



Weekly Market Review

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The Week Ending December 31, 2017

It has been a quiet and steady climb that put domestic, foreign, and emerging markets equities well into double-digit returns for 2017. International equities outperformed domestic equities for the first year since 2012, reminding us why it is important to stay diversified. Going back to 2005, the S&P 500 has outperformed seven calendar years and the MSCI EAFE six calendar years. This year was the second best for both since the Global Financial Crisis. Emerging market equities stole the show with the MSCI Emerging Market Index returning 37% for 2017.



The story of international outperformance carries over to the bond side of the portfolio with the Citi World Government Bond Index returning just over 10% versus about 3.5% for the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. monetary policy is a step ahead of the rest of the developed world with the Fed hiking the Fed Funds rate by 0.25% three times in 2017, leaving the target reference rate at 1.5%. The Fed also began to let bonds mature from their balance sheet without replacing them. Both increasing the Fed Funds rate and reducing the Fed balance sheet are monetary tightening activities. The European Central Bank and the Japanese Central Bank both began to taper their bond purchases. This means that their balance sheets are still growing but at a slower rate. Long-term interest rates in the U.S. remain very low by historical measures. But considering there is more than \$11 trillion of sovereign and corporate bonds in the world trading at a negative yield, the 2.75% yield on a thirty-year U.S. treasury bond looks pretty attractive comparatively.

2017 is the year that cryptocurrencies entered the mainstream. Bitcoin, the largest market cap cryptocurrency, returned 1,400% for 2017. Ripple and Ethereum, the second and third largest cryptocurrency by market cap, returned 11,000% and 8,500% respectively for 2017. The aggregate cryptocurrency market has grown from \$17.7 billion to \$515 billion this year. To put that into perspective, if the entire cryptocurrency market was a public company, it would be the 8th largest company by market cap putting it in between Intel and Cisco Systems.



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