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Fourth-Quarter 2017 Market Review ~ An Eerie Calm...

January 2018 - Stocks staged a global rally in 2017, with double-digit returns for both domestic and international indexes. It was the best year for U.S. equities since 2013: the Dow Jones Industrial Average rocketed 25.1%, the Standard & Poor's 500-Stock index (total return) jumped 21.8%, and the NASDAQ Composite index surged 28.2%.

International diversification was rewarded as overseas market barometers outperformed domestic for the first time since 2012. International Developed Large Caps leapt 25.6%, Developed Small Caps vaulted 33.5%, and Emerging Markets soared 37.8%.

Domestic and international stock indexes rose in each of the four quarters, driven by global economic growth and low interest rates, as well as tax and regulatory cuts in the U.S.

Despite a backdrop of geopolitical tensions and tax law unknowns, what was most evident during 2017 was the absence of stock market volatility. With predictable corporate profits and Federal Reserve interest rate moves, the S&P 500 moved up or down more than 1.0% only eight times, compared with nearly 120 times for 2015 and 2016 combined. It was a steady advance through the year with the S&P 500 total return climbing each month. Record closing highs for the year were abundant: Dow Jones 71 (the most in any year), S&P 62, and NASDAQ 72.

Volatility may return in 2018 with dispersion in corporate earnings due to the unknown impact of the new tax law and expectations for Federal Reserve monetary tightening.

Bonds gained ground across-the-board in the fourth quarter and for all of 2017. The riskiest sectors picked up the most for the year: Emerging Markets swelled 8.2% and U.S. Corporate High Yield tacked on 7.5%.

The Federal Reserve met twice during the quarter, leaving interest rates unchanged at the first meeting, while lifting its short-term target by a quarter percent at the second to a range of 1.25% 1.50%. It was the third quarter-point increase in 2017. The Fed forecasts three hikes in 2018.

Even with international and domestic tensions, the yield on the widely-followed 10-year Treasury note was little changed for the year, down three basis points to 2.41% from 2.44% at the end of 2016. The only significant movement for the 10-year note came in September with concerns about the economic impact from hurricane damage, sending the yield lower to almost 2.0%. Otherwise, the most notable 2017 occurrence in the bond market was the flattening of the Treasury yield curve, as two-year note yields shot up nearly three-quarters of a percent to close the year at 1.89%, while the yield for 30-year bonds fell by approximately a quarter percent to 2.74%.





Below are rates of return for selected market indices for the fourth quarter of 2017, full-year 2017, and the three, five, and 10-year compound annual returns as of December 31, 2017.

	<u>4Q:2017</u>	<u>2017</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	6.59%	21.69%	11.23%	15.71%	8.59%
Russell Midcap	6.07%	18.52%	9.58%	14.96%	9.11%
Russell 2000 - Small Cap	3.34%	14.65%	9.96%	14.12%	8.71%
Real Estate (FTSE NAREIT Equity REITs)	1.51%	5.23%	5.62%	9.46%	7.44%
Commodity (S&P Global LargeMidCap)	7.68%	18.68%	4.38%	0.09%	-0.53%
International					
MSCI EAFE Developed Large Cap	4.27%	25.62%	8.30%	8.39%	2.42%
MSCI EAFE Developed Small Cap	6.08%	33.50%	14.60%	13.23%	6.14%
MSCI Emerging Markets	7.50%	37.75%	9.50%	4.73%	2.02%
Global - MSCI All Country IMI	5.83%	24.58%	10.10%	11.58%	5.53%
<u>Fixed-Income (Bond) Indices</u>					
Bloomberg Barclays					
Global Aggregate - Unhedged	1.07%	7.39%	2.02%	1.24%	3.35%
Global Aggregate - Hedged	0.80%	3.04%	2.66%	NA	NA
U.S. Aggregate	0.39%	3.54%	2.24%	2.10%	4.01%
U.S. Treasury TIPs	1.27%	3.01%	2.05%	1.54%	4.25%
U.S. Corporate High Yield	0.47%	7.50%	6.35%	5.00%	7.63%
Municipal	0.75%	5.45%	2.98%	3.62%	4.76%
International Emerging Markets	0.62%	8.17%	6.38%	5.00%	7.59%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloombergindices.com

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