LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks turned in their best performance of the year in November. The S&P 500 posted a gain of 3.7% for the month and 20.5% for the year-to-date period. The small cap stocks in the Russell 2000 index were up 2.9% for the month and 15.1% year-to-date. International stocks in the MSCI EAFE index were up 1.1% for the month and are up 23.1% year-to-date. Emerging markets inched higher with a 0.2% return for the month and a 30.0% year-to-date return. Yields on the ten-year US Treasury were nearly unchanged at 2.4% The Barclays Aggregate Bond Index pulled back slightly at -0.1% in November providing a year-to-date return of 3.1%.

After another low volatility month, markets began to focus on the progress of tax reform late in the month and finished the last week of November with very strong performance. The S&P 500 has not had a 3% pullback since before the election. Economic Data has also provided markets with encouragement. US real GDP for the third quarter was revised higher to 3.3%, the best performance since 2015 and marking 2 quarters in a row with GDP growth over 3%.

Corporate profits also had a good showing, up 4.3% at a quarterly rate in the third quarter and 5.4% higher than the year ago period. Profits from the rest of the world added to the enthusiasm, increasing 4.5% in the third quarter after decreasing 2.5% in the prior quarter.

President Trump announced his decision to replace Janet Yellen with Jerome (Jay) Powell when her term expires early in February. Markets have signaled their acceptance of Powell both at the time of the announcement and during his Senate testimony. Powell indicated in his testimony that he expects to continue the policy of gradual interest rate hikes that began under Yellen. He gave no indication that he anticipates making a change in Fed policy anytime soon. His confirmation must still be voted on by the Senate but there is no reason to believe that he won't be confirmed.

Markets are cheering the likelihood that tax reform will pass soon and go in to effect for the 2018 tax year. The most simulative impact from tax reform will come in the form of corporate tax cuts, repatriation incentives and reduced tax expenditures for middle class taxpayers. Lawmakers are still debating the terms of the tax cuts but as of this writing, these provisions appear likely to survive in some form. Over the past several days we have seen some rotation into stocks of companies that will benefit the most from the proposed tax law changes.

Treasury yields have remained surprisingly steady over the past few months, even as the Fed has raised short-term rates. We do anticipate a gradual rise in Treasury yields over the next year as short-term rates continue to rise, especially if the economy continues to grow at an accelerated rate. We are already beginning to see signs of slightly higher inflation which is usually supportive of higher yields.

Strong stock returns with very low volatility can lead to complacency. We are monitoring portfolios to ensure that disproportionate returns in stocks don't create an overweighting in equities which might otherwise lead to portfolios with risk profiles inconsistent with client wishes. If you have any questions, we always welcome your call.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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