Total Clarity Wealth Management, Inc.

Weekly Market Commentary
December 18, 2017

The Markets

Here we come a tax-reforming…

The reconciliation of Congressional tax reform bills proceeded apace last week, and Congress is expected to vote on the measure early this week. If tax reform passes, Dubravko Lakos-Bujas, head of U.S. equity strategy with *JPMorgan*, thinks we may see value stocks swing back into favor. *Barron's* reported:

> "The spread between value and growth has reached a point historically associated with a reversal; the Russell 1000 value index is up 9 percent this year, against a gain of 27 percent in the comparable growth index. Tax reform is a catalyst for a rotation into value stocks, as value companies generate almost 80 percent of their revenue in the U.S. and are subject to an effective tax rate of 30.3 percent, the strategist observes."

Tax reform isn't the only driver that may support value stocks. Value also tends to outperform when interest rates are rising. If the Federal Reserve has anything to say about, rates should begin to move higher.

The Federal Open Market Committee (FOMC) increased its benchmark interest rate by one-quarter of a percentage point last week. It was the third increase during 2017.

Normally, a Fed rate hike would be expected to push Treasury rates higher; however, that didn't happen last week. Rates on U.S. government bonds fell on Wednesday after the Fed took action, reported *CNBC*. It's notable that, after three rate hikes during 2017, the yield on 10-year Treasury bonds finished last week at 2.4 percent, which was lower than at the start of the year.

Following the FOMC meeting last week, Chair Janet Yellen told *CNBC*, "My colleagues and I are in line with the general expectation among most economists that the type of tax changes that are likely to be enacted would tend to provide some modest lift to GDP growth in the coming years."

Data as of 12/15/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.9%	19.5%	18.3%	10.4%	13.3%	6.4%
Dow Jones Global ex-U.S.	0.3	21.5	22.4	6.0	4.5	-0.1
10-year Treasury Note (Yield Only)	2.4	NA	2.6	2.2	1.8	4.2
Gold (per ounce)	0.3	8.2	11.3	1.2	-5.9	4.7
Bloomberg Commodity Index	0.1	-3.4	-3.2	-8.5	-9.8	-7.3
DJ Equity All REIT Total Return Index	1.2	9.6	13.0	8.1	10.5	8.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HERE'S ANOTHER REASON TO LIKE EMERGING MARKETS. The MSCI Emerging Markets Index was up more than 30 percent year-to-date late last week, outperforming national indices in most developed nations. (Remember, past performance is no indication of future results.) There may be more to like about emerging markets than 2017 performance, though, wrote Ben Inker in the latest *GMO Quarterly letter*:

> "…if there is one group of equities that deals with inflation on a pretty much continuous basis, it is emerging equities…To be clear, our fondness for emerging equities today is driven overwhelmingly by their cheaper valuations…But if worse did come to worst and inflation flared up, owning a good chunk of the only equities that remember what inflation is like seems like a decent idea."

Do you remember inflation?

In the 1970s, it was a household name. People wore WIN (Whip Inflation Now) buttons, earrings, sweaters, and other paraphernalia after President Ford declared inflation "public enemy number one." The Great Inflation, as it was called, lasted from 1965 to 1982 with inflation rising above 14 percent in 1980.

While another Great Inflation isn't expected, it's likely inflation eventually will move higher. For most of the last decade, inflation in the United States has remained low. As economic activity picked up, late in 2016 and early in 2017, the pace of inflation increased and moved slightly above the Federal Reserve's target level of 2 percent. Then, it dropped once again, reported Inker.

Goldman Sachs recently suggested "a sizable and relatively long-lasting drag from the earlier weakness in import and commodity prices…" is the reason for low inflation, and the company anticipates inflation will increase during 2018.

If inflation begins to move higher, the Federal Reserve is likely to continue to push interest rates higher. Higher interest rates translate into higher bond yields and that could affect investors by making investments with lower risk more attractive.

We hope you will enjoy a very happy holiday!

Weekly Focus – Think About It

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."

--*Sam Ewing, American baseball player*

P.S. Please feel free to forward this commentary to family, friends, or colleagues.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Stock investing involves risk including loss of principal.
* Consult your financial professional before making any investment decision.

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