Hinds Financial Group, Inc.
Registered Investment Adviser

141 Union Boulevard Suite 350
Lakewood, CO 80228
P.303-985-9889
F.303-985-0146

Hinds Financial Group Quarterly Economic Outlook and Review Q1 2017

Domestic Stocks

The dominant story in the U.S. at the start of the year was the beginning of the Trump administration. Investors continued to bet that changes to the tax code, rolling back of regulations, and an infrastructure spending program would boost business. The makeup of the rally in the fourth quarter and the first looks different as more details about policies have emerged. The market has been re-evaluating would-be winners and losers. For example, in the fourth quarter small-cap stocks were the best performers and large-caps the worst, but that flipped in the first quarter partially because big changes to trade rules that would impact larger business appear to have become less likely.

Similarly, healthcare stocks fell in the fourth quarter over concerns that reform would reduce the number of Americans with insurance. These stocks have been some of the best performers in 2017 as the prospects of major changes to the healthcare system fade. This contributed to growth stocks outperforming value stocks for the quarter as well.

The Fed was in focus, too, as the central bank raised rates in March and seemed poised to continue to normalize monetary policy throughout the year. Just like the December hike, the market shrugged off the impact of higher rates as the move was widely expected and seen as a sign that the economy is strong enough to support the hikes. As concerns continue about the future of interest rates some, funds that are dividend focused lagged the broad market.

Bonds and Interest rate thoughts

Fixed-income indexes performed well during the first quarter of 2017, as interest rates held relatively steady. Corporate credit markets have been supported by a combination of generally improving credit metrics and the market's expectation that possible revision to tax and regulatory policies enacted by the Trump administration will reinvigorate economic growth and earnings. Rising federal-funds rate did not preclude fixed-income indexes from rising in the first quarter. The market continues to expect a couple more rate hikes this year.

Morningstar's Core Bond Index, a broad measure of the fixed-income universe, rose 0.90% in the first quarter through March 27. In the corporate bond market, the Morningstar Corporate Bond Index (a proxy for the entire investment-grade bond market) rose by 1.41%, and in the high-yield market, the Bank of America Merrill Lynch High Yield Master Index rose 1.67%.

International Stocks

The equity rally was not a U.S. only story. International equity funds performed well in the quarter, with diversified emerging-markets funds rising even more than Europe, and Europe stock funds having solid gains. After lagging the US for an extended period, markets outside the US in Europe and Asia had a very strong 1st quarter.

Our Outlook

We don't try to predict the direction of the market but we are cautiously optimistic for the rest of the year. We expect the market to have a volatile year being driven by the perceived success or stagnation of policy in our nation's capital and by global political unrest. This does not mean that a normal correction is not in the cards. Even in very good years a decline of 8- 10% is normal. In 2016, US Equities were down as much as 10% through Mid-February. Though valuations are above their historical averages, interest rates are well below their averages. As a result, any large repositioning of assets away from stocks and into bonds is in our opinion, unlikely. With the 10-year treasury bond yielding 2.3 (ish) % long term investors will likely keep more of their assets in stocks versus bonds. And since cash is yielding next to nothing globally, those holdings will be held to a minimum. For our retired clients, holding several years of liquidity in short term bonds or money market is still a core part of managing retirement income.

As always we welcome your comments or questions.

Hinds Financial Group
Registered Representatives