Market Review and Outlook—September 6, 2017

Look Beyond the US Foreign stocks led the way over the past three and twelve months, which is a welcome change. Unlike US stocks, foreign stocks have far to run before setting records, have more apparent downside protection, and generally are supported by stronger economic growth. Due to this global economic growth, foreign emerging markets are on fire, rising over 8% in three months. There are certainly geo-political clouds on the horizon, but the economics and valuations provide a comforting backdrop for investing in foreign stocks.

The New Normal, for Bonds? Bonds returned less than 1½% over the past year. As interest rates have fallen steadily since 1981, the most likely best news for bonds is no change in interest rates, in which case you earn simply the interest. If, however, rates rise, then prices fall, eating into your return, as we have seen since December. The Federal Reserve Bank has years of 'unwinding,' selling their vast reserves of bonds they purchased during the downturn and recovery to shore up the US economy, and this will provide years of headwind for bond investors. Thus very low returns are likely for bonds for several years.

US Promise and Concerns The US economy continues to expand, and expand broadly, although the pace is very modest. While US stock levels are near record levels, so are their earnings, and therefore we are not alarmed. Of concern, however, is that several of the markets' hopes from late 2016 appear unlikely to come to pass—massive infrastructure spending, individual and corporate tax reform, sharply reduced regulations. There is a risk that US stock investors will see their hopes diminish and concerns rise, leading to a broad pullback of US stocks. While I don't foresee a recession in the next year, a market decline is certainly possible.

Hedges Investment hedges (real estate and natural resources) are like fire insurance—you don't want it to pay off but you still need it. Our foreign and US stocks have been doing quite well in the past three and twelve months, and therefore it is neither surprising nor concerning that our hedges have not done well. They are designed to provide a boost should inflation surge upward, to compensate for falling stock prices.

Rebalancing With such strong recent gains by foreign stocks, rebalancing appears timely.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.16%	+0.35%	+0.14%	+0.09%	+0.56%
Intermediate Term Bond	+1.21%	+1.27%	+2.40%	+2.32%	+4.44%
Intermediate Muni Bond	+1.07%	+0.49%	+2.64%	+2.55%	+3.84%
Large-Cap Stock	+2.61%	+14.87%	+7.50%	+12.87%	+6.71%
Mid-Cap Stock	+1.45%	+11.84%	+5.19%	+12.50%	+6.73%
Small-Cap Stock	+1.53%	+12.63%	+5.82%	+12.08%	+6.77%
Foreign Large-Cap Stock	+3.27%	+17.19%	+3.01%	+7.95%	+1.58%
Foreign Small/Mid Cap Stock	+4.69%	+21.97%	+6.03%	+11.19%	+4.07%
Diversified Emerging Markets	+8.42%	+21.70%	+1.72%	+5.18%	+2.22%
Technology	+4.25%	+27.35%	+14.43%	+17.62%	+9.94%
Real Estate	+3.00%	+0.34%	+6.80%	+8.51%	+5.59%
Natural Resources	+4.26%	+11.73%	-4.65%	+1.29%	+0.48%
Moderate Allocation (50-70% stocks)	+2.14%	+9.24%	+4.17%	+7.63%	+5.27%

The data in this table comes from Morningstar and is as of August 31, 2017