation is in the process of bottoming out though, and over the coming year may rise to, or past, the Fed's 2% target.

Shifting focus to fiscal policy, tax reform or more likely tax rate reductions, move front and center on the political agenda. Among the plans being discussed in Washington would be to lower the corporate tax rate hoping to improve the global competitive position of US Corporations. This move would certainly be cheered by investors and could add to the earnings of US companies. There have also been talks to simplify the tax code by reducing the number of tax brackets and increasing the standard deduction for individuals. It remains to be seen what, if anything, will come of these proposals, but this will be one of the key issues as we progress through the fourth quarter.

Looking at markets, we've found that investors continue to seek out the stocks of companies that can outpace the moderately growing economy. As a result, large multinational and higher growth stocks have greatly outperformed this year. In recent weeks, however, we've witnessed a reversal in that trend. Both smaller US companies and more value oriented stocks have picked up steam. There have been signs of sector and style rotation over the past few months, and with the prospects for changes in both monetary and fiscal policy, we believe that this could add further momentum to this rotation.

Markets have been in a sweet spot this year, as improving economic and corporate fundamentals globally have been paired with generally low inflation. This has allowed central banks to remain accommodative, even as the global economy has heated up. As the overall economy shows no signs of slowing as it moves through the maturing phase of the economic cycle, investors remain comfortable with the outlook for the economy and corporate earnings. With this outlook, we remain cautiously optimistic as we head into the end of the year. Thank you for your continued trust, and as always please reach out if there's anything you would like to discuss.

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www.straightline.com
866-401-5238
info@straightline.com