Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY & LOOK AHEAD – JANUARY 1, 2017

Brief Review of 2016

We're not really fans of boxing, but can appreciate the training and grit it takes to become great in the sport. A boxing match also seems to be the most apt way to describe 2016. Let's use the metaphor to shed light on some of the highs and lows.

Round 1 – January 2016. Investors came out with gloves raised, but swiftly took serious blows. On the back of a December 2015 rate hike, equity markets the world over suffered the worst declines ever in the opening weeks of a new year.

Rounds 2 & 3 – February and March. Markets snapped back as the U.S. election cycle got underway with the primary season. By the end of March big cap stocks had erased all their earlier losses and then some.

Round 6 – June. Brexit. Panic and down to the mat from a solid punch to the noggin'. But within days markets again rallied to higher heights. We thought all along most economic effects from the Brexit vote would be local, not global.

Rounds 7 - 10 – Blah. Investors were tired at this point. The election was wearing on everyone. We couldn't keep our mitts in front of our face or our elbows at our ribs. But we stayed in the match. Equity markets drifted lower.

Rounds 11 & 12 – Holy Smokes! Investors won, racking up nifty equity returns in select markets. But even the victory left us feeling exhausted and bruised. International equities ended the year in a rough place as a last minute dollar surge and a U.S. interest rate hike beat down results. Health care and tech stocks got whacked. Bonds, too, put up short term losses. Some large caps did well. Small caps put up a tremendous rally in the weeks following the election results as tiny, domestic companies were seen benefitting from new policies.

2017 Outlook

Interest rates in the U.S. are on an increasing trajectory. After the election, the Fed's language seems to indicate they are comfortable with a more robust pace than the recent past. The economy is still strong enough for a few more hikes before we have to begin worrying about a recession. We expect just a few increases in 2017.

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The dollar is likely to remain strong, but give back some of its gains from late 2016. The robust dollar of the past 30 months has partially been the result of diverging interest rate policies at central banks. With the Fed now officially in an increasing pattern, the old adage of "buy the rumor, sell the news" may play out. Investors piled into dollars as whispers of rate jumps surfaced. When the reality of a continued slow pace of increases is accepted and other economies remain stable, the relative attractiveness of the dollar may diminish.

An easier regulatory environment, low (but rising) interest rates, and a stabilized dollar factor into another year of decent earnings for 2017. Incrementally higher interest rates should also allow banks to contribute more toward corporate earnings.

At present levels, U.S. stocks are fairly valued overall. We look for positive equity returns, especially if tax reform is coupled with moderating regulations and only modest spending. International stocks hold patches of value and we'll attempt to exploit them. However, the nature of international investing continues to evolve and simply owning international will not provide the same diversification benefits as in the past. Security and industry selection have gained importance in the international arena.

We expect some near-term heartache in bonds in 2017. But over the course of the full year and beyond, higher rates will be of great value to long-term holders. The sell-off in the waning months of 2016 has created opportunities in municipal, treasuries, and inflation-indexed bonds. There is still no good reason for investors to abandon fixed income holdings if they 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

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