# Quarterly Outlook

JANUARY 2017

## Fourth Quarter 2016

2016 was a year of records. Both the Dow Jones Industrial Average and the S&P 500 indexes set new highs repeatedly throughout the year. US market capitalization reached 38% of the world's total – an 11-year high. In November, oil production by OPEC members reached an all-time high of 34.16 million barrels per day. The consumer confidence index, which measures consumers' feelings on current and future conditions, rose to a 13-year high in December.

Specifically, the S&P 500 posted a 3.92% total return for the quarter, bringing the year to a close with a total return of 11.96%. The energy sector was the year's best performer and contributed significantly to overall market performance, posting gains of 27.4% in 2016. The telecom and financial sectors also grew significantly, with returns of 23.5% and 22.8% for the year, respectively. With a decline of 2.7%, health care was the only sector to post negative returns in 2016.

2016 also brought many surprises. Despite polling data to the contrary, the UK voted to exit the European Union, and the US elected Donald Trump as the 45th president of the United States. Perhaps the biggest surprise of all, though, was that markets responded to both of these events with significant rallies – an unusual response considering the markets' typical intolerance for uncertainty. The effects of Brexit and the US presidential election on currency markets was much less surprising, with the US dollar gaining heavily against the British pound and Mexican peso.

In December, the Federal Reserve Open Market Committee increased its target federal funds rate from 0.25% to 0.50%, demonstrating its confidence in the stability of the US economy. This is the second interest rate increase since the Fed began tightening monetary policy in December of 2015. This time, however, equity markets displayed resilience, perhaps due to the fact that most investors expected the Fed to raise interest rates as early as September.

This anticipation was reflected in fixed income markets, with municipalities issuing the most bonds in well over a decade. US treasury yields rose in December, most likely due to promises of increased infrastructure spending, significant tax cuts and decreased regulation as well as the expectation for inflation to rise closer to the long-term target rate of 2-3%. Sales of US investment-grade corporate bonds reached a record $1.3 trillion dollars.

**Going Forward: Tandem's Outlook**

Politics and policy will play a major role for markets in 2017. In a new and unknown political landscape, a focus on valuations and fundamentals is as important as ever. Areas of concern include political uncertainty, China's economic strife, higher interest rates and a strengthening US dollar.

In 2017, we expect the global economy to continue its trend of sluggishness, though stabilization of energy prices may provide relief for some oil-dependent

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economies. In the longer-term, rapid advances in technology and automation threaten employment rates around the world.

Although US equities are arguably expensive, they remain attractive long term. The financial sector in particular may benefit from rising interest rates and potential deregulation. Cheap valuations and loose monetary policy make a case for Japanese equities, while European stocks continue to suffer political risk and weaker fundamentals. As always, Tandem continues to monitor the world's markets and economies with a focus on investor portfolios.

The new year is a good time for investors to reassess their financial goals and objectives and ensure they are headed in the right direction. We are always available to discuss any financial questions or concerns you may have or to simply touch base. We wish you the very best in 2017.

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