

## Weekly Investment Strategy Update

### Weekly Economic Recap - Strength Accelerating; Inflation Low

- The November NFIB Small Business Optimism survey rose to the highest level (107.5) since 1983. Ironically, 1983 was also the year that Reagan's full 1981 tax cut was phased in. Small business optimism is important as small businesses make up ~60% of private sector jobs and in November, the hiring plans component rose to the highest level on record.
- The tug of war between low unemployment but not translating into core inflation continues. While headline CPI is rising at a reasonable pace (2.2% YoY), core inflation moved lower (to 1.7% YoY) in November led by weakness in food, computers, doctor services, apparel and airline fares. This is the eighth consecutive month core inflation has grown below 2%.
- November retail sales solidly beat expectations after an upward revision to October's data. While this data suggests a strong holiday shopping season is underway, what is even more encouraging on the health of the consumer is when you isolate discretionary spending.\* Discretionary spending is growing at the fastest pace (YoY) in three years led by internet shopping.

### Weekly Market Recap – Optimism Over Tax Bill Fuels Equities

- **Fixed Income:** Despite the Fed raising rates and the tax bill gaining support, the 10YR Treasury yield ended the week relatively flat. The muted action this week may be partially due to the fact that the rate hike was already priced in. The futures market showed a 99% chance the Fed would raise rates the day prior to their announcement. In addition, despite the tax bill looking likely, there has been muted changes in inflation expectations.\*\*
- **Equities:** U.S. equities outperformed their international counterparts as optimism about the largest tax reform since the 1980s intensified. The telecom sector led the S&P 500 returns as the end of net neutrality was perceived as positive for the major internet providers.
- **Commodities/FX:** Despite tax reform gaining momentum and the Fed raising rates, the U.S. Dollar Index was relatively flat for the week mirroring the lack of movement in yields. Copper jumped on strong economic data.

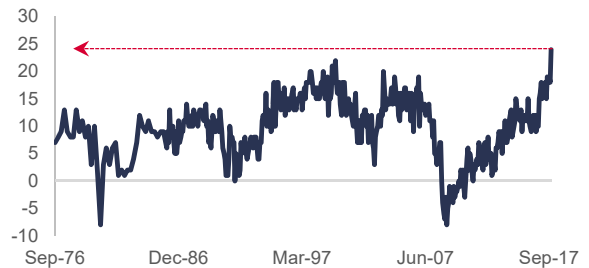
### Weekly Strategy View – “Santa Claus” Rally Poised to Continue

Better than expected economic data and lawmakers closing in on a final tax package led the S&P 500 to its 59<sup>th</sup> record high for the year this week. At the same time, volatility is falling towards its historic low and safe haven assets like Treasuries remain range bound. When using history as a guide it suggests the “Santa Claus” rally may continue. Over the past ten years, the S&P 500 has rallied from December 15 to the end of the year in nine out of the past 10 years (by, on average, ~2%). While the rally may continue in the near term as optimism around the tax bill lingers and economic data continues to surprise to the upside, it is important to note that the start of the past few years has been rocky for equities. The S&P 500 has fallen in three out of the past four Januarys by, on average, 2.4%. This may be due to the fact that Economists are overly optimistic coming into a new year and ultimately economic data disappoints their heightened expectations. When using the Citigroup Economic Surprise Index\*\* as a guide, January and February are the worst two months for the Index which may be a factor in the start to the past few years being weak/volatile for equities.

Footnotes: \*Discretionary spending includes only spending on vehicles, furniture, electronics, clothing, sporting goods, general merchandise, department stores, internet retail and restaurants. \*\*When using the 10YR U.S. breakeven inflation rate. \*\*\* The Citigroup Economic Surprise Index is a measure of the amount of economic data that beats consensus estimates. Source: Bloomberg Finance LP, Verdence Capital Advisors.

### Labor Market Strength to Continue

#### NFIB Small Business Plans to Hire



Footnotes: Data as of November 2017  
Source: Bloomberg Finance LP, Verdence Capital Advisors.

### Politics Impacting Equities

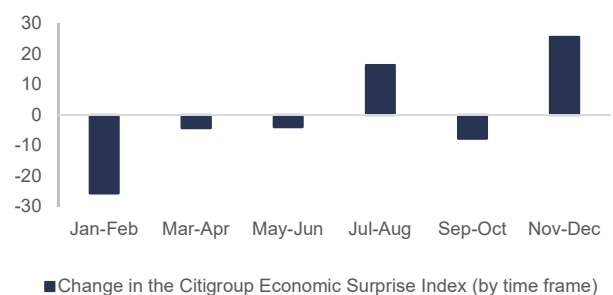
#### End of Net Neutrality Helps Internet Cos



Footnotes: Data as of December 15, 2017.  
Source: Bloomberg Finance LP, Verdence Capital Advisors.

### Chart of the Week

#### Citigroup Economic Surprise Index: Change



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