Courier Capital, LLC
Registered Investment Adviser
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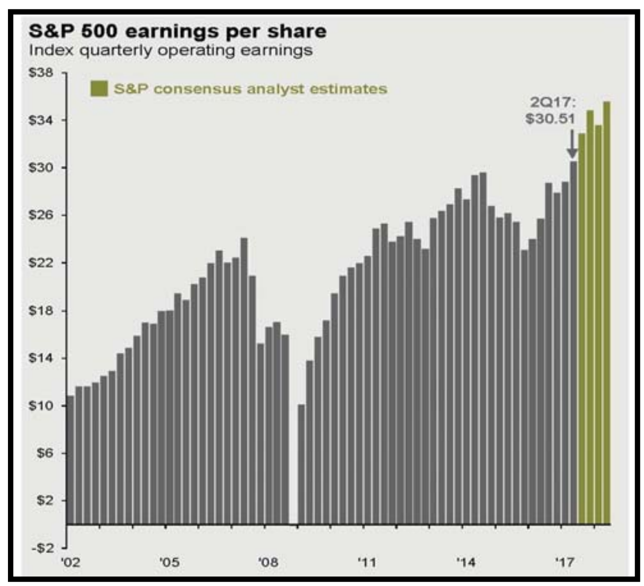
Market Review & Update

WINTER 2018

Santa delivered. Solid earnings growth throughout the year, a passive Fed, consecutive market highs and the passage of corporate tax reform bode well for the new year. Fascinating, the level of partisan discord over taxes and basically everything else in this environment (especially when we recall that this corporate package is nearly verbatim what one William Jefferson Clinton had recommended for the past several years). It is very interesting to note that several corporations immediately came forward with very public plans to increase minimum wages paid, provide attractive year-end bonuses to employees, and make large increases in capital spending. We should raise a caveat here that a couple of the companies are either desperate to improve their image (Wells Fargo), or have significant issues before the Federal government (AT&T's acquisition of Time Warner). Regardless, given those early examples, we should not be surprised by increasing levels of wages and capital expenditures as we roll into 2018. Both are plusses to aggregate demand & GDP growth. Q3 GDP was recently revised upward to 3.3% evidencing an improved growth trajectory prior to the impact of tax reform.

It's quite ironic that, at what just might be the apex of partisan hyperbole in Washington and on social media, 2017 turned out to be the least volatile market year in the history of the planet! We can only be thankful for that disparity. Social media (Facebook, Snapchat, Instagram and the too often leveraged Twitter) have certainly changed how we dialogue in Washington and unfortunately in the rest of society. A former senior exec at Facebook (Chamath Palihapitiya) and now a very successful venture capitalist, spoke recently of regret in his role of creating tools that have degraded societal interaction. It doesn't seem that we are near to any improvement in that regard…

On to better topics…2017 saw the Nasdaq cross 7000 for the first time while the Dow flirted with 25000. The global resurgence in earnings growth coupled with some added aggregate demand generated by the corporate tax overhaul give added confidence to the notion that 2018 should continue to move in a positive direction (toss our usual caveat for the exogenous events notwithstanding here…). The strength in OECD economic metrics has not been at these levels in many decades, perhaps providing the strongest underpinnings to a continuation of global earnings growth and what should be a rising equity trend in 2018.



Consumers are talking more positively with their wallets than with their mouths. The holidays are in full swing and have produced the highest rate of consumer spending since 2006. Again, we note the disparity between how consumers are behaving financially and their behavior as manifested in social media. The aforementioned makes us a bit more optimistic than we would ordinarily have anticipated as we enter the 10th year of this recovery. In the beginning of 2018 we will transition from the measured, data dependent chief of the Fed, Janet Yellen, to her measured, data dependent successor, Jerome Powell. We anticipate no major change in passivity, dependent on changes primarily in inflation trends. Of note, he is similarly predisposed to be supportive of some roll-back in

INVESTMENT COUNSEL

Mike Brace

Steve Gattuso

Bill Gurney

Tom Hanlon

Jim Julian

Bruce Kaz

Randy Ordines

Steve Robshaw

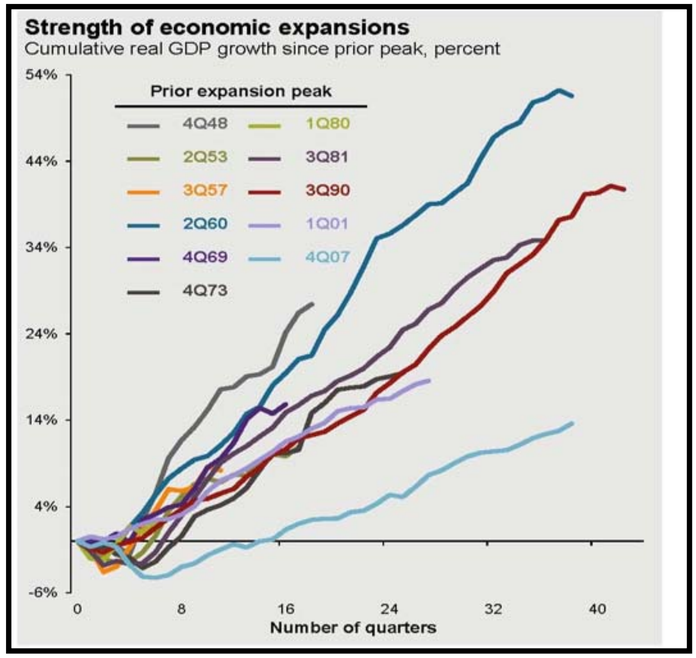
Jason Stronz

1114 Delaware Avenue
Buffalo, NY 14209
Phone (716) 883-9595
Toll Free: 1-800-783-1086

214 West Fifth Street
Jamestown, NY 14701
(716) 484-2402
Toll Free: 1-877-484-2402

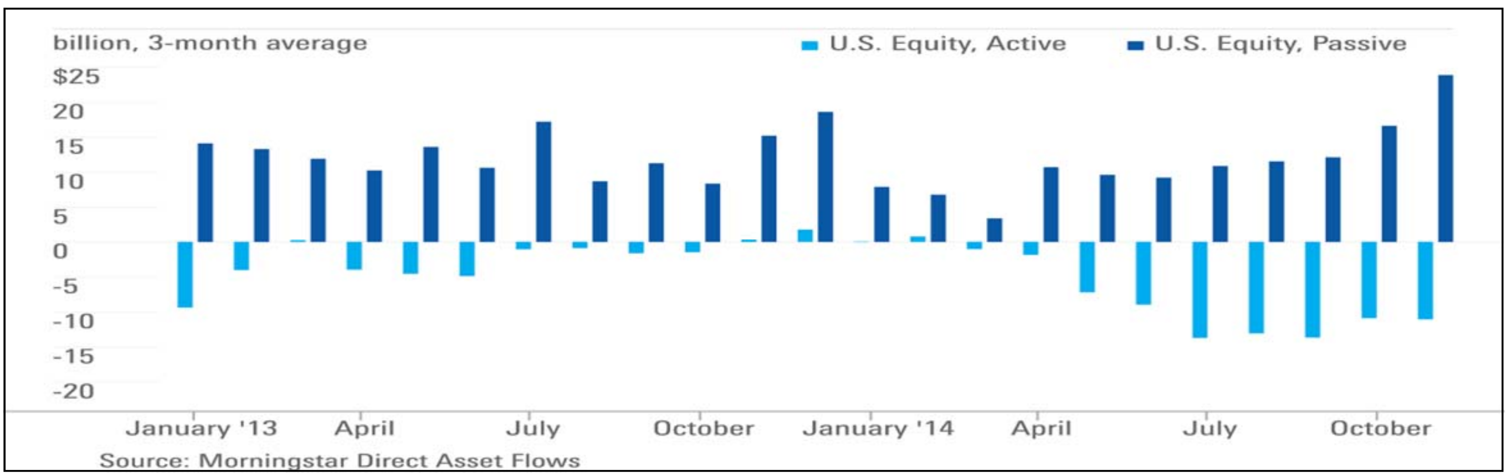
6255 Sheridan Drive, Ste 400
Williamsville, NY 14221
(716) 633-6555

banking regulations that caused a bit too much capital to be held out of the economy. Fed passivity continues. We remain on yield curve watch nevertheless, as we should, given the sheer duration of this recovery.



And speaking of passive… We began to notice odd market behavior. We have often talked since '09 about the growth of passive ETFs and the flow of monies from active funds to these passive index vehicles. In recent years we have seen comments from the likes of John Bogle (founder of Vanguard) and his brethren that there might come a point where a preponderance of equity trading generated passively would begin to distort the proper functioning of the equity markets. At the crux, we should remember that a single stock trade historically was an argument between two people about the value of the traded asset. It is this very dynamic that creates a functional market. ETF's on the other hand, make no such distinction and simply scoop up a few hundred stocks regardless of individual values. Recent dramatic swings in the NASDAQ (+/- 3% in a given day) are some peeks into what can occur when large blocks of passive vehicles are put up for sale, altering the prices of the individual stocks in those vehicles with no thought as to the valuation/ attractiveness, thereof. These short-term swings would recover in a few days to erase this impact. We'll have to see if future trends cause this type of perturbation to increase.

Passive Trend Less Pronounced in Bonds



We've yet to mention the changes to personal income taxes. This half of the tax legislation is tougher to call as it really got exposed to the capitol hill sausage grinder, suffering repeated revisions to placate individuals in the voting majority. It definitely does not treat everyone the same. Here's the best link to date to give you a rough idea of how you may be impacted.(https://www.washingtonpost.com/graphics/2017/business/tax-bill-calculator/?utm_term=.639f07020e28) It does however seem to deliver more cash into the hands of the folks who spend it, so it has potential to add to economic optimism.

So in summary, better global earnings were anticipated for '18 prior to the tax overhaul. Changes to corporate taxes will likely raise those earnings expectations. A passive Fed should continue on a very gradual rate hike trajectory, without a spike in growth/inflation. Absent the usual laundry list of exogeny, 2018 should be a decent year. We wish you our very best.

We'll talk to you soon…