Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY & LOOK AHEAD – JANUARY 1, 2018

Look Back at 2017

Since markets spent most of 2017 hurtling at an impressive clip and it is time for us to make projections for another year, we were reminded of a movie that remains cherished by many to this day. Folks might remember that when Doc Brown's modified DeLorean reached 88 mph, rubber burned (literally), ice formed, and Marty McFly zoomed through time. And to paraphrase the loony doctor, let's take a look back, and to the future!

The momentum that unleashed itself in the stock market in the last two months of 2016 held on for most all of 2017. Despite equities starting in a fair value range, prices and valuations roared higher. They were propelled by some of the events we discussed at this time last year.

Interest rates, while heading higher, remained low overall. And when they did inch northward, the Fed had telegraphed their incremental moves well in advance, offering no unpleasant surprises for market participants.

On a related note, the strong dollar gave back much of its gain over the preceding 30 months. Last year we speculated that this might occur as investors "bought the rumor" and "sold the news" of higher rates.

Earnings and profit margins edged to new highs. We wondered if an easier regulatory environment from a Federal standpoint might release a positive cycle, and it has. Managers became bullish on their companies' prospects, growing more-so over 2017.

Some of the market's increase was due to projected changes in tax law that only came about in the waning days of the year. The effect they had on the market was felt last year and will continue to be in the future. But the real effects they will have on earnings, mergers, inflation, charities, et cetera are only now just beginning.

2018 – To the Future

Short term interest rates in the U.S. remain on an increasing trajectory. We are in a decidedly different place than we were a year ago. Rates are now fully normalized off of their zero base. We expect several hikes this year. However, unlike the previous two years, these hikes will likely begin to affect the yield curve and economic activity in a way that we haven't seen for a decade.

Stirling Bridge
Wealth Partners, LLC

Absent unforeseen events, we expect that the yield curve will completely flatten and/or invert so that short rates are higher than long rates. This is normally a sign that a bull market's days are numbered.

Tax reform is already causing behavioral changes. And the law of unintended consequences means that for better or worse, there will be outcomes no one expected. On the whole, we expect the changes to be positive for the economy, driving GDP growth to higher levels than we've seen since the recovery began. Higher growth may spur the Fed to react more quickly than they otherwise would, raising rates even faster.

Earnings should remain strong, maybe getting stronger. Lighter regulations, more bank earnings (due to higher rates), a stable or lower dollar (means better international earnings) all portend solid corporate results.

So, our outlook suggests a great 2018. Yes. But. At present levels, stocks are historically expensive. It is impossible to argue otherwise. Low inflation, low interest rates, and steady corporate earnings have all fostered the expansion of prices. However, earlier we suggested that rates might begin to bite. Furthermore, we implied that inflation could finally begin to rear its head as we talked about tax law and the easier regulatory environment. If the administration gets its way with a large infrastructure spending plan in 2018, that is just one more potential impetus toward meaningful inflation and an aggressive Federal Reserve.

To be clear, we look for positive equity returns this year. But we advise caution. We urge investors to rediscover the importance of asset allocation, specifically toward safer asset classes, such as fixed income. Near-term heartache is possible for bonds in 2018. But over the course of the full year and beyond, higher rates will be of great value to long-term holders. There is still no good reason for investors to abandon fixed income holdings if they still fit into their allocation.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely

Jason Born, CFA
President

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-932-1211