Investment Commentary – 2nd Quarter 2017

Equity markets around the world continued to climb in June, supported by increased earnings.

Domestic, international and emerging markets equity posted positive returns in the second quarter of 2017. Two major U.S. stock indices closed at new highs in June, continuing the new-high trend that began after the presidential election in November 2016. On June 2, the NASDAQ topped 6,300. And on June 19, the Dow Jones Industrial Average closed at 21,528.99.

The Federal Open Market Committee raised its short-term interest rate 0.25% in June, as it did in March, raising the target range to 1.0% - 1.25%. The yield curve has flattened, but is a long way from inversion, Raymond James Senior Fixed Income Strategist Doug Drabik said.

Internationally, the United Kingdom's general election failed to provide the incumbent Conservative party with the mandate it sought, adding uncertainty to the UK's withdrawal from the European Union in the early stages of negotiations. In France, the election of a pro-Europe president sparked hope of Parliament-led reform.

Here's a look at what else is going on in the economy and capital markets, as well as key factors we are keeping an eye on heading into the second half of 2017:

Economy

- Fed officials continue to expect GDP growth of about 2.2% for 2017, but expectations for inflation and the unemployment rate were revised lower. Fed officials downplayed the recent dip in inflation figures, expecting the underlying trend to move toward the 2% goal in the quarters ahead.
- According to the U.S. Bureau of Labor Statistics, the unemployment rate fell to 4.3% in May, below what the Fed considers to be a long-term equilibrium rate. Wage inflation has been moderate, but officials fear a sharp pickup in inflation if the unemployment rate were to decline further, according to Raymond James Chief Economist Scott Brown.
- Little progress has been made on infrastructure spending plans and tax reform will be difficult to achieve, but economic fundamentals appear to remain sound, Brown said.

Equities

- Domestic equity markets followed a strong first quarter with more positive returns in the second quarter, marking the seventh consecutive quarter of positive returns for the major indices.
- International developed and emerging markets equity outperformed domestic equity in the second quarter, as economies showed signs of growth and improved earnings. U.S. investors owning international stocks also benefited from a declining dollar.
- The estimated U.S. earnings growth rate for the second quarter is 6.6%, according to FactSet. As of June 30, the forward 12-month P/E ratio for the S&P 500 was 17.4 – above the five-year average of 15.3 and 10-year average of 14.0.

International

- The weakened position of the Conservative party in the United Kingdom likely reduced any "hard Brexit" negotiating power the UK might have had, which kept the pound from falling, Raymond James European Strategist Chris Bailey said.

- During June, the president of the European Central Bank took a more positive tone in discussing the European economic backdrop, helping to push the euro up, Bailey said.
- Investors continue to monitor geopolitical hot spots such as North Korea, Syria and Afghanistan.

Fixed Income

- Treasury rates are down year-to-date, yet up significantly versus a year ago. Year-over-year, the 5-, 10- and 30-year Treasuries are up 83, 77 and 50 basis points, respectively. Spreads have tightened in the investment-grade corporate space, showing continued demand for high-quality fixed income. But overall yields are still higher versus last summer.
- The 30-year Treasury index boasts an 8.19% return since the beginning of the year. The 10+ year investment-grade index is up 8.09%. The investment-grade corporate index is up 4.64%.
- Investors could be tempted to abandon appropriate asset allocations to chase higher yields, Raymond James Fixed Income Services Managing Director Nick Goetze said. The primary reason for owning fixed income is return of principal. In the event of an economic downturn, fixed income proxies likely will not provide the same stability and known timeline for return of principal. Premium bonds have the potential to generate increased income if cash flow is needed.

Bottom line

- We believe the market action to be a solid breakout to new all-time highs. We remain bullish.

Should anything change, I'll be sure to keep you updated on anything that could affect your long-term financial plan. Thank you for your trust in me.

Year to Date Returns as of June 30, 2017:

S&P 500	+9.34%
DJIA	+10.19%
Russell 2000	+4.99%
NASDAQ Composite	+14.71%
S&P Mid-Cap 400	+5.99%
MSCI EAFE	+11.83%