

January 2017

Year End Market Update

Despite numerous concerns and issues in 2016, the financial markets ended strong. Domestic markets, measured by the S&P 500, ended the year up 11.96%, fixed income markets, measured by the Barclay's Aggregate Index, were positive as well, ending up 2.65%, and broader international markets, measured by the MSCI EAFE, were up 1.0% in 2016. Despite the significant political events that occurred around the globe during the year, financial markets maintained their resiliency and continued their upward momentum.

State of the Union

Looking back at 2016, the markets largely provided what we had anticipated going into the year. In our first quarter market update we had anticipated that, for the S&P 500 to continue to appreciate (now that we are in the second longest bull market cycle in history) we would need to see year-over-year revenue/earnings growth from the constituent companies. In the third quarter that is exactly what happened, as both revenues and earnings from the aggregate S&P 500 companies grew over the prior year's readings. Going into the Q4 earning season we are now in a position to have two consecutive quarters of year-over-year quarterly earnings growth for the first time since Q4'14 and Q1'15. At this point, the S&P 500 is trading at 16.9x, which is beyond its 25-year average of 15.9x. While slightly above the historical average, it is still within one standard deviation of the average and well below the March 2000 tech bubble market peak reading of the valuation of 27.2x. So, while the forward PE multiple of the S&P 500 index was, and continues to be, above its historical average, we would expect that the market could continue to climb if we can maintain the fundamental revenue and earnings growth which we began to see in the third quarter.

Emerging markets bounced back in 2016 after two years of declines, ending the year up 11.19%. Even with this markets are relatively cheap and are still trading slightly below their historical P/E ratio. Emerging markets are trading at 12x compared to their historical average of 12.5x. Developed international markets, measured by the MSCI EAFE index, are trading at 16.4x compared to their historical average of 16.2x. Despite the slightly higher than average multiple, developed markets still managed to gain 1% over the year. Markets will closely follow the coming elections in France, Germany and the Netherlands to see if the wave of populism that started with Brexit will continue. While geopolitical risks remain, investments in both developed and emerging international markets remain attractive. Given the disparity of returns between domestic and international investments, now may be a good time to discuss rebalancing a globally diversified portfolio with your advisor.

In December, the Federal Reserve, as expected, raised the target federal funds rate by .25%. They noted a strengthening labor market, expanding economic activity and household spending as factors in their decision to increase the rate despite softening of business fixed investment. For the most part, good signs for the economy. When interest rates increase, bond prices will normally decline, but despite the rising interest rate environment, the broader fixed income markets ended the year up 2.65%. We expect the Federal Reserve to raise rates at least twice in 2017, .25% at each point. While we would expect this to create a challenging environment for fixed income, we maintain our opinion that fixed income is an important asset class for any well-balanced portfolio.

As we mention in all our investment notes, and a core tenet of our investment philosophy, we encourage investors with diversified portfolios, invested in multiple asset classes, to focus on their goals and regularly rebalance back to their targeted asset allocation which is designed to match their time horizons and risk tolerances. In our opinion, this is the best way to position yourself for the risks and volatility that are inherent with investing.

We are always ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

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	Closing Price: 9/30/2016	Closing Price: 12/30/2016	Q4 2016 Return %	CY 2016 Return %
S&P 500 TR USD	2168.27	2238.83	3.82%	11.96%
MSCI EAFE NR USD	1701.69	1684	-0.71%	1.00%
Barclays US Aggregate Bond TR	2036.98	1976.37	-2.98%	2.65%

Written by Finity Group

CORRECTION: In our Q2 Market Update we erroneously had market performance figures through 7/9/2016 not 6/30/2016 as we wrote.

Index & other data provided by Bloomberg.com, MSCI.com, S&P Dow Jones, Morningstar, Factset, & JP Morgan. You cannot invest directly in an index. This information should not be construed as investment advice regarding specific ETF's, funds or stocks in particular, nor should it be deemed as a recommendation to purchase or sell a security. Past performance is not a guarantee of future investment results. This report is written solely for clients of Finity Group LLC, and may not be reproduced or disseminated without the express written permission of Finity Group LLC. Tracking #191007 DOFU 20170124