# Quarterly Outlook

APRIL 2017

## First Quarter 2017

The US equity market has officially entered its 9th consecutive year of positive returns, with the S&P 500 posting a total return of 6.07% for the quarter. Despite political tensions, an ongoing global oil glut, rising interest rates, and other potential sources of market turbulence, strong corporate earnings, high consumer confidence, and the potential for tax reform and increased infrastructure spending have continued to feed what began as a post-election relief rally. Information Technology was the best performing domestic sector in the quarter, with a total return of 12.57%. Energy and Telecommunication Services both lost ground since January, with total returns of -6.68% and -3.97%, respectively.

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In a vote of confidence for the health of the US economy, the Federal Reserve Open Market Committee announced in March its decision to increase the target federal funds rate for the second time in three months. Despite uninspired GDP growth of just 1.6% in 2016, the Fed has made clear its intention to continue raising interest rates throughout 2017, ostensibly in an effort to keep inflation within sight of its 2% target. Notwithstanding, bond yields have remained ultra-low.

US equity markets were not the only sources of performance in the quarter, as markets across the world reflected a global trend of increasing business confidence. European equities kept pace with domestic stocks, but both were bested by emerging markets, with the MSCI Emerging Markets Index posting returns of 11.44% in the quarter.

Oil remained cheap in the quarter as supply continued to outweigh demand. US energy companies have shown impressive resilience in the face of historically low prices, producing considerably more oil than many had anticipated. An agreement between OPEC members to cut production in the first half of the year kept crude above $50/barrel for most of the quarter but also allowed US shale producers to increase production, hindering efforts to reduce worldwide supply.

**Going Forward: Tandem's Outlook**

In the short term, investors will scrutinize the upcoming US jobs report and first quarter GDP growth carefully, which could be affected by unusually severe weather in February. Strong corporate earnings and a decline in the default rate are good news for corporate bond investors, while Treasury yields may be set to rise in response to higher inflation expectations.

However, investors will be focused primarily on Washington, as gains from the first quarter could be erased if promises of increased infrastructure spending and corporate tax reform go undelivered. Though many have expressed doubts about the current administration's ability to successfully pursue its agenda after the failure of the American Healthcare Act, it should be noted

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that corporate tax reform is unlikely to face the same level of opposition from congress as did an overhaul of the nation's healthcare system.

Tandem remains committed to a disciplined approach to investing, with the safeguarding of clients' assets as our top priority. Though market volatility can and will occur from time to time, we believe that properly diversified portfolios will continue to reward investors over the long term.