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Third-Quarter 2017 Market Review ~ In the Eye of the Storm

October 2017 - Stocks weathered the threat of nukes, kooks, and hurricanes during the third quarter, continuing to post record highs. The Dow Jones Industrial Average gained 4.9%, the Standard & Poor's 500-Stock index (total return) added 4.5%, and the NASDAQ Composite index rose 5.8%. During the quarter, the Dow had a 10-session winning streak, which included nine consecutive closing highs. The Dow has moved ahead for eight quarters in a row, its longest quarterly advance in 20 years. The S&P and NASDAQ closed the final day of the quarter at all-time highs.

Through the first three quarters of 2017, all three market barometers improved by double digits: the Dow 13.4%, S&P (total return) 14.2%, and NASDAQ 20.7%.

International stocks were the place to be for the first nine months of 2017, with Developed Large Caps jumping 20.5%, Developed Small Caps rallying 25.8%, and Emerging Markets surging 28.1%. Domestic stocks were no slouches, as Large Caps climbed 14.2%, Mid Caps grew 11.7%, and Small Caps tacked on 10.9%.

Bonds lodged across-the-board advances in the third quarter, with the riskiest sectors rising the most: Emerging Markets expanded 2.3% and U.S. Corporate High Yield inched up 2.0%. For the first nine months of 2017, Emerging Markets swelled 7.5% and U.S. Corporate High Yield picked up 7.0%.

The Federal Reserve met twice during the quarter, leaving interest rates unchanged both times. After its September meeting, the central bank announced that in October it would begin shrinking its \$4.5 trillion balance sheet to reduce the assets acquired during the 2008 financial crisis. The plan includes monthly reductions of Treasury and agency securities, with \$10 billion at the outset and a gradual increase to \$50 billion by October 2018.

The Fed has raised its target interest twice so far in 2017 and forecasts one more hike this year and three in 2018. Economic growth (GDP) for 2017 is projected at 2.4% with a drop in the unemployment rate to 4.1%. The final figure for second-quarter growth was 3.1%. Inflation is expected to remain below 2.0% until 2019.

Wage growth, as measured by average hourly earnings, was up 2.5% annually in July, August, and September. It was announced that Social Security recipients would receive an increase of 2.0% in 2018.

As geopolitical and domestic tensions unfolded, and the economic impact from hurricane damage began to be assessed, Treasury yields dipped. However, at quarter end, Treasury yields on five and 10-year notes were little changed for the quarter and year-to-date at 1.93% and 2.34%, respectively. Five and 10-year Treasury notes began the quarter at 1.89% and 2.30%, respectively, and 2017 at 1.93% and 2.44%, respectively.





Below are rates of return for selected market indices for the third quarter and first nine months of 2017, and the three, five, and 10-year compound annual returns as of December 31, 2016.

	<u>3Q:2017</u>	<u>YTD-2017</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
<u>Equity (Stock) Indices</u>					
Domestic					
Russell 1000 - Large Cap	4.48%	14.17%	8.59%	14.69%	7.08%
Russell Midcap	3.47%	11.74%	7.92%	14.72%	7.86%
Russell 2000 - Small Cap	5.67%	10.94%	6.74%	14.46%	7.07%
Real Estate (FTSE NAREIT Equity REITs)	0.94%	3.67%	13.38%	12.01%	5.08%
Commodity (S&P Global LargeMidCap)	11.09%	10.22%	-4.64%	-1.87%	2.44%
International					
MSCI EAFE Developed Large Cap	5.47%	20.47%	-1.15%	7.02%	1.22%
MSCI EAFE Developed Small Cap	7.52%	25.84%	2.45%	10.92%	3.30%
MSCI Emerging Markets	8.04%	28.14%	-2.19%	1.64%	2.17%
Global - MSCI All Country IMI	5.44%	17.73%	3.79%	10.20%	4.38%
<u>Fixed-Income (Bond) Indices</u>					
Bloomberg Barclays					
Global Aggregate - Unhedged	1.76%	6.25%	-1.01%	1.34%	4.00%
Global Aggregate - Hedged	0.78%	2.22%	3.97%	NA	NA
U.S. Aggregate	0.85%	3.14%	1.45%	3.25%	4.52%
U.S. Treasury TIPs	0.86%	1.72%	0.03%	3.99%	4.66%
U.S. Corporate High Yield	1.97%	7.00%	0.45%	4.27%	6.56%
Municipal	1.05%	4.66%	4.16%	5.96%	5.02%
International Emerging Markets	2.27%	7.50%	2.40%	6.26%	7.30%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloombergindices.com

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