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More Went Right than Wrong in 2017. What about 2018?

Global Markets and Regions

	4 th QTR	2017 YTD
US	6.75%	20.43%
Developed Europe	2.50%	24.92%
Asia	8.00%	26.33%
Emerging Markets	6.61%	36.21%

US Markets

	3 rd QTR	2017 YTD
Dow 30	11.23%	27.05%
Large Cap Cos.	7.07%	20.95%
Mid. Cap Cos.	6.63%	15.62%
Small Cap Cos.	4.12%	12.88%
Bonds	0.20%	3.95%

The year 2017 opened on a note of mild pessimism. It was an attitude that characterized market sentiment for most of the year. It was a market they everyone loved to hate. A number of analysts were calling for the end of the bull market that had arisen from the ashes of the 2008-2009 melt down. The Trump Recession was coming. The market didn't appear to care what people thought of its prospects and ground ahead to post solid gains. Very few saw this year's returns as a high probability outcome.

After years of support from Central Bank easing and stimulus, the fiscal components of economic growth were about to be addressed with a host of new policies intended to deliver the long term growth that monetary policy couldn't. Trump and the Republicans had run on tax cuts, repealing Obamacare, infrastructure spending stimulus and immigration reform in order to boost domestic jobs and wage growth. The question was whether Trump and the Republicans were going to prove incompetent. Analysts were, and still are, divided in their assessments. A Nobel Laureate economist predicted that markets would crash and never recover. It was not an environment supportive of investor enthusiasm.

Surprisingly, the market responded to the unexpected Trump electoral victory with a sharp two month rally in the stocks and industry sectors most likely to benefit from his stated agenda. Interest rates rose in anticipation of faster economic growth. Much of the agenda objectives and outcomes, at least in some rhetorical form, have had bipartisan support for quite some time. But then modern politics reasserted. Doubt that anything meaningful would be accomplished has been the backdrop for much of the year. Much energy has been expended by both Democrats and Republicans to get rid of Trump and fight gratuitous political battles rather than work toward better outcomes.

Markets didn't collapse, but rather settled back into their prior pattern of steady but tenuous gains engendered by little enthusiasm from the general investing public. Markets have been lead by sectors and stocks with the ability to grow earnings and revenue in a lackluster but modestly improving economic environment; technology, healthcare and large multinational companies with globally diversified revenues and earnings. If 2017 was about one thing, it was about the ability of Republicans to pass meaningful tax reform. They've succeeded and that success has seems to have been priced into the market for now.

For all the negative theatrics from the home of the world's largest economy, the rest of the globe has now entered a synchronized expansion for the first time in many years. It is providing a growth boost. It seems somewhat surprising considering the challenges of the past few years and the world's continuing crises. So what could go right and what could go wrong in the coming year?

US economic growth could continue to accelerate. The last several years, growth has crawled along at barely 2%; for all intents and purposes a "plow horse" rate of growth. Will the tax cuts actually deliver the boost to growth as expected? Investment in capital assets and infrastructure could boost productivity. The proof will be in continued and accelerating earnings growth. Jobs, wages and earnings need to continue to improve. It could go right. It could go wrong.

The global economy could continue its growth path. The basket case that has been Latin America is improving. Other than Venezuela and parts of Central America, things are looking up. Developed Europe and Asia (China, Japan and Australia) are improving as are Emerging Asia and India. Better commodity prices following the 2014-2016 collapse of oil prices have been helpful, as has the continued integration of emerging economies into the global market. It could go right. It could go wrong.

The Middle East, North Korea and Iran could get better or worse. Saudi Arabia has dramatically altered their stance regarding funding and supporting Islamic terrorists. The revolutionary change in oil and energy markets caused by the success of US fracking and extraction technologies has made the US, not the Saudis, the price changing producer. Add the containment of ISIS, at least on the battle fields of the Middle East to the equation, and one less source of potential economic disruption has been reduced. Iran is facing serious internal conflicts that have the potential to completely reset the dynamics of the region. It could go right. It could go wrong.

North Korea has been a problem for a long time. This past year whenever Kim Jung Un fired a missile or tested a nuclear device, the markets reacted nervously. It has been exacerbated by Trump, who has introduced an entirely new dynamic into the region with his negotiating style. The Chinese, who are the Norks primary supporter, appear to be willing to work toward a solution. Talks have been scheduled between the North and the South. It could go right. It could go wrong.

The bottom line is that major sources of economic uncertainty are at inflection points that we've not seen in a number of years. The optimist case is that they continue to develop in a constructive manner. Of course the pessimist view holds the other case. Hold on to your seats. It could go right. It could go wrong.