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Hinds Financial Group Quarterly Economic Outlook and Review Q4 2017

Investors had a lot to be thankful for in 2017, including strong stock market returns. But something else happened that was even more remarkable than a ninth straight year of stock market gains.

For the first time since the recession, all 45 countries tracked by the Organization for Economic Co-operation and Development enjoyed GDP growth. That includes Brazil and Russia, which had, until recently, been in a recession.

Investors and financial experts have been waiting for this moment for years. While U.S. GDP growth has been in positive territory since 2009, other parts of the world haven't been able to recover nearly as quickly. Just five years ago, the Eurozone was battling its own recession.

Now, though, it appears as if the world economy is firing on all cylinders. In November, the OECD said it expected the global economy to grow by 3.6% in 2017, up from 3.1% in 2016. This year should be another good one for global growth: The OECD expects the world's economy to expand by 3.7%, while all countries will continue experiencing GDP growth.

That's good news for investors. While economic growth doesn't always result in stock market growth, over the long term there is usually a positive correlation between them. Growing economies often make people feel better about their lots in life, which can lead to increased spending and higher stock prices.

Domestic Stocks

Equity markets racked up another quarter of solid gains, benefiting from anticipation of the tax reform package, an uptick in corporate profitability, and a steadily growing economy. Each of these dimensions was a driver of the continued low volatility. Against this backdrop, the S&P 500 Index finished the quarter with a gain of 6.6%, and advanced 21.8% for the full year. The S&P 500 has now posted positive returns in every quarter except one in the past five years. The last negative return in a calendar quarter occurred in the third quarter of 2015. Within the large cap segment, growth stocks once again outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, underperformed large caps, finishing the quarter with a total return of 3.3%. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of 6.6%, ending the year up 29.6%. The Dow Jones Industrial Average of 30 large industrial companies advanced 11.0%, and closed 2017 with a gain of 28.1%.

International stocks

International stocks performed well and European economies continue to accelerate, as domestic demand has picked up and monetary policy has remained extremely accommodative. China continues on pace with structural reforms, which will have the effect of lowering GDP growth, but also help deleverage the economy. With that as a backdrop, international stock indices were almost universally higher. The MSCI

EAFE Index of developed markets stocks advanced 25.0% in 2017. For the quarter China generated positive returns, gaining 7.6%. Latin America was the poorest performer, declining 2.3%. Emerging markets performance remained robust, as the MSCI Emerging Markets Index gained 7.4%, and finished the year up 37.3%

Fixed income

Bonds had an unexpectedly good year in 2017. Our bond fund managers with flexible mandates had exceptional years. Thus far in 2018 it is a different story-bond funds are down. This does not concern us very much. Why? They are acting as we expect them to which is different that stocks. We want two things out of bonds; to provide some level of current income and to behave differently than stocks. Their purpose in a diversified portfolio is to reduce the overall volatility - by not acting like stocks.

Outlook

Synchronized global growth has been a long time coming. Since the recession, most developed nations have engaged in some sort of stimulus program, such as quantitative easing, interest-rate cuts, or both. Borrowing rates around the world eventually dropped to such low levels that consumers and some corporations started spending again and, as a result, helped boost economic growth. However, central banks didn't act all at the same time--the United States started its QE program in 2009, while Japan began buying government bonds in 2011--so it took a while before all this easing worked its way through the global economy. The U.S. economy may be in the later stages of the cycle than its overseas peers, but even it should continue experiencing strong growth in 2018. Unless there's some major unforeseen setback in 2018, we feel that global economies will likely continue to forge ahead.