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Market Commentary
Fourth Quarter 2017

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Relative Market Performance

	4Q	1YR	3YR
Dow Jones Industrial Average (U.S. Large Stocks)	10.96	28.11	14.36
Standard & Poor's 500 (U.S. Large Stocks)	6.64	21.83	11.41
Wilshire 5000 (U.S. Stocks)	6.39	20.99	11.36
MSCI EAFE (Foreign Stocks)	4.23	25.03	7.80
MSCI EM (Emerging Market Stocks)	7.44	37.28	9.10
MSCI ACWI (World Stocks)	5.73	23.97	9.30
Barclays Capital U.S. Agg. Index (U.S. Bonds)	0.39	3.54	2.24

Source: Morningstar

Market Review and Outlook

U.S. Equities

Investors can celebrate another strong year in equities. Global monetary policy has remained supportive to stock prices, but the real driver has been the continued strength in corporate profits alongside a period of globally synchronized economic growth. Looking forward, the recent passage of tax-reform in the U.S. should provide additional support to certain sectors of the U.S. market as businesses recognize the potential benefit of a lower corporate tax rate. U.S. equities show no current signs of weakness and valuations remain stretched. While high valuations alone do not indicate a near-term negative event, they have historically been indicative of lower expected returns going forward. As such, the longevity of the current U.S. bull market is of concern and greater opportunities may lie in the improving international story.

Foreign Equities

The eurozone is at an earlier stage of the business cycle compared to the U.S and it has shown consistent improvement. Business and consumer confidence is high in the region as economic growth expands and earnings momentum advances at a healthy pace. Likewise, emerging markets should be able to sustain momentum amidst a pickup in global economic activity. Valuations across both the eurozone and emerging markets remain attractive as compared to the U.S. Furthermore, growth in earnings per share contributed to the rally in equities outside the U.S. more so than domestically where multiple expansion has played a larger role. A market driven by earnings growth tends to be sustainable over time.

Interest Rates and Fixed Income

The Federal Reserve remains on track to continue with gradual interest rate hikes and balance sheet normalization. As a result, investors should continue to see flattening of the yield curve. As Fed tightening pushes short-term yields higher, long-term rates remain stable. However, accelerating economic growth causes concern that inflation could quicken and lead to higher long-term rates. In this difficult environment for bonds, finding the right balance between risk and opportunity is key without giving up the role that fixed income plays as the ballast in a diversified portfolio. Bond prices move inversely to yields.

In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.