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Financial Market Commentary: 1st Quarter 2017

Fortunately, Fundamentals Drive Markets, not the Press or Daily Political Banter

The markets opened the year with a worldwide flurry of positive economic statistics bolstered by enthusiasm for the promise of President Trump's pro-business economic message. Fundamentals, such as corporate earnings, are transparent, measurable and directly relevant to market prices – whereas the political process can be riddled with a lack of transparency. The start of the Trump presidency has been marked by good economic data and high confidence, while media coverage has reflected lingering uncertainty. We have witnessed rock solid fundamentals, the strongest quarterly earnings outlook in five years has provided a sustainable foundation.

Repeal of the Affordable Care Act Failed... Could Tax Cuts Face a Similar Outcome...? Let's Hope Not

Groucho Marx once said, "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies." It's always hard to pass good laws, but let's just do it. For those who expected a quick repeal and replacement of Obamacare, what were you thinking? Is it good or bad that the Republican healthcare bill failed? Who knows… let's fix it so it works for all Americans.

The legislative agenda will now move to tax cuts, a big potential positive for business and economic growth. Should the corporate tax rate be 15%? Should a border adjustability tax (BAT) be part of the package? Who knows, let's just cut taxes so it works for all Americans. How can the economy grow if small businesses, employers of more than half the U.S. workforce, are overwhelmed with red tape?

Much attention has been paid to whether the apparent failure of the healthcare bill could make tax reform impossible. To the contrary, the possibility of a bipartisan approach may produce better, more pragmatic tax legislation. Tax rate cuts have been enormously successful ever since the Federal income tax was enacted in 1913. The most significant and notable tax cuts under U.S. presidents occurred in the 1920s under Warren Harding and Calvin Coolidge; in the 1960s under John F. Kennedy and in the 1980s under Ronald Reagan. In every case, government revenues increased for the decade while the rich paid a significantly higher share of taxes even with lower rates — as both markets and the economy prospered.

Broad Global Diversification Hit its Stride as Foreign Markets Have Been Robust

China's growth, though unsteady, shows signs it may surprise on the upside in 2017. Emerging markets — up double digits in 2016 — showed no signs of abating, climbing 11.5% in the first quarter alone. Emerging markets are benefiting from higher commodity prices, an uptick in global growth and a U.S. dollar that got a little ahead of itself and then moderated back to pre-election levels.

Europe had higher economic growth than the U.S. last year. The euro zone was also a standout in the first quarter in both economic and market performance. The EAFE index climbed three months in a row, posting a 7.4% gain for the quarter. Once again, broad global diversification hit the cover off the ball for investors.

Confidence Abounds but for How Long

The Consumer Confidence index has soared to a 16-year high; the Conference Board's Consumer Confidence Index hit 125.6, its highest reading since January 2000 during President Bill Clinton's final days in office. The Small Business Confidence index has hit a 30-year high, and The CEO Economic Outlook Survey for Q1 2017 surged to its highest reading in the last three years. Despite recent legislative and judiciary setbacks, Trump's pro-growth agenda continues to excite small business owners.

A lot is hinging on the new U.S. administration's growth agenda. Many U.S. stocks that sprinted ahead on prospects of tax reform, deregulation and stimulus have already fallen back. To be sure, fundamentals also have driven U.S. equity performance, with the tech sector benefiting from rising demand and high oil inventories sapping sentiment in the energy sector. Yet failure to pass a new health care bill has revealed a fractured Congress, calling into question meaningful pro-growth reforms and raising risks of protectionism. These facts could set up stocks for more short-term policy disappointments.

However, markets care more about economics than politics, and good news abounds as fundamentals are accelerating in the U.S. and internationally. There is a distinct lack of euphoria in the markets, and the biggest risk for investors could be missing the next leg of this rally. The combination of accelerating fundamentals and high confidence could put new spring into the step of this bull market, a scenario which also should benefit from broad global diversification.

Sources: BlackRock, VOYA

Equity Performance

Equity Index	Style	YTD Return As of 3/31/2017	1 Year Return As of 3/31/2017	3 Year Return As of 3/31/2017	5 Year Return As of 3/31/2017	10 Year Return As of 3/31/2017
Russell 1000 TR	U.S. Large Cap Stocks	6.03%	17.43%	9.99%	13.26%	7.58%
Russell MidCap TR	U.S. Mid Cap Stocks	5.15%	17.03%	8.48%	13.09%	7.94%
Russell 2000 TR	U.S. Small Cap Stocks	2.47%	26.22%	7.22%	12.35%	7.12%
MSCI EAFE NR	Foreign Develop Stocks	7.25%	11.67%	0.50%	5.83%	1.05%
MSCI EM NR	Foreign Emerging Stocks	11.45%	17.22%	1.18%	0.81%	2.72%
DJ US Real Estate TR	Real Estate	3.22%	5.58%	9.88%	9.53%	3.94%
Bloomberg Commodity TR	Commodities	-2.33%	8.71%	-13.91%	-9.54%	-6.22%

Fixed Income Performance

Fixed Income Index	Style	YTD Return As of 3/31/2017	1 Year Return As of 3/31/2017	3 Year Return As of 3/31/2017	5 Year Return As of 3/31/2017	10 Year Return As of 3/31/2017
BarClays US Aggregate Bond TR	U.S. Core Bonds	0.82%	0.44%	2.68%	2.34%	4.27%
BarClays US Corporate High Yield Bond TR	U.S. High Yield Bonds	2.70%	16.39%	4.56%	6.82%	7.46%
BarClays Global Aggregate Bond TR	Foreign Developed Bonds	1.76%	-1.90%	-0.39%	0.38%	3.34%
Morningstar Emerging Market Bond	Foreign Emerging Bonds	3.21%	9.63%	5.03%	4.85%	8.45%
CitiGroup 3-Month T-Bill	Cash	0.12%	0.34%	0.15%	0.11%	0.61%

Source: Morningstar®