Financially Speaking
With Trisha Arndt

How Long Can the "Goldilocks" Market Continue?

Just like the porridge in the children's story of Goldilocks And The Three Bears, sometimes investment markets can be too hot or too cold. And every once in a while all of the fundamentals line up "just right", like they did in 2017.

For investors last year really was an exceptional year. The US stock market, as represented by the S&P 500 Index, climbed an impressive 21.83%. That is impressive by itself but is only the beginning of the story. As good as the US stock market performed, it actually trailed the returns of the rest of the world's markets. The MSCI EAFE Index of developed markets gained 25.03% and the MSCI Emerging Markets Index skyrocketed up 37.75% for the year.

And the story doesn't even end there. In addition to stocks posting such impressive total returns, bonds, as measured by the Bloomberg Barclays Aggregate Bond Index, managed to hold their own and lodge a respectable positive return of 3.54%.

Perhaps best of all, all of these feats were achieved with extremely low volatility. If it felt like the markets just kept going up it's because they basically did. In fact, for the first time in history the S&P 500 Index rose during every single month in 2017. The last time the stock market declined by 10% or more, even briefly, was almost two years ago.

Unlike the porridge in the story, there were a lot of factors that needed to line up for the investment markets to perform the way they did.

Last year saw truly synchronized economic growth across the globe as literally every major economy in the world experienced gains. Fortunately the growth continued to improve gradually enough that it didn't overheat – which allowed inflation to stay tame and interest rates to stay low. At the same time, the global employment picture continued to steadily improve, with unemployment levels in many countries near 20 year lows. All of these factors helped contribute to soaring consumer confidence which translated to higher economic activity and ultimately to surprisingly strong corporate earnings growth.

A Goldilocks market indeed.

As we head into the new year the fundamentals remain largely the same but perhaps poised for change. The recent passage of Tax Reform in the US may well have the desired effect of spurring faster economic growth but policy makers have to work carefully to avoid unintended consequences like above target inflation. Our Federal

Reserve has already started gradually raising interest rates in an attempt to stay ahead of the economic cycle and have the ability to combat inflation if it begins to pick up steam too quickly.

Remember too that stock markets tend to be forward looking so some of this year's anticipated growth may already be factored into stock prices. In fact, by a number of metrics the average price of stocks in the S&P 500 is already on the high side. That doesn't mean that they can't continue to go higher, especially if companies keep making more money, but it is certainly something to take note of.

In addition to the factors that we know and can try to anticipate there are also always unexpected events that can impact the markets. An escalation of geopolitical tensions, such as with North Korea, or the proliferation of anti-trade policies could certainly act as a damper on global economics, as could any number of other things.

The bottom line is that a positive backdrop for investors still exists but some factors are beginning to show signs of change and the risks are rising. It is important to remember that markets like last year, with strong returns and very little volatility, are the exception, not the rule. Make sure that you have a well thought out investment strategy that makes sense for you in all types of market environments, not just when everything is "just right".

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