Investment Tally & Perspective

First Quarter 2017 Review

Market Activity

While there were no significant moves in major assets classes this quarter, there were movements beneath the surface that indicate some trends in place since the U.S. Presidential election have reversed themselves, as noted in the following first quarter market summary.

Equities - Stocks posted strong returns with abnormally low volatility as large cap companies bested small capitalization stocks, growth equities outperformed their value counterparts and, in a switch from last quarter, international equities had higher returns in Q1 than U.S. stocks.

Fixed Income - After a difficult fourth quarter, major U.S. fixed income (bond) markets firmed in the first quarter with municipal bonds and corporate credit indices both outperforming the broader Barclays U.S. Aggregate Index.

Other Assets - Other asset class movements to note would be oil and real estate investment trusts. REITs have been weighed down by concerns over rising interest rates, in addition to expectations for growth in net operating income moderating in most sectors in 2017. The price of oil declined as U.S. production perked up, and inventories continued to expand year on year.

Economic Developments

Global GDP Growth - In general, global economies continue to firm with leading indicators, such as the J.P. Morgan/Markit global manufacturing purchasing manager index (PMI), hitting levels not seen in over five years (the index shows strength in production, orders, and hiring). Across the pond, Eurozone inflation continues to stay decidedly in the positive and, in the political realm, notable developments include the defeat of populists in the Netherlands and the U.K.'s official notice to leave the EU; looking forward, markets may be impacted by upcoming elections in France and Germany.

U.S. GDP Growth – Economic activity (GDP) in the fourth quarter was 2.1% with growth in personal consumption (+3.5%) and private domestic investment (+9.4%) offsetting growth in our trade deficit (imports +9.0%, exports -4.5%). For the first quarter of 2017, the Atlanta Federal Reserve is forecasting 1.2% growth with slowing consumption and a negative change in private inventories.

Lincoln Capital Corporation

Volume 26, Issue 2

April, 2017

Ronald E. Albert, CFP

Brittany A. Moran, CFP

Sean McGuirk, CFA

Alexander Albert

Nina Walsh

Karen Jones Ariosta

40 Westminster Street

Suite 202

Providence, RI 02903

Phone: (401) 454-3040

Toll Free: (855) 768-3040

Fax: (401) 453-0678

Email: info@lincolncapitalcorp.com

Website:

www.lincolncapitalcorp.com

(Continued from Page 1)

U.S. Inflation – In February the Consumer Price Index (CPI) was up 2.7% with the energy component up 15.2%; excluding the volatile food and energy categories, CPI was up a more modest 2.2%. Arguably more important to financial markets is the Federal Reserve's preferred gauge, the Personal Consumption Expenditure Deflator (PCE), which was up 2.1% (ex-food and energy, this index was up 1.8%).

U.S. Jobs & Wages - The expansion of the U.S. labor force continued in the first quarter (albeit with a weak March report), with payrolls increasing by 178,000 on average per month in Q1. In March, hourly wages were up 2.7%, and the unemployment rate stood at 4.5%.

U.S. Business Spending- Non-defense capital goods orders, excluding aircraft, continued to post growth compared to the prior year after a long-stretch of negative figures. Business equipment spending is expected to contribute 0.5% to Q1 GDP, its highest contribution since Q3 2015.

Economic Summary- Although there are risks on the horizon, mainly centered in political realms, global economic growth is modestly accelerating and, importantly, for the first time in many years, all major economies are improving simultaneously. Our base case is for global economic activity to moderately increase over the next year or two with GDP approaching or reaching the 3% area (a meaningful boost from the 2% average of recent years).

MAJOR ASSET CLASS RETURNS

	1st Qtr. 2017	1 Year	3 Year	5 Year
Equities				
S&P 500	6.07%	17.17%	10.37%	13.30%
MSCI EAFE	7.25%	11.67%	0.50%	5.83%
MSCI Emerging Markets	11.45%	17.22%	1.18%	0.80%
Fixed Income				
Bloomberg Barclays US Aggregate Index	0.82%	0.44%	2.68%	2.34%
Bloomberg Barclays US Credit	1.30%	2.96%	3.52%	3.70%
Bloomberg Barclays Global Aggregate Bond Ex-US	2.48%	-3.93%	-2.68%	-1.13%
Bloomberg Barclays Municipal Bond	1.58%	0.15%	3.55%	3.24%
Other Assets				
Dow Jones Select REIT Index	-0.27%	1.21%	9.96%	9.45%
Thomson Reuters Commodity Index	1.09%	19.49%	-5.16%	-3.84%
Oil	-5.81%	31.98%	-20.73%	-13.25%
Gold	8.46%	1.06%	-0.95%	-5.66%

Source: Thomson Reuters — All returns greater than one year are annualized

Monetary Policy

The largest shift in our investment strategy inputs during the first quarter was in monetary policy. At their March meeting the Fed raised short term rates by one quarter of one percent and stated their expectation for two more increases in 2017. Further, the Fed confirmed that they are comfortable letting inflation exceed their two percent objective in the short-term. Lastly, though action is not anticipated until the end of 2017, the Fed is beginning to prepare markets for the process of normalizing (reducing) its $4 trillion balance sheet in the months ahead.

Monetary Policy Summary –On balance, monetary policy is expected to tighten as we move through 2017.

Asset Valuation

During the first quarter of 2017, earnings estimates for the S&P 500 in 2018 were flat yet stock prices increased around 6%. The net result of stock prices increasing without a commensurate increase in profits is further stretching of stock valuations while yields on fixed income securities have declined with credit spreads tightening.

Valuation Summary - Equities and fixed income continue to be on the expensive side of fairly valued.

Investor Psychology & Sentiment

In trying to assess investor psychology, various readings may be interpreted as "contrary indicators" (the true meaning is the opposite of what appears on the surface). Looking at the American Association of Individual Investors Sentiment Survey, individual investors have shifted towards bearish in the last three months, as the percentage of bullish investors declined below the 30-year average while the bearish percentage sits above the 30-year average. At the same time, mutual fund managers continue to hold above average cash levels and there is commentary suggesting that retail investors (rather than institutional) have been allocating more capital to stocks (all contrary signals).

Investor Sentiment Summary - In general, sentiment is tilted bullish in our opinion (though data is mixed), yet far from a level that would warrant extreme caution.

Investment Outlook

One year ago the broad stock market began the year with a sharp, double digit decline in the first six weeks yet 2016 ended with stock indices reaching new high levels. This year began with a strong opening until the March 1st peak which has been followed by modest declines to date. Will this be the pause that refreshes or will 2017 be the mirror image of 2016? Our views and observations follow.

Global Trade – Over the next year or two, numerous trade and border negotiations will bring moments of stress and anxiety yet, when "push comes to shove", we expect saner heads to prevail with the net overall result being supportive of global trade for the benefit of all.

Political - In the political realm, we never expected legislative changes in healthcare at this early time, and we continue to view increased spending on infrastructure as taking longer than most expect. We still like the odds of tax changes in 2017 centered on lower individual and corporate tax rates. Further, a significant reduction in business tax rates on foreign earnings made to encourage the movement of capital to our shores, remains possible and would be a welcomed development. Meanwhile, the regulatory changes and executive orders issued by the new administration have brought welcome relief to the business community which will positively impact earnings.

Stock Markets - Stocks appear to have gotten ahead of themselves post-election which leads to a phase, perhaps underway, whereby earnings catch up to stock prices. Importantly, signs of recession are absent which makes a major bear market unlikely over the next year or two, though a decline of 5% to 10% would be a normal market dynamic. While such a correction may be discomforting, recall that at the depths of the stock market low eight years ago the S&P 500 stock index reached the 666 level, and then rose 260% to 2400. While such a rise is not expected in the next eight years, relative to other assets and investment alternatives stocks remain the asset of choice for income, growth of income, and capital appreciation.

LINCOLN CAPITAL'S FINANCIAL PLANNING TOPICS AND TIDBITS

APRIL 2017 - Focus On:

THE BASICS OF LONG-TERM CARE INSURANCE

It's a fact that people are living longer and, although that is good news, the chances of requiring some form of long-term care is increasing. The oldest of the baby boomer generation – those born between 1946 and 1964 – are now less than a decade away from their 80s. As the costs of home care, nursing homes, and assisted living surge, the subject of long-term care insurance (LTCI) has become a more frequent topic in client discussions.

Long-term care comprises a host of services that vary widely, including home care to assisted living to nursing homes. It applies to the ongoing care of individuals regardless of age who can no longer independently perform basic activities of daily living (ADLs) – such as bathing or eating – due to illness, injury or cognitive disorder. Typically, benefits are payable when you're unable to perform a certain number of ADLs (2 to 3). Even though you may never need long-term care, it helps to be prepared due to the high cost of care. According to Genworth Financial, a private room in a nursing home averaged $92,378 annually in 2016 and home health aide averaged $46,332. In expensive areas, those costs can nearly double. Contrary to popular belief, Medicare and other health insurers will not cover these costs (Medicaid, which has strict financial eligibility requirements, will cover some costs only after draining a large portion of your life savings). The average consumer faces quite a dilemma as the cost of this type of insurance is almost as prohibitive as the cost of the care itself. According to AARP, a typical policy by a healthy couple in Maryland in their mid-50s can initially run around $3,100 annually – and premiums can shoot up without warning. Another option, which has gained popularity over the past few years, is a hybrid policy combining life insurance with long-term benefits added as a rider. With this type of coverage, whether you use your LTCI benefits or not, the policy will pay some portion of its death benefit. Although options are available, most financial planners recommend self-insuring if a client has built sufficient funds.

While a more in-depth review is beyond the scope of this writing, please view us as a resource for related information, and, as always, contact us if we may be of assistance.

(Sources: AARP (2016). Understanding Long-Term Care Insurance; Ameriprise Financial. Understanding Long-Term Care Insurance)