FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW
SECOND QUARTER 2017

What Happened:

The market rally continued in the second quarter, driven by corporate earnings that far exceeded estimates. Year-to-date through June 30, stocks are up over 9% with 24 record highs. Technology was the hottest sector, paced by the big five: Apple, Amazon, Microsoft, Alphabet (Google) and Facebook.

The drama in Washington continued as Congress wrestled with health care and tax reform legislation. Increased market volatility was expected, but instead, we got just the opposite—sanguine markets. We suspect, however, that the mood will sour if progress is halted or seriously delayed.

International stocks continued to show strength, outpacing the U.S. markets. This trend is expected to continue as political risk is diminished, valuations remain attractive and the economic outlook is improving, particularly in Europe. Moreover, corporate earnings abroad are showing robust growth. As investors, this is a welcome change after several years of poor performance.

YTD Performance Through June 30, 2017:

S&P 500 Index (large stocks)	9.34%
Russell 2000 Index (small stocks)	4.99%
MSCI EAFE Index (international stocks)	13.81%
Barclays U.S. Aggregate Bond Index (bonds)	2.27%

Prognosis:

Most economic indicators remain positive—earnings are strong, inflation is low and interest rates are low. All this suggests that market advances may continue. We are encouraged by this, but we also realize that markets do not follow a straight line upward. Corrections are a way of life in the investment world. However, we should take comfort knowing that corrections are typically short-lived and have a cleansing effect, restoring equilibrium and order.

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