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AAFMAA Wealth Management & Trust LLC

FEBRUARY 2017 MARKET REVIEW AND OUTLOOK

The bulls continued their stampede that began in November as the market continued to advance into the first two months of 2017. From a close of 2,140 on November 8, 2016 to the close of 2,364 on February 28, 2017, the market advanced a bit over 10%. The Dow followed right along crossing the 19,000 mark on November 22, 2016, the 20,000 mark on Jan 25, 2017 and with hardly a slowdown crossed 21,000 on March 1, 2017. While impressive, the advance hasn't all been a bed of roses. While the S&P 500 index is up 5.45 % year to date through February, certain groups have underperformed, as so-called sector rotation worked its way through the market. Retailers, for example, have been extremely hard hit as many try to fight their way past the Amazon juggernaut. Energy issues have declined, despite stable commodity pricing. Still, financial and industrial companies continue to carry the averages higher, while technology issues also helped the indices churn upward.

As we have stated in the past, we do not believe that this market rally is based upon which political party is in or out of the White House. In fact, it is becoming more apparent that the current rally is less about politics and more about corporate earnings growth. Certainly, the lofty economic, employment and productivity goals this administration has in place and the perception of a more favorable business climate are all favorable for the market, but ultimately it is earnings that drive stock prices. With most of the S&P 500 companies reporting, it looks like 4^{th} qtr. 2016 earnings will be up around 5% as economic fundamentals continue to improve. This is a continuation of the "V" shaped recovery in earnings that bottomed in the 4^{th} quarter of 2015. Further strengthening our conviction that this is an earnings driven rally rather than a political driven one is the high correlation between post-election price action and earnings performance. Of the 25 best performing sub-sectors of the market since the election, all but three also had the strongest 4^{th} quarter earnings beats and/or greatest analyst positive earnings revisions.

So where does the market go from here? Based upon the different market factors that we monitor (remember our "three investing traffic lights"?), we believe that the path of least resistance is still upwards. The Federal Reserve will continue to move to a neutral monetary policy with two or three rate hikes this year. Stock market valuation is high on an absolute basis but not on a relative basis. The area that does concern us is the heightened investor optimism that has accompanied the rally. Investors have seen record breaking strings of market advancement days with unusually low volatility. While worrying, we know that this investor complacency will be broken when the market does experience its normal, yet over-due, correction(s).

Currently, AWMT portfolio models remain overweight in equities. We believe international equities will improve their performance from the past couple of years (int'l index +5.03% YTD) and have positioned accordingly. Current allocations to small and mid-cap value, while adding volatility, we believe will benefit greatly from any structural changes to legislation. Our fixed income holdings, under pressure last quarter due to a rapid interest rate increase, have resumed positive outperformance thus far this year.

If you are unsure how to proceed with your investments, want a second opinion on your investments or even a complementary portfolio review, call or email us at wealthmanagement.com. We are here to help.

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