April 2017

Market Index	April Change	Year-to-Date
Standard & Poor's 500	1.0%	7.2%
Dow Jones Industrial Average	1.4%	6.7%
NASDAQ	2.3%	12.7%
Russell 2000 (small company)	1.1%	3.6%
MSCI EAFE (international)	2.6%	10.2%
Barclays Aggregate Bond Index	0.8%	1.6%

Monthly Update

Stocks Extend Gains, Led by Tech

Stocks around the world climbed higher in April, continuing the streak of positive returns in 2017. The S&P 500 has gained 7.2% in the first four months of the year, much better than the 3.5% average for the same time period over the last 25 years. Technology stocks were the best performers and have led the way year-to-date with a gain of more than 15%. Technology is the only sector that has outperformed the index each month so far this year. Tech stocks have benefited from strong growth of both revenues and earnings. Consumer discretionary and health care stocks have also outperformed the index, while financials, telecom, and energy stocks have lagged. The energy sector has fallen more than 9% year-to-date as oil prices have slumped. International stocks continue to outpace U.S. stocks this year despite geopolitical uncertainty, and large cap stocks continue to outperform mid cap and small cap stocks.

Bonds also posted gains in April as interest rates continued to fall. Interest rates have come down in 2017 as expectations for inflation and economic growth have tapered since the beginning of the year.

Low Volatility, but Signs of Caution

Despite many negative news stories and an aging bull market, stocks have continued to climb with relatively low levels of volatility. At one stretch the S&P 500 went 109 days without a pullback of even 1%, the longest period of low volatility in over 20 years. Optimism about improved economic growth has been a key catalyst for the rally since the election. Strong earnings growth has also been a driver of gains. First quarter earnings growth numbers are on track to be the strongest in over five years.

However, recently there has been increased skepticism about Washington's ability to implement a meaningful fiscal stimulus package. In addition, stocks that are less sensitive to economic swings have been leading the market higher, as opposed to more economically-sensitive cyclical stocks. Slowing mergers and acquisitions activity and lower share repurchase levels serve as evidence of caution in corporate boardrooms.

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Monthly Update (continued)

With market valuations already stretched, negative news has the potential to create problems for stocks. At any point Washington gridlock and infighting, a global trade war, geopolitical tensions, tighter Fed policy, another "Brexit", and a host of global growth concerns could impact the market. In some ways, it is remarkable that volatility has been this low in the midst of significant change. The bottom line is that stocks face several headwinds, and volatility could pick up from these low levels as a result.

Policy Remains Front and Center

The focus on Washington remains intense, as has been the case all year. Government policy headlines dominate the daily news. The market continues to scrutinize the implications of White House and congressional action (or inaction). So far no major legislation has been enacted, but the priorities of the various actors are coming into focus. The Trump administration and the Republican majority in Congress moved on from health care reform to tax reform, only to return to health care toward the end of April. In addition to health care, tax reform and an infrastructure spending plan are the two major issues being watched by the markets. Trump has proposed significant cuts to both individual and corporate tax rates, overhauls to various deductions, and elimination of both the estate and alternative minimum tax.

Meanwhile, the geopolitical tensions between the U.S. and North Korea and the U.S missile strike in Syria have not made much of an impact on the market. The presidential election in France is another key international event with the potential to move markets. The French economy is the fifth-largest in the world. The runoff scheduled for May is expected to result in a victory for the more moderate candidate who does not advocate exiting the European Union, which would soothe markets.

GDP Growth Weak in 1st Quarter, but Expected to Pick Up

First quarter GDP growth in the U.S. was a mere 0.7%, causing some undue fear among investors. The first quarter is typically seasonally weak, averaging just 0.9% over the past six years. A late Easter holiday played a role, and a spring snowstorm affected economic activity in the Northeast. While the first quarter was weak, underlying trend growth is about 2%. Growth in the U.S. is likely to rebound in the second quarter, and global economic activity is also picking up, particularly in Europe. There has been some divergence between what is considered "soft" versus the "hard" economic data. Soft data typically measures sentiment as opposed to actual economic production. It has recently pointed to much stronger growth when compared to the hard data. Still, the hard data is evidence the economy continues to grow at a moderate pace.

Fed Telegraphs More Policy Tightening

The market remains relatively confident that the Fed will stay on track by raising the benchmark interest rate for the second time this year at the June meeting. The market for Fed Funds Futures is currently pricing in a 67% probability of a hike. However, expectations have come down for further rate hikes later this year. This in part is a result of discussions about another form of policy tightening the Fed is considering. The Fed's balance sheet has ballooned over the past eight years as it purchased securities via several quantitative easing programs. The Fed has indicated that it could begin balance sheet reduction towards the end of 2017, which would theoretically reduce the urgency of further rate increases.

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