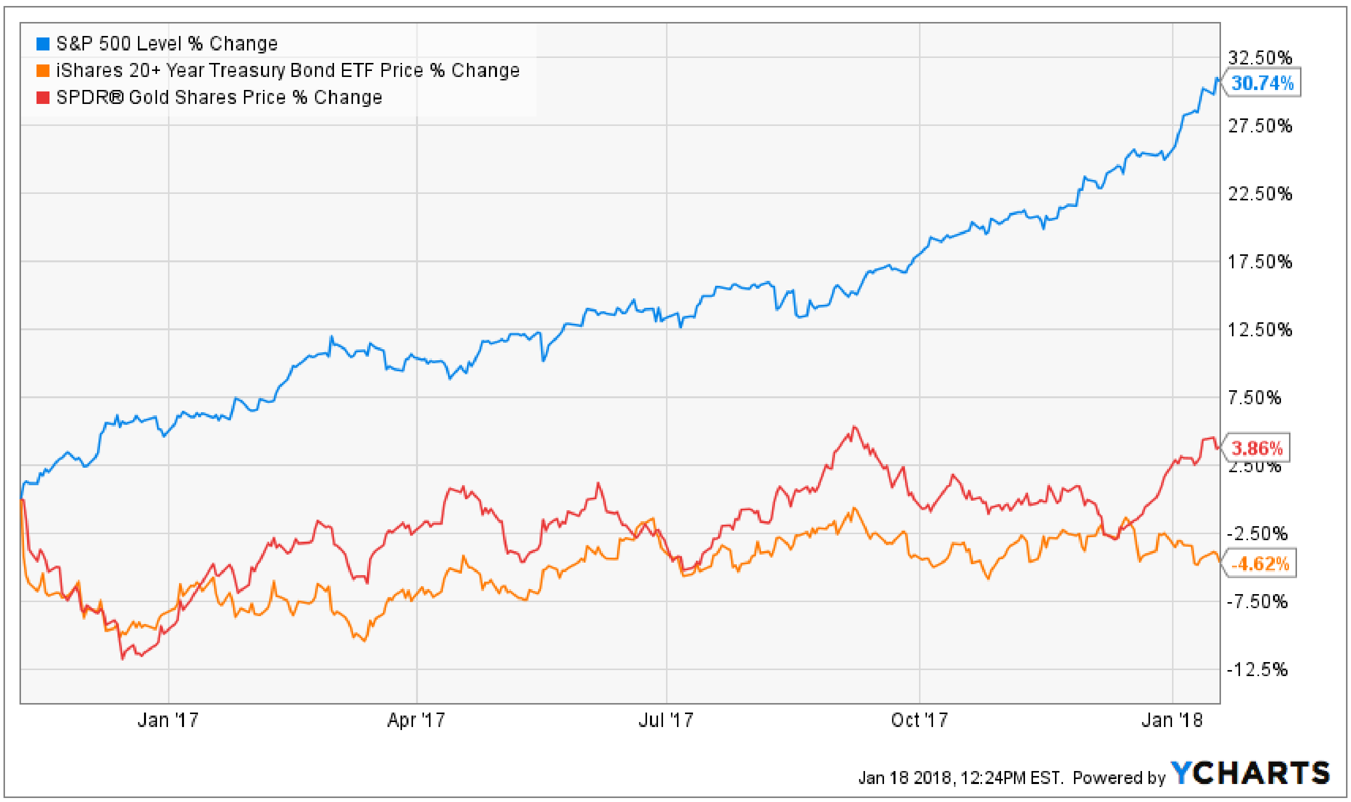
Market Update

January 18, 2018

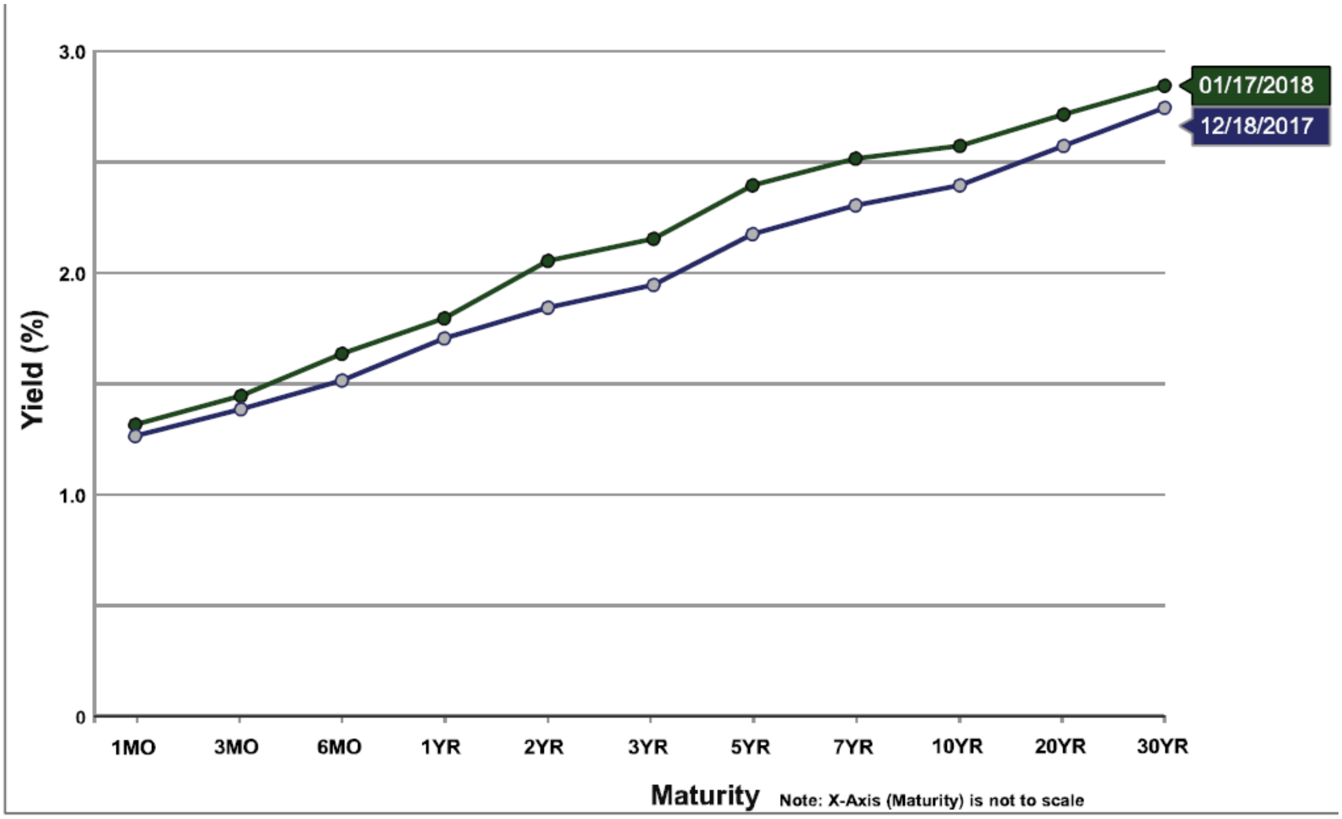
Markets, Milestone's and Apple

Recent economic reports have reinforced the view that the U.S. economy ended 2017 with solid fundamentals. This bodes well for the momentum in the equities markets to continue into 2018. One area of great interest that is not currently getting a lot of attention is the climbing price of oil above $60 a barrel. This fact, along with solid economic data in retail, increased consumption expectations and wage pressure increases, is beginning to elicit signs of an increase in inflation. We can see the red line in the graph below, which is for GLD, our proxy for gold, has started to diverge from the orange line in the graph, which is TLT, our proxy for the price U.S. Treasury bonds. This divergence is to be expected as inflation starts to rise. The equity markets continue to reach new all-time highs as most recently the Dow Jones Industrial average broke through 26,000. The blue line below is for the S&P 500, which is a broader and more viable market index than the Dow Jones, regarding the overall equity markets movements. Information in the graph below is from November of 2016 to earlier today.



Information in the chart above was taken from sources we believe to be reliable; however; we do not guarantee its accuracy or completeness.

The treasury yield curve shifted up to the left over the past month (see chart below) indicating an increase in rates at all maturity levels. Long term rates continue to be higher than short term interest rates. The reason we are seeing a shift of the curve is due to the signs of inflation in the economy. Yields in the curve going up are supported by the orange line in the previous chart going down. Bond prices and bond yields have an inverse relationship. After a small amount of flattening at the end of last year, the curve has shifted and is signaling the potential for further rate increases. The coordinated global economic expansion that is occurring has put pressure on commodity prices, as seen by the increase in oil and gold. This leads to inflation which leads to higher rates and potentially more Federal Reserve interest rate hikes. It is our opinion global central bankers will also be looking at raising rates if inflation becomes the major theme for 2018 and beyond.



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https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx

A major development yesterday from Apple, Inc. may just be the first in what many on Wall Street hope are more announcements of similar impact. Apple, the countries largest company by market cap, announced that it will be repatriating most of its foreign held profits back to the United States. The estimated tax payment by Apple is roughly $38 billion dollars in tax revenue. Also in their announcement, they plan on hiring 20,000 new employees, building a new campus and investing $350billion over the course of the next few years. Announcements like these are certainly good for the U.S. economy and could encourage other companies to follow Apple's lead. We have seen many companies come out and increase minimum wages for employees, provide bonuses and increase retirement plan contributions on behalf of their employees. Wall Street has cheered these developments as the markets have reacted positively to them.

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The fundamental back drop of the economy we feel should provide the markets with a platform for continued growth. The biggest concern for the next 12 months is the Federal Reserve increasing rates too quickly to combat inflation which can often stifle growth. We will need to see how all of this plays out. Preliminarily, our outlook is one of a little more caution for this next year, although we do feel there is more opportunity for growth. Markets have been making new high after new high and that is good but also signals for a bit of caution. The emergence of bubble like phenomena on cryptocurrencies is also a bit concerning. At this point, we do not see it being a systemic issue but that does not mean that it won't become an issue sometime in the future. Overall, we still prefer domestic equities over international equites. International markets, especially developed international markets, continue to look attractive. Most all our portfolios hold a percentage of their assets in international investments which should benefit from improved economic indications globally. We are currently neutral on fixed income and interest rates but believe that the future may bring a high rate environment.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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