Weekly Market Review

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The Week Ending January 5, 2018

After posting impressive double-digit returns in 2017, domestic and international equities picked up right where they left off with the S&P 500 and MSCI EAFE both returning around 2.5% for the first week of 2018. Emerging market equities did even better with a 3.7% return for the week after returning 39% for 2017. The Dow Jones Industrial Index made headlines hitting the physiological milestone of 25,000 on Thursday which tied the fastest 1,000 point move in the index's history. The S&P 500 has now returned almost 300% since the trough of the financial crisis in March of 2009. On average, the S&P 500 sees one 10% plus correction per year. But, the largest drawdown in 2017 was only about 2.5%, which occurred from March into April. From there it has been smooth sailing.

Despite the uncomfortable feeling of knowing we're statistically past due for a correction, and the market hitting new high after new high, it is hard to find any economic data to feel negative about. Unemployment has come down to 4.1% which is the lowest level since 2001. At the beginning of 2017, inflation was stubbornly low threatening to cross into deflation territory but closed out the year on an uptick. Consumer confidence, as measured by the University of Michigan's Consumer Sentiment Index, is well above the long-term average. This is good news for the U.S. economy as consumer spending represents 70% of GDP. And while it will depend on each individual's financial situation, it does look like most people across all income brackets will pay the same or less in federal taxes this coming year. And in addition to that, corporations will be paying less as well. At least in the shorter to intermediate run, less taxes means consumers and business can spend more which should be a tailwind to economic growth.

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