HOLIDAY WRAP-UP

A look back at 2017 thus far

Presented by «representativename»

The year in brief. Investors have had much to celebrate in 2017. Halfway through November, the S&P 500 had gained more than 15% since the start of the year; the Dow Jones Industrial Average was up more than 18% year-to-date; the Nasdaq Composite, more than 25%. The Dow topped 20,000 for the first time in 2017, and the S&P made history by reaching 2,500. Many foreign equity benchmarks also rallied strongly. Prices of key commodity futures such as copper, oil, silver, and gold rebounded from 2016. The Federal Reserve, the European Central Bank, and the Bank of England all took steps toward normalization of monetary policy. America's pace of economic expansion improved and so did consumer confidence. Only the housing market showed signs of slowing. All in all, this has been a very good year economically.[1]

Domestic economic health. In terms of GDP, a subpar first quarter was again succeeded by more productive quarters. In Q1, the economy expanded 1.2%, but that was followed by growth readings of 3.1% in Q2 and 3.0% in Q3.[2]

Unemployment and underemployment lessened as 2017 progressed. The headline jobless rate ticked up to 4.8% in January, but it was at 4.1% by October. The Department of Labor's U-6 rate, which takes the underemployed into account, also hit its 2017 peak in January (10.1%); by October, it had dropped to a YTD low of 7.6%.[3,4]

September brought a 1.0% rise in personal spending – the biggest monthly advance recorded by the Bureau of Economic Analysis since August 2009 – as consumers rushed to replace cars, trucks, and other goods damaged by summer hurricanes and floods.[5]

Consumer confidence gauges have been at remarkably high levels all year, buoyed by news of record-breaking settlements on Wall Street and a better jobs outlook. The University of Michigan's consumer sentiment index hit a YTD peak of 100.7 in October, its best mark in nearly

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14 years. The Conference Board's monthly index reached 125.9 in October, more than 12 points above its final 2016 mark. (Four years ago, the index was under 80.) [6,7]

The national purchasing manager indices maintained by the Arizona-based Institute for Supply Management also rose. ISM's service sector PMI was at 56.5 in January; in October, it hit a YTD high of 60.1, indicating rapid industry growth. ISM's manufacturing PMI reached 60.8 in September and fell to 58.7 in October; it began the year at 56.0.[8,9]

As economic activity picked up, the inflation rate fell. (This may have been the year's biggest economic mystery.) Consumer prices were rising at a yearly rate of 2.7% in February, but just 1.6% by June. By September, the Bureau of Labor Statistics discerned only 2.2% yearly inflation; core consumer inflation (minus food and energy prices) had been stuck at a two-year low of 1.7% for five straight months.[10]

The Federal Reserve raised interest rates twice during the first 11 months of 2017; many analysts expect a third quarter-point hike in December. In early November, President Donald Trump nominated current Fed Governor Jerome Powell to succeed Janet Yellen as Chair of the central bank. As Q3 ebbed, the Fed made moves to gradually unwind its huge securities portfolio amassed during years of quantitative easing.[11,12]

Global economic health. The World Trade Organization forecasts that global trade will rise 3.6% for 2017 – nowhere near the yearly gains seen earlier in this century, but an improvement nonetheless. Demand for semiconductors has sent exports soaring in Asia: at this writing, they are up 6% year-over-year in China, 18% YOY in South Korea, 20% YOY in Vietnam, and 12% YOY in Singapore. China's economy surprised to the upside in 2017, approaching 7.0% yearly expansion; manufacturing PMIs in the Asia-Pacific region, including China's, indicated moderate factory sector growth in the fall.[13,14]

The European Central Bank held interest rates steady in 2017, and in Q4, it decided to extend its bond-purchase campaign through at least next summer. Eurostat, the European Commission's statistics bureau, stated that euro area GDP was growing at an annual rate of 2.4% by the end of Q3; yearly inflation was running at 1.4%, with core inflation at just 0.9%. As the United Kingdom prepared for its Brexit, its central bank made headlines in November by raising interest rates for the first time in a decade.[15,16]

World markets. By mid-November, all but one newsworthy foreign benchmark was positive YTD. (That was Israel's Tel Aviv index, down 3.6%.) Some of the YTD advances by marquee indices were striking indeed: 60.1% for Argentina's Merval, 32.4% for the Hang Seng in Hong Kong, 25.5% for South Korea's Kospi, 25.1% for India's Sensex, 19.8% for Brazil's Bovespa, and 18.7% for Japan's Nikkei 225.[17]

Other notable YTD gains included advances of 17.3% for Italy's FTSE MIB, 17.1% for the Global Dow, 14.3% for the German DAX, 10.7% for France's CAC 40, 10.6% for China's Shanghai Composite, 7.9% for Spain's IBEX 35, 7.5% for the Stoxx Europe 600, 4.9% for Canada's TSX Composite, and 4.1% for the United Kingdom's FTSE 100.[17]

Commodities markets. After eleven-and-a-half months of 2017, palladium had emerged as this year's standout, displaying a 45.9% YTD jump. Copper was up 23.0%; heating oil, 12.2%; gold, 10.8%. There were also YTD gains of 9.3% for unleaded gasoline, 5.9% for WTI crude, 5.7% for both wheat and silver, and 4.1% for cocoa. By mid-November, an ounce of gold was worth about $1,275 on the COMEX; an ounce of silver, slightly less than $17. On the NYMEX, a barrel of WTI crude was worth nearly $57.[1,18]

The notable year-to-date retreats when the same snapshot was taken: 7.0% for coffee, 7.5% for the dollar (as measured by the U.S. Dollar Index), 14.7% for natural gas, and 23.3% for sugar.[18,19]

Real estate. A red-hot housing market started to cool. In late October, the National Association of Realtors found the pace of existing home sales down 1.5% from 12 months earlier. New home buying, while representing only a sliver of the residential real estate market, looked great by comparison; the Census Bureau measured a 17.0% yearly improvement through September, when sales hit a 10-year peak.[20,21]

The NAR's pending home sales index began trending downward in April and declined in five of the six months ending in September, to the point where housing contract activity had slowed 3.5% year-over-year. Again, the news was more positive when it came to new construction: in September, the Census Bureau was noting an annualized retreat of 4.3% for building permits, but a 6.1% yearly gain for housing starts.[22,23]

By November, average interest rates on all mortgage types were higher than they were a year before – but they were beneath where they were when 2016 ended. The November 9 Freddie Mac Primary Mortgage Market Survey showed the average interest rate on a 30-year FRM at 3.90%; that was 0.33% higher than on November 10, 2016, but 0.42% lower than on December 29, 2016. Year-over-year through November 9, the average interest on a 15-year mortgage rose from 2.88% to 3.24%, while the mean interest rate for a 5/1-year ARM increased from 2.88% to 3.22%.[24]

Looking back...looking forward. Wall Street benchmarks have been amazingly stable for most of this year. Just how stable? Entering November, the S&P 500 had gone 20 months without a 10% correction and 16 months without a 5% drop. Across its long history, the S&P has fallen about 5% every three months. The major indices are still showing significant momentum at this writing, and there is always the chance that we may be seeing a historic period of prosperity as Wall Street gains unfold: the current U.S. economic expansion is now the third-longest on record since 1900, and this bull market is a few months away from its ninth birthday.[25]

Citations.

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