2017 Third Quarter Review

As we write this review, our thoughts and prayers go out to those affected by the ongoing fire devastation in Sonoma and Napa Counties. We are saddened by the enormity of the loss and heartened by the stories of generosity and selflessness of so many people in the wake of this disaster.

During the third quarter of 2017, the markets showed continued strength based on reported earnings, which helped to support valuations, and thus, markets inching higher. Not only were the U.S. markets the beneficiaries of healthy reported corporate earnings, international markets also reacted positively to better than expected reported corporate earnings results.

Real gross domestic product (GDP) in the U.S. came in at 3.1%, up from 1Q 2017 GDP growth of 1.2%. The U.S. unemployment rate hovers in the low-to-mid 4% range, one of the lowest levels since the 1960s. Inflation, as measured by headline CPI, sits below 2.0%, though we are paying attention to the recent pullback in the strong U.S. dollar as well as firming oil prices, which may exert upward pressure on inflation figures.

We remain cautiously optimistic, as the very positive economic data points fundamentally support healthy market appreciation.

Third Quarter 2017 Market results:

- S&P 500 Index* +4.5%
- MSCI International EAFE Index* +5.4%
- MSCI Emerging Markets Index* +7.9%
- Barclays Capital Aggregate Bond Index*+0.9%

2017 Q3 Economic & Geo-Political Highlights

- **Domestically**
  - Equity markets continue to move higher on solid earnings results and positive macro-economic indicators
  - Consumer Price Index (CPI) for August was reported under 2.0%, with headline CPI at 1.9% and core CPI at 1.7%
  - Fed stays steady with no increase to the Fed Funds Rate in September, given the current low inflationary environment
  - Republicans recently introduced a tax bill blueprint, though Washington remains stalled with partisan politics holding up policy reform initiatives getting passed
- **Internationally**
  - Non-U.S. equity markets break out to a three-year high
  - European Central Bank (ECB) monetary policies are gradually becoming less stimulative, following the path of the Fed domestically, as international economies show definitive signs of strength
  - Angela Merkel wins reelection for a fourth term as Chancellor of Germany, though she may be challenged with the strong showing of the far-right Alternative for Germany party in the election
  - Industrial activity is solid, with considerable strength out of core ECB countries such as Germany, as well as those undergoing an economic recovery, including Greece
  - Equity valuations have moved up, though remain attractive relative to low international interest rates

Domestic Commentary: Markets & the Economy

The U.S. economy is entering its 9th consecutive year of growth. GDP growth of low 2%+ coupled with a low interest rate environment is comfortable enough to support positive market returns. Additionally, inflation remains low and unemployment continues to hover at full employment levels.

Tragically, the quarter also witnessed a flurry of devastating hurricanes hitting Texas, Florida and Puerto Rico, as well as the more remote Caribbean islands. These natural disasters were catastrophic and continue to be so for those in a state of intense recovery. The impact on the economy, however, has been more positive, with increased demand for replacement of cars, homes, and infrastructure, all driving a replacement and rebuilding cycle in the quarter, which may spill over to Q4 2017.

The Federal Reserve continues to be a focus of attention. Low inflation kept the Federal Open Market Committee (FOMC) from increasing short-term rates at its September meeting. However, the Fed has communicated its expectation for a rate increase before year-end, with possibly three more in 2018. The Fed will also begin to unwind its balance sheet in October. This will be a slow process over 4-5 years, ultimately intended to push up long term rates. Rate increases indicate the Fed is comfortable that the economy is on stable enough footing to back off on stimulative monetary policy.

Domestic Commentary: Politics

The rhetoric in Washington seems to signal the unlikelihood that major policy changes will occur in 2017. There is however a greater possibility of corporate and personal tax reform in 2018. The prospect of Fiscal stimulus measures, successfully enacted in 2018, would further support healthy market performance and equity valuations, We remain tempered in optimism until policy changes become more clear and closer to becoming enacted.

International Commentary: Markets & the Economy

International developed and emerging equity markets outperformed the U.S. equity markets again in the third quarter. Developed and emerging markets are experiencing an upturn in earnings growth, driving international equity markets higher. Valuations in developed and emerging markets are attractive and hover at or below historical averages. The entire world economy, including the U.S., is posting remarkable synchronized global growth.

Investment Committee Update

In the course of our strategic rebalancing process, we are realigning portfolios to continue to reflect appropriate risk tolerance levels between risk asset classes and those geared towards capital preservation. During this process we evaluate and balance capital gains tax considerations as we near calendar year end, coupled with the goal of maintaining diversified portfolios. **

Summary

Global market performance has been strong, led initially by U.S. markets. Economic growth supported by accommodative monetary policies internationally has led to a broadening of leadership, with developed and emerging markets posting strong returns above that of the U.S. markets. Strong manufacturing data points, low interest rates, and tepid inflation characterize this synchronicity of growth. We are carefully watching and evaluating data points which may alter the current favorable fundamental backdrop supporting current market levels.

In that endeavor, our team remains committed to partnering with you to navigate a clear and reasonable path toward achieving your investment and financial planning objectives.

We look forward to continuing to work with you as your trusted financial advisor.

TLA Wealth Advisory Group

*Indices mentioned are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

** As a reminder, our firm's Investment Committee meets twice monthly to monitor economic indicators as well as review and assess our investment models. Our monthly economic review meeting has us follow approximately 90 data points for the US and global economies. At our monthly portfolio meeting the Investment Committee reviews and assesses our investment models and their underlying holdings.