Economic and Capital Markets Commentary

Full Speed Ahead…

In 2017, expanding global growth and benign inflation drove global stock markets to record highs. The U.S. stock market's current run – almost nine years – is the second longest on record, trailing only the 1987 – 2000 boom. U.S. GDP growth has averaged almost 3% since last spring, and this momentum should continue into 2018 due to continued global economic growth, high levels of consumer and business confidence, low long-term interest rates, a weaker U.S. dollar, and fiscal stimulus from tax reform.

Potential risks to this rosy assessment, in addition to geopolitical shocks, include slower than expected growth, spending cuts, trade protectionism, and higher than expected interest rates. The Federal Reserve, soon to be chaired by Jerome Powell, is on track to raise the Federal Funds Rate three times in 2018. However, with unemployment at 4.1% and potentially heading lower, additional rate increases may be needed if inflation rebounds.

Strong economic growth in 2018 does not guarantee equity markets will behave similarly. Earnings, and what investors are willing to pay for those earnings, propel stock markets. By most valuation metrics, stocks are already expensive, which leaves earnings growth to drive markets higher. Job growth is currently twice the growth of the labor force and the unemployment rate for college-educated workers is 2.1%. As a result, employers may soon need to increase wages to fill positions. While this would be a boon for consumers, it could act as a potential cap on corporate profits.

The U.S. stock market, as represented by the S&P 500 index, was remarkably calm in 2017; it has been almost two years since the index experienced a 10% correction. This lack of volatility is unusual, by historical standards, and should not be expected to continue in 2018. Therefore, when reviewing accounts with clients, Mitchell Sinkler & Starr portfolio managers will continue to emphasize the benefits of diversification, both within and across asset classes.

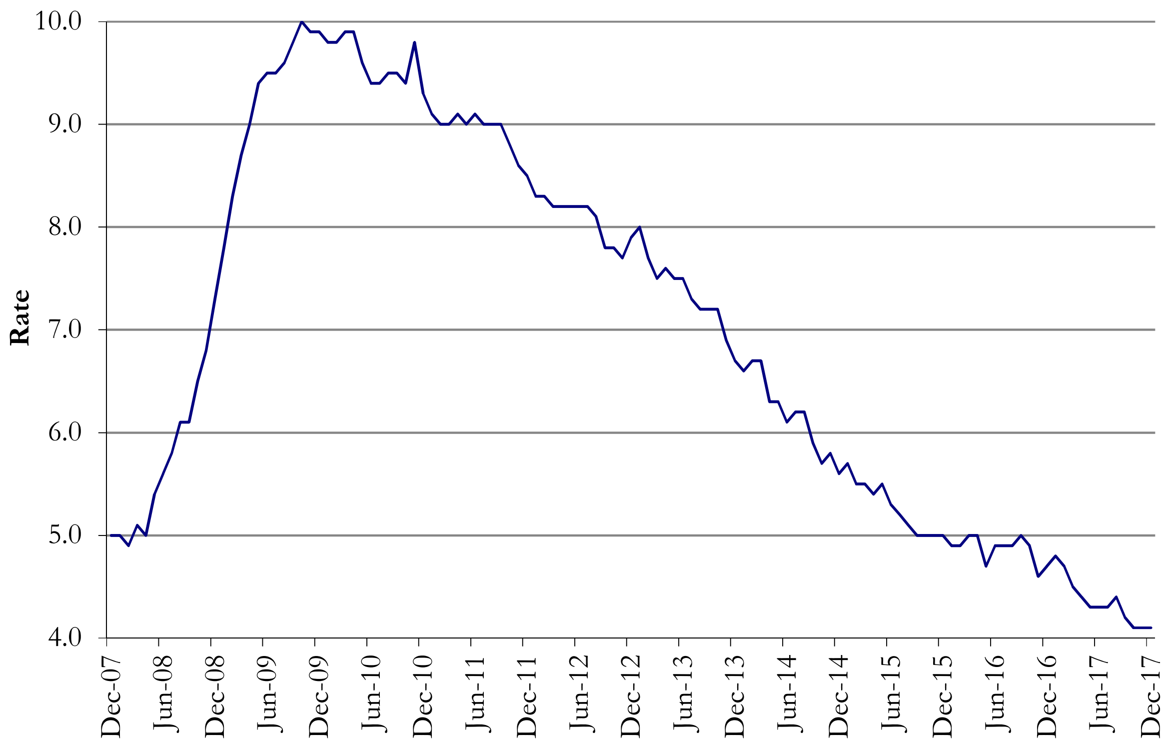
Economic and Capital Markets Data

	December 31, 2017	December 31, 2016	December 31, 2012
S&P 500 Index	2674	2239	1426
Price/Earnings Ratio	22.5x	20.6x	14.4x
Yield	1.89%	2.09%	2.24%
Federal Funds Rate	1.50%	0.75%	0.25%
10 Year U.S. Treasury Yield	2.41%	2.45%	1.76%
Gold	1303	1148	1675
Oil (Brent)	67	57	111
GDP* (Annualized)	3.2%	1.8%	0.1%
Unemployment	4.1%	4.7%	7.9%
Inflation (Annualized)	2.2%	2.1%	1.7%

* As of September 30, 2017

U.S. Unemployment Rate

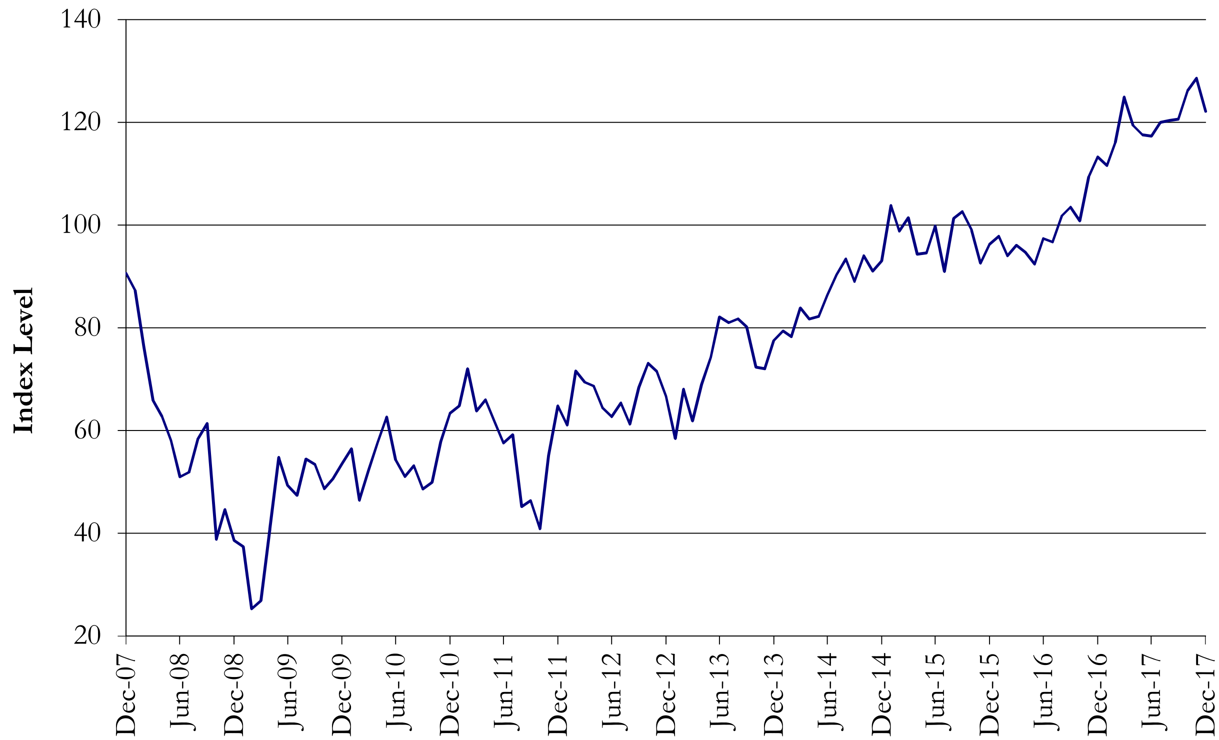
Ten Years



Courtesy of Bloomberg

Consumer Confidence Index

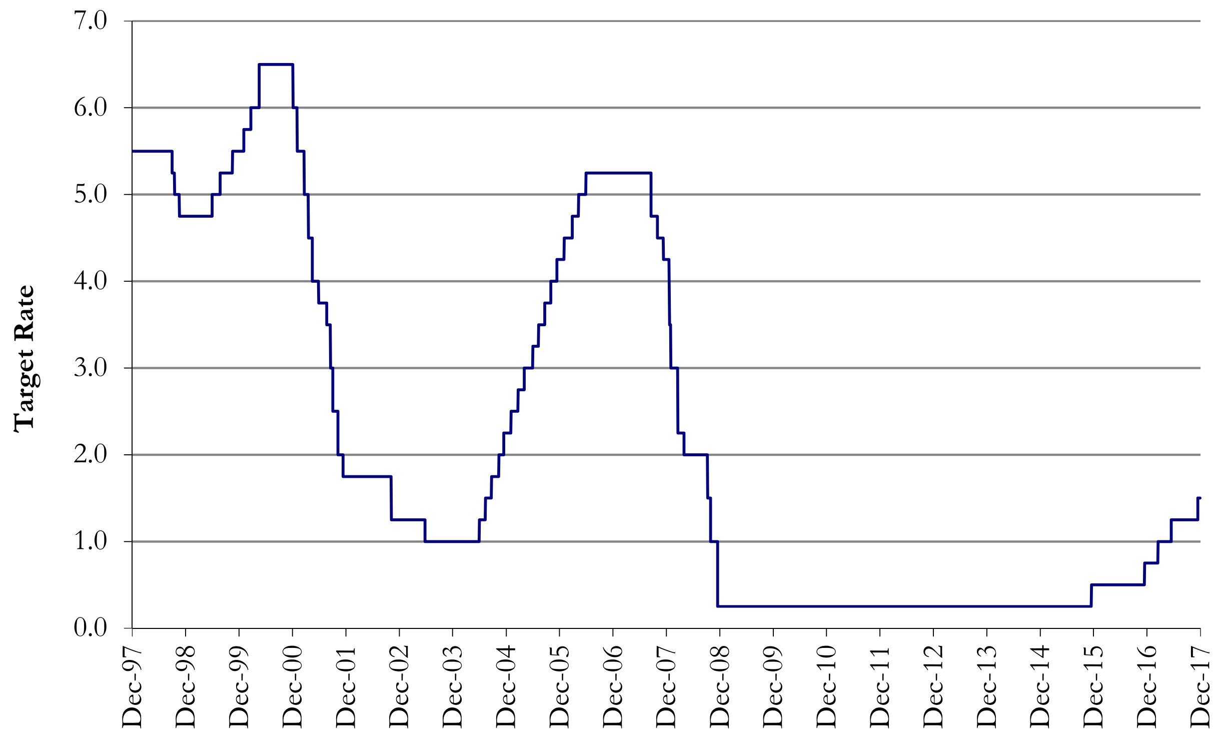
Ten Years



Courtesy of Bloomberg

Federal Funds Target Rate

Twenty Years



Courtesy of Bloomberg

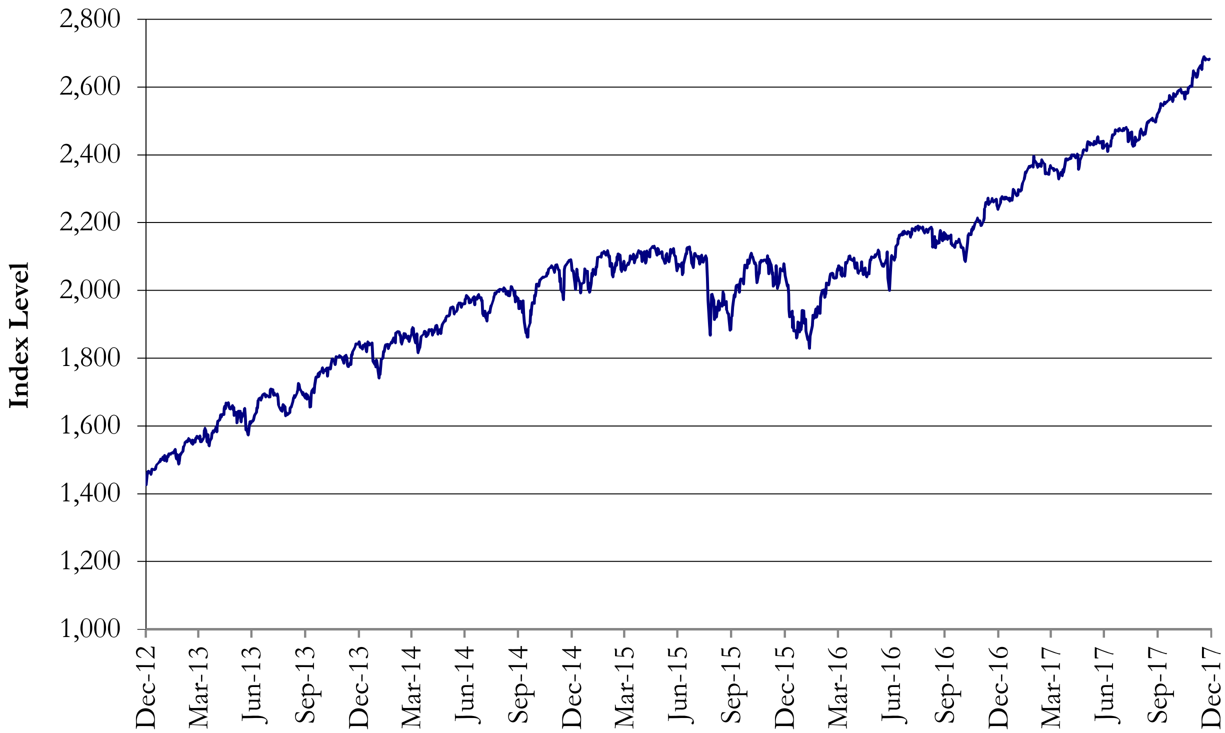
U.S. Treasury 10 Year Bond Yield

Ten Years

Courtesy of Bloomberg

Standard & Poor's 500 Index

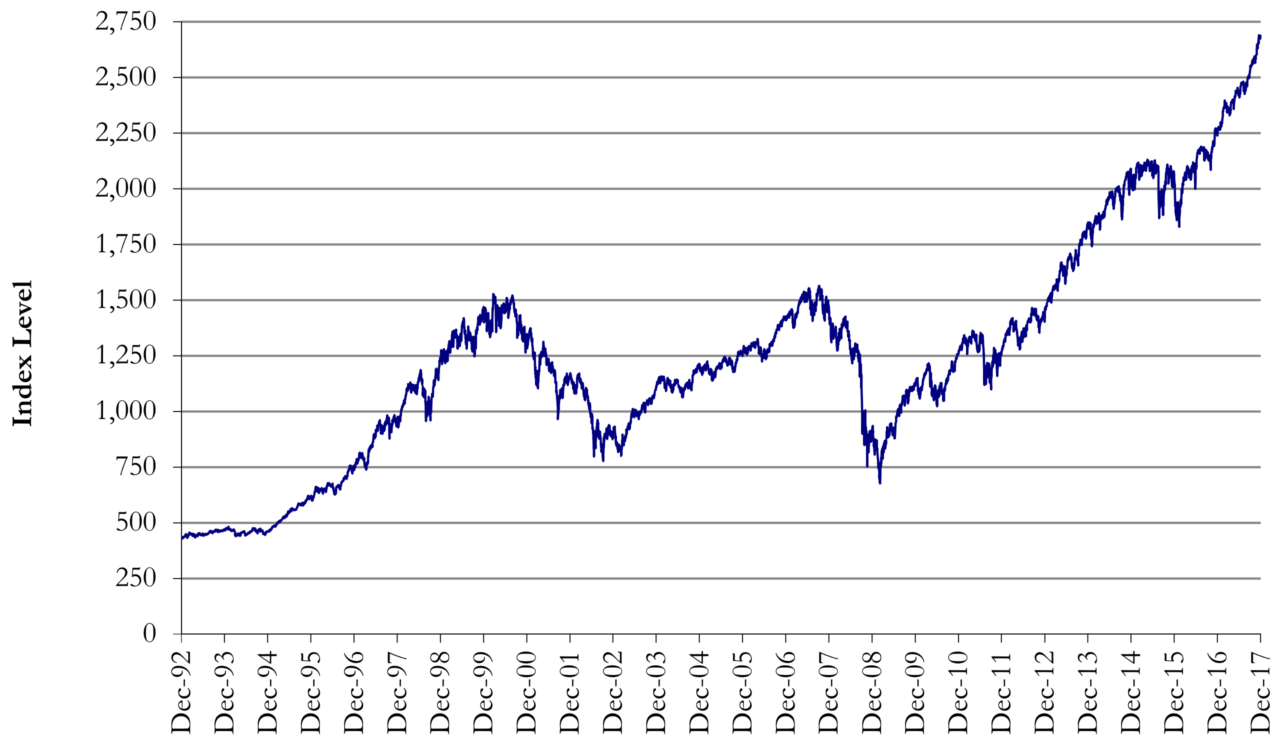
Five Years



Courtesy of Bloomberg

Standard & Poor's 500 Index

Twenty Five Years



Courtesy of Bloomberg