Economic & Market Commentary

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Market Update – November 2017

Global stocks climbed 2.0% during November to continue what has been a stellar 2017 for equities. U.S. stocks also had a strong month, with the S&P 500 Index returning 3.1%, putting it up 20.5% year-to-date as markets continue to post record highs.

Economy

- U.S. real GDP growth for the third quarter was revised up to 3.3%, the highest rate of growth since 2014.
- Inflation fell slightly to 2.0% on a year-over-year basis.
- A total of 228,000 jobs were added in November, which beat out analyst expectations.
- The unemployment rate remained at a 17-year low of 4.1%.

Stocks

- The S&P 500 Index rose 3.1% in November. Consumer Staples and Telecommunications were the leading sectors with gains of 5.7% and 6.0%, respectively.
- U.S. small cap stocks had a steady month, gaining 2.9%.
- International developed large cap markets posted another positive month rising 1.0% overall, led by Japan at 3.0%.
- Emerging markets were quiet in November gaining 0.2%, but remain the best performer of 2017, up 32.5%.

Bonds

- The 10-year U.S. Treasury yield remained at 2.4% in November.
- Across traditional bond asset classes, TIPS and International bonds had positive returns during November, up 0.1% and 0.5% respectively.
- Short- and Intermediate-term bonds were slightly negative for the month.

Alternatives

- Alternative asset classes had a good month with managed futures up 0.8%, reinsurance up 1.1%, and REITs up 3.1%.
- Despite the positive month commodities, managed futures, and reinsurance are all down year-to-date with losses of -1.2%, -3.5%, and -0.5%, respectively.
- REITs have been the lone bright spot for alternatives in 2017, up 7.3%.

This is intended for informational purposes only and should not be construed as investment or tax advice. Please consult your investment and tax professionals regarding your specific circumstances.
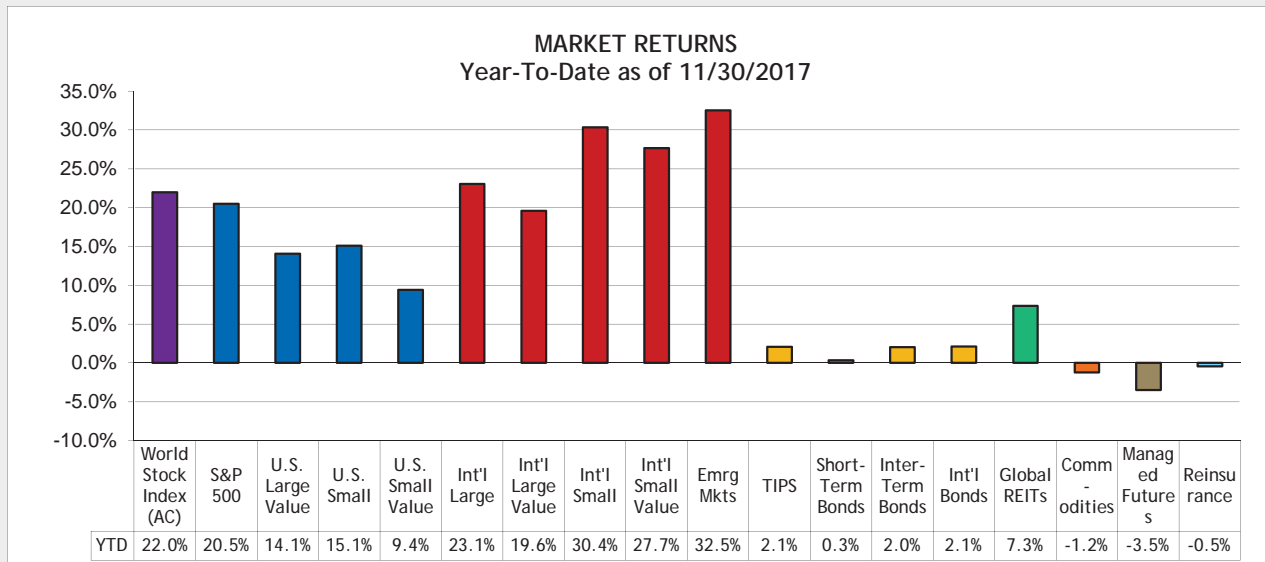
Capital Gains Distributions: The most wonderful time of the year?

Capital gains distributions aren't usually the first thing that comes to mind when we think of the holiday season, but they can have an important impact on the tax efficiency of your portfolio. A capital gains distribution is the tax-liability that is passed from a mutual fund to its shareholders as a result of the investment actions of that fund during the year. When a mutual fund sells a security at a gain this creates a taxable event just like if you bought and sold the security on your own. However, mutual funds are not tax-paying entities and are required by law to distribute at least 95% of capital gains to their shareholders on a yearly basis. Mutual funds make these distributions once or twice a year to any shareholders holding the fund on that date, regardless of when they purchased it. Now that we understand what capital gains distributions are, let's look at how they might impact your tax bill.

The types of accounts that hold mutual funds will determine how these distributions affect you. If you hold mutual funds in tax-deferred or tax-exempt accounts, then these capital gains distributions will have no impact on your taxes for this year. The next point to consider is whether capital gains distributions will qualify as short-term or long-term gains. If the fund held the security for more than a year before it was sold, it is a long-term capital gain. If it was held for less than a year it is a short-term capital gain. Short-term capital gains are taxed at your ordinary income tax rate, so individuals in a high tax bracket could be paying nearly 40% in taxes on short-term capital gains distributions. Long-term capital gains are taxed at 0%, 15%, or 20% depending on your tax bracket and will therefore always be lower than your short-term capital gains rate.

What strategies does Savant employ to help our clients limit their tax bills? Savant's Investment Research team focuses on distribution estimates every year at this time so we can proactively avoid purchasing funds with upcoming distributions. We also work to ensure tax-inefficient investments are held in tax-advantaged accounts whenever possible, a strategy known as asset location. Finally, if you find yourself facing a large tax bill due to capital gains, you and your advisor can discuss selling other securities at a loss to help reduce your tax bill. To learn more about any of these strategies please reach out to your advisor.

Sources: *Vanguard, Morningstar, Cap Gains Valet, FINRA*

investments | financial planning | tax | private trust | retirement plans

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MARKET RETURNS
Year-To-Date as of 11/30/2017

	World Stock Index (AC)	S&P 500	U.S. Large Value	U.S. Small	U.S. Small Value	Int'l Large	Int'l Large Value	Int'l Small	Int'l Small Value	Emrg Mkts	TIPS	Short-Term Bonds	Inter-Term Bonds	Int'l Bonds	Global REITs	Comm-odities	Managed Futures	Reinsurance
YTD	22.0%	20.5%	14.1%	15.1%	9.4%	23.1%	19.6%	30.4%	27.7%	32.5%	2.1%	0.3%	2.0%	2.1%	7.3%	-1.2%	-3.5%	-0.5%

MARKET RETURNS - Longer Term Annualized as of 11/30/2017

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	3.1%	20.5%	22.9%	10.9%	15.7%	8.3%	9.4%
U.S. Large Value	3.0%	14.1%	17.2%	9.7%	14.8%	7.0%	9.3%
U.S. Small	2.9%	15.1%	18.3%	11.1%	15.0%	8.7%	10.8%
U.S. Small Value	2.8%	9.4%	13.5%	10.4%	14.5%	9.0%	11.3%
Int'l Large	1.0%	23.1%	27.3%	6.0%	8.2%	1.5%	7.7%
Int'l Large Value	0.9%	19.6%	25.1%	4.6%	7.5%	0.8%	7.6%
Int'l Small	1.9%	30.4%	34.0%	12.8%	13.3%	4.9%	12.0%
Int'l Small Value	1.7%	27.7%	32.0%	12.6%	13.8%	5.1%	12.6%
Emerging Mkts	0.2%	32.5%	32.8%	6.1%	4.6%	1.4%	11.8%
World Stock Index (AC)	2.0%	22.0%	24.6%	8.3%	11.2%	4.7%	8.9%
FIXED INCOME							
TIPS	0.1%	2.1%	2.0%	1.4%	-0.2%	3.4%	4.6%
Short-Term Bonds	-0.1%	0.3%	0.3%	0.2%	0.2%	0.7%	1.4%
Interm-Term Bonds	-0.3%	2.0%	2.1%	1.6%	1.5%	3.3%	3.7%
International Bonds	0.5%	2.1%	2.5%	3.5%	4.1%	4.4%	4.4%
ALTERNATIVES							
Global REITs	3.1%	7.3%	11.7%	5.2%	8.5%	4.7%	10.1%
Commodities	-0.5%	-1.2%	0.5%	-8.4%	-9.5%	-6.7%	-0.1%
Managed Futures	0.8%	-3.5%	-2.6%	2.5%	5.7%	4.0%	6.8%
Reinsurance	1.1%	-0.5%	-0.5%	3.5%	5.7%	6.8%	7.3%

Economic Indicators

Leading Economic Index (%)
→ (+1.6)
Low — High
-3.2 | 1.4 | 2.0

Unemployment (%)
(+0.0)
Low — High
2.5 | 4.1 | 10.8

Inflation CPI (YOY %)
← (-0.2)
Low — High
-3.0 | 2.0 | 14.6

Real GDP Growth (%)
→ (+0.3)
Low — High
-10.0 | 3.3 | 16.9
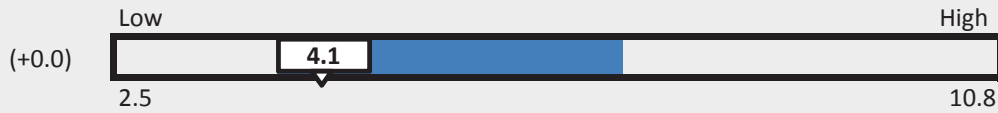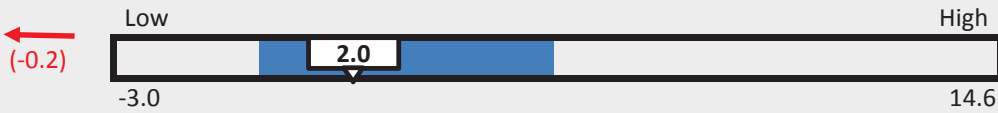
Consumer Confidence
→ (+3.3)
Low — High
25.3 | 129.5 | 144.7
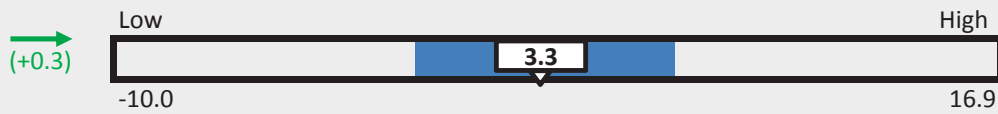
VIX - Market Volatility
→ (+0.4)
Low — High
10.3 | 10.5 | 62.6

Housing Starts (thousands)
→ (+163)
Low — High
478 | 1290 | 2494

10-year Treasury
(+0.00)
Low — High
1.5 | 2.40 | 15.3
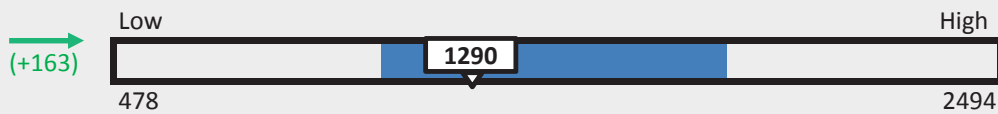
Typical range (within 1 standard deviation of the median)
Current Value
Historical Range
Change in value since last month
See appendix for sources and data ranges

Appendix

Leading Economic Index

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure

For informational purposes only. Not intended to be personalized investment advice.