TOTAL WEALTH PLANNING

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Economic & Investment Outlook – 2nd Half 2017

The first six months of 2017 has seen exceptionally low market volatility. Given the changes the world has experienced since January involving monetary policies, geopolitical events and turnover in political administrations (both in the US, as well as overseas) it is remarkable that the markets have not seen significant pull backs. In reality, there have been significant upward trends, as illustrated in the chart below:

Index	Jan – June 2017	3 year*	5 year*	10 year*	Description
S&P 500 Index	9.34%	10.14%	15.42%	6.94%	Large-Cap Stocks
Russell 1000 Growth	13.99%	11.92%	15.98%	8.77%	Large-Cap Growth Stocks
Russell 1000 Value	4.66%	7.70%	14.67%	5.15%	Large-Cap Value Stocks
Russell 2000 Growth	9.97%	8.59%	14.36%	7.39%	Small-Cap Growth Stocks
Russell 2000 Value	0.54%	7.34%	13.67%	5.31%	Small-Cap Value Stocks
MSCI – EAFE	14.23%	2.00%	10.71%	1.53%	International Stocks
MSCI – Emerging Market	18.60%	1.99%	4.91%	2.61%	Emerging Market Stocks
Barclay's Aggregate Bond Index	2.27%	2.53%	2.24%	4.46%	Domestic Bonds
Consumer Price Index**	1.40%	0.95%	1.24%	1.64%	Inflation

Since the beginning of the year, the Federal Reserve has taken proactive steps to "tighten" interest rates, raising them 0.25% on two occasions, representing the third time overall since the financial crisis of 2008-2009. Although this has resulted in rising costs of bank borrowing, consumer loans and mortgages, the action by the Fed is an indication of confidence and a positive sign for continued growth in the US economy. Although interest rates are higher than they were a year ago, they are still quite low by historical standards. Interestingly, during the early stages of a rate tightening such as this, equity markets often experience nervousness and volatility, but this has not been the case through June 2017. During the first half of the year, the S&P 500 Index, which represents most of the largest US companies, increased +9.34%, with the only notable pullback occurring in May, when the markets dropped less than 2%.

4665 Cornell Road
Suite 160
Cincinnati, OH 45241

513.984.6696 *phone*
513.984.9270 *fax*
info@twpteam.com

Overseas markets have been exceptionally strong this year as well, having come off a relatively flat year in 2016. The advances have occurred despite notable world events, including discussions of eliminating the North American Free Trade Agreement, news reports of Russian interference in the US democratic process, and tensions in Asia, particularly with China and North Korea. These events, while unnerving for most, have done little to detract from investment performance. Across the board, international markets have increased, with developed markets up +14.23% and emerging markets up +18.60%.

We have stated in several of our recent *Economic and Investment Outlooks,* our cautiously optimistic outlook for both the economy and the markets, and this continues to be the case today. The potential for short-term volatility is still a concern, which may arise quickly and abruptly. However, a portfolio structured on a globally diversified basis is time tested, is backed by Noble Prize winning research, and is most effective in minimizing the effects of volatility, while at the same time allowing for growth as the markets advance.

We continue to recommend a 5% tactical underweight to equities, creating a slightly lower risk posturing for the short term. Our strategy, however, will be to monitor for opportunities to begin shifting this “dry powder” back into the equity markets on an opportunistic basis.

If you have any questions, or would like to discuss our outlook further, please do not hesitate to contact us.

Total Wealth Planning Investment Policy Committee

David Wilder, CFP®, MST, CTFA
Jon Andre, CFP®
Rob Siegmann, MBA
Rob Lemmons, CFP®, CPA, AIF
Joel Musser, CFP®
Kelly Boone
Chris Allen