

Market Trends to Watch in 2017

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2016 has come and gone, bringing with it no shortage of unexpected events. Notably, the [Dow hit record highs](#), Britain [voted to leave](#) the European Union, the Fed [approved an interest rate hike](#) as market rates spiked and [Donald Trump was elected](#) to be the next president of the United States.

As we enter a New Year with uncertainties, we will be monitoring trends in three key areas.

1. Policies of the new administration: It's no secret that the results of this year's presidential election caused shockwaves across markets. By the time Trump takes office in January, we hope to see a clearer picture of what he and his appointed officials have planned for policies moving forward.

In particular, we will be keeping a close eye on the new administration's trade policies and proposed changes to the tax code.

There's been a lot of talk about [simplifying the tax code](#) by limiting deductions and lowering the corporate tax rate. While this may negatively affect some companies that aggressively structure their affairs to lower taxes, on the whole it should improve bottom-line earnings, especially for companies that have been paying close to the [full 39 percent corporate tax rate](#).

Overall, for every 1 percent deduction in the corporate tax rate, earnings for the S&P 500 are [expected to increase by about \\$1.50](#). This remains speculative, but we will be monitoring earnings growth closely to see how various areas of the market are impacted.

In addition to tax reform, we are looking to get clarity about Trump's global trade policies. He has talked about [withdrawing the U.S. from global trade alliances](#), but hasn't detailed his policies for doing so. We expect this to be a hot-button issue for the markets and global economy over the next several months.

2. Global growth: Global growth remained positive in 2016, but the [relatively low third-quarter gross domestic product \(GDP\)](#) suggests it is starting to stagnate.

In light of this, we will be paying close attention as estimates start coming in for Q1 GDP growth in 2017. First-quarter U.S. GDP [has come in relatively weak](#) over the last couple of years, but has subsequently been increased via revisions.

In the U.S., various signs are indicating we will continue on the path of positive growth. The [yield curve has been getting healthier](#), and [consumer confidence](#) and the [Purchasing Manager's Index \(PMI\)](#) are rising. If we were



heading toward recession, we would expect the opposite to occur. Because these indicators are strengthening, we see a U.S. recession as unlikely in 2017.

There are some good signs globally as well. [Commodities have finally turned around](#), in part because of [supply control measures introduced by OPEC](#), but also because of an increase in demand. [Base metal prices](#) have soared this year, which suggests greater demand for production.

On the other hand, [shipment numbers](#) have been coming in weak across the globe. So we have a mixed bag of data, but on the whole, we expect global growth to continue in 2017.

- 3. Performance of small companies:** U.S. small companies have underperformed for a number of years, due somewhat to [increasing regulations](#) that tend to be a greater burden for smaller businesses. In fact, there are 30 percent fewer small caps [listed on the Nasdaq today](#) than there were 20 years ago.

That's not insignificant and has been cause for some concern as [small companies are the biggest employer in the United States](#). They force competition and new ideas into the market, resulting in a more dynamic and faster-growing economy.

This year, however, small caps were the surprise market winners, bucking the trend of lagging performance. They are [up close to 30 percent](#) – about double the broad market.

We are interested to see whether markets continue to see value in small caps moving forward, and if the recent surge endures or pulls back in 2017.

These three topics will be key areas of focus for us in the first quarter of 2017. We hope you have a very Happy New Year!

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