

QUARTERLY ECONOMIC REVIEW

INVESTMENT NEWSLETTER / FOURTH QUARTER 2017

Executive Summary

The promise of a new U.S. administration with a pro-business agenda and a groundswell of positive economic data propelled the capital markets upward in 2017. Although geopolitical tensions and disappointing progress in Washington sometimes caused short-term setbacks, markets quickly recovered. The broad decline of the U.S. dollar gave an additional boost to international investments.

The global economy is expanding at the fastest pace in years, driven by a resurgence in trade and manufacturing. Domestic demand has also been solid, supported by a healthy jobs market. Consumer and business confidence are at peak levels, boding well for future activity. In the U.S., improvements in productivity and business investment have offset slower consumer spending.

Stock markets benefited from healthy corporate earnings and positive economic data. Emerging markets surged, outperforming developed countries, due to a rise in exports and strong investment flows. In the U.S., there was a wide divergence across market segments. Large growth

stocks, notably in the technology sector, far outpaced value stocks and smaller companies. Despite the recovery in commodity prices and profitability, energy stocks lost ground for the year, although prices picked up as the year progressed. Tax cuts and reduced government regulation were widely expected to further boost corporate profits.

Fixed income markets provided modest returns for the year. Credit risk was rewarded with high yield and emerging market debt posting the highest returns. Despite rising corporate leverage, credit spreads are approaching levels last seen before the financial crisis.

Monetary policy has been a key driver of the global recovery and a policy mistake by a central bank is a major risk. Jerome Powell, nominated to head the Federal Reserve, is expected to provide continuity and pro-growth policies. Interest rate hikes and the unwinding of quantitative easing by the Fed have resulted in higher short-term rates. At the same time, long-term interest rates have declined. A flatter yield curve may be a harbinger of

weaker economic growth down the road. Globally, the volume of negative yielding debt decreased from 2016. Although inflation is below the desired level in many countries, a pick-up in wages and tightening capacity suggest higher, if not stable, inflation down the road.

By many measures valuations are high across the major asset classes. U.S. stock market volatility is historically low, restrained by investor optimism and declining stock correlations. Historically speaking, these conditions have consistently led to lower returns down the road. Market timing is not a valid response as it requires two impossible decisions – when to get out and when to get back in. There is no reliable way to determine either point in time leading people playing this game to do so out of emotion and not science. A broadly diversified portfolio containing more than just stocks is designed to weather the ups and downs of various asset classes. The goal is to use volatility (i.e. declines) in any particular asset category as an opportunity to buy low and sell high.



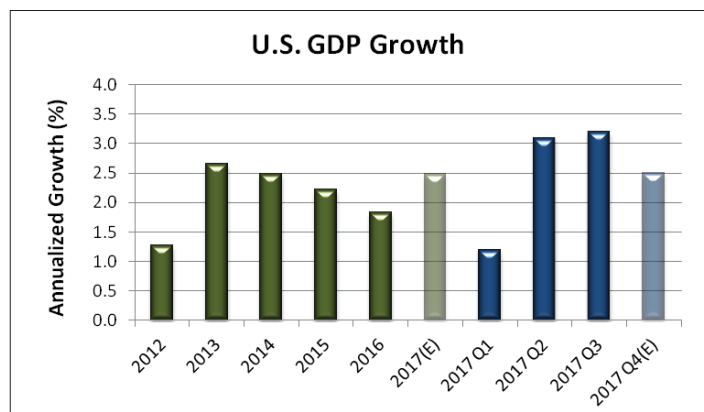
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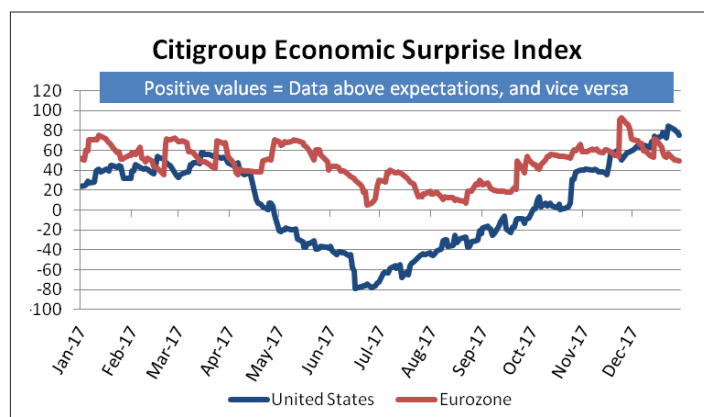
Economic Review

Key Economic Fundamentals



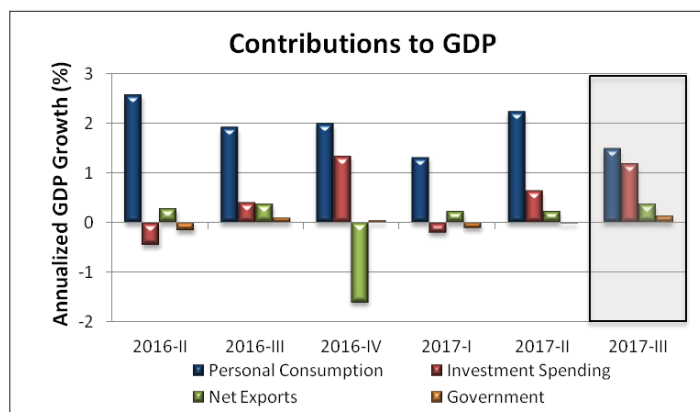
U.S. Department of Commerce

The U.S. economy grew at an annualized rate of 3.2% in the third quarter of 2017. Barring an outright decline in fourth quarter output (not expected), the trend of slowing annual U.S. economic growth in recent years was broken last year.



Citigroup

Despite negative midyear economic surprises, particularly in the U.S., the year ended much the same as it began. Namely, economic releases in both Europe and the U.S. came in better than forecasts. Strong stock market returns tend to come on the heels of unexpectedly favorable economic results. The fourth quarter of 2017 was no exception.



U.S. Department of Commerce

Each major component of GDP showed growth in the third quarter of 2017. This was the first time in a year for such an occurrence and only the second time in three years. Investment spending, led by a boost in inventories, was particularly positive. Equipment purchases were also the highest in history. Both suggest business optimism and a favorable environment.

Global Growth Rates ^{1,2} (%)						
	Q3 2017	Q4 2017	Q1 2018	2016	2017	2018
Advanced	2.7	2.3	2.4	1.6	2.2	2.3
Euro ²	2.4	2.5	2.7	1.8	2.4	2.6
U.S. ²	3.2	2.5	2.5	1.5	2.2	2.4
Japan ²	2.5	1.2	1.3	0.9	1.8	1.5
U.K. ²	1.6	1.2	1.8	1.9	1.8	1.7
Canada ²	1.7	2.5	2.5	1.4	3.0	2.3
Emerging	5.1	4.5	5.1	4.2	5.0	5.1
China	6.6	6.3	6.9	6.7	6.8	6.7
India	7.5	7.8	7.2	7.1	6.7	7.1
Russia	-0.2	-1.5	3.0	-0.2	1.5	1.6
Brazil	0.6	1.4	2.1	-3.5	1.1	2.8
World	3.6	3.1	3.4	2.6	3.3	3.4

J.P. Morgan, International Monetary Fund, World Bank

¹ Q2 2017 and 2016 are actual, all others are forecasts

² Quarterly numbers are sequential annualized, others are year-over-year

An anticipated acceleration of global growth came to fruition in 2017. This includes most developed economies, with the notable exception of the U.K., as well as key emerging nations. China, already growing rapidly, appears to have accelerated marginally, and both Russia and Brazil recovered from recession.

A “heat map” of global manufacturing activity, shown below, adds visual emphasis to this major economic theme of 2017 - acceleration of global economic growth. All developed economies listed in the table accelerated in 2017 from 2016 year-end levels. This group, both individually and collectively, finished the year with favorable growth dynamics. As for emerging nations, a positive trend is also evident, albeit

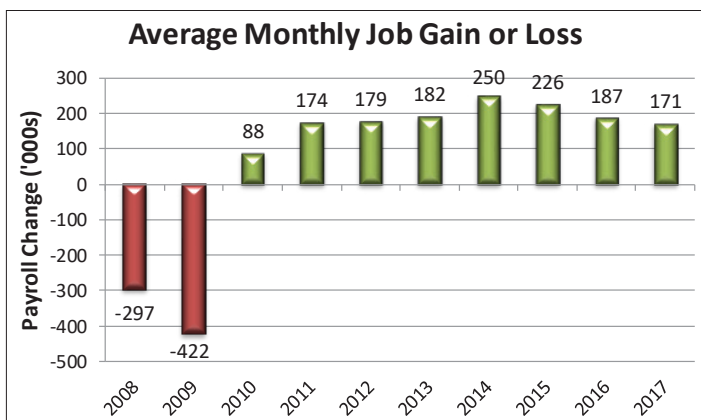
less pronounced. It is also not ubiquitous considering countries, such as Indonesia and Korea, remain in decline (below 50). That said, considering the *overall* emerging markets manufacturing sector was in decline to start 2016, as was the case with most individual emerging nations, the two year progression has been quite positive.

Global Purchasing Managers' Index for Manufacturing																									
		2016												2017											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	Global	50.9	50.0	50.6	50.2	50.1	50.4	51.0	50.8	51.1	52.0	52.1	52.7	52.8	53.0	53.0	52.7	52.6	52.6	52.8	53.2	53.3	53.5	54.1	54.5
	Developed Markets	52.1	50.8	50.9	50.5	50.4	51.2	51.5	51.2	51.5	52.6	53.0	53.8	54.2	54.1	53.9	54.1	53.9	54.0	54.2	54.6	55.2	55.8	56.3	
	Emerging Markets	49.4	48.9	50.2	49.5	49.5	49.3	50.3	50.1	50.3	51.0	50.8	51.0	50.8	51.3	51.6	50.9	50.6	50.8	51.0	51.7	51.4	51.2	51.7	52.2
Developed	U.S.	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8	52.7	52.0	53.3	52.8	53.1	54.6	53.9	55.1
	Canada	49.3	49.4	51.5	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55.0	54.3	54.4	54.7
	Japan	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.9	52.8	53.6	54.0
	UK	52.3	50.9	51.3	49.6	50.5	53.0	48.5	53.1	55.7	54.0	53.1	55.9	55.4	54.6	54.3	57.1	56.4	54.2	55.3	56.8	56.1	56.3	58.2	56.3
	Euro Area	52.3	51.2	51.6	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1	58.5	60.1	60.6
	Germany	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6	60.6	62.5	63.3
	France	50.0	50.2	49.6	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1	56.1	57.7	58.8
	Italy	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3	57.8	58.3	57.4
	Spain	55.4	54.1	53.4	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3	55.8	56.1	55.8
	Greece	50.0	48.4	49.0	49.7	48.4	50.4	48.7	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8	52.1	52.2	53.1
Emerging	China	48.4	48.0	49.7	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51.0	51.0	50.8	51.5
	Indonesia	48.9	48.7	50.6	50.9	50.6	51.9	48.4	50.4	50.9	48.7	49.7	49.0	50.4	49.3	50.5	51.2	50.6	49.5	48.6	50.7	50.4	50.1	50.4	49.3
	Korea	49.5	48.7	49.5	50.0	50.1	50.5	50.1	48.6	47.6	48.0	48.0	49.4	49.0	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6	50.2	51.2	49.9
	Taiwan	50.6	49.4	51.1	49.7	48.5	50.5	51.0	51.8	52.2	52.7	54.7	56.2	50.4	54.5	56.2	54.4	53.1	53.3	53.6	54.3	54.2	53.6	56.3	56.6
	India	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7
	Brazil	47.4	44.5	46.0	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1	52.0	50.5	50.0	50.9	50.9	51.2	53.5	52.4
	Mexico	52.2	53.1	53.2	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.1	50.2	50.8	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8	49.2	52.4	51.7
	Russia	49.8	49.3	48.3	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9	51.1	51.5	52.0

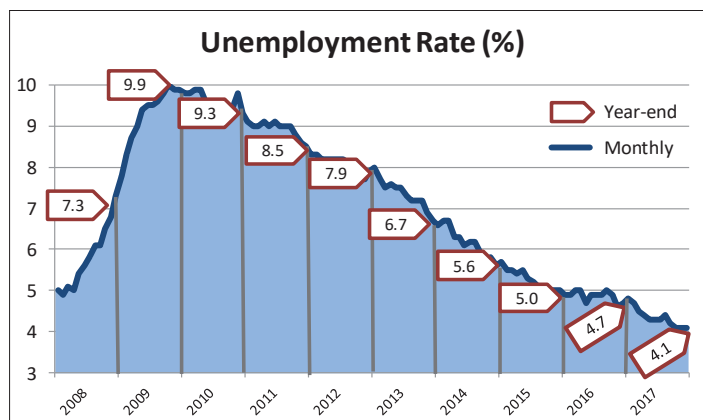
Markit and J.P. Morgan. Heat map colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown.

Employment

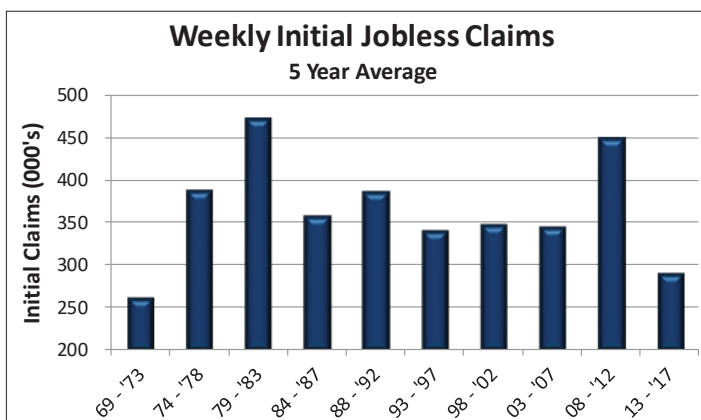
The labor market tightened in 2017. Though payrolls increased at a slower pace than the past four years, over two million net jobs were added, bringing unemployment down to 4.1%. This is the lowest level since the year 2000. Initial Jobless Claims remained at levels nearly unmatched on an absolute basis; they were only lower during the five years spanning from 1969 to 1973. Importantly, the labor force during that time was half the size it is today. On a relative basis, jobless claims stand near the all-time lows reached in 2016. Employment data, taken as a whole, point to a very tight labor market. This typically translates into wage inflation. Wage growth has been moderate in recent years, however, perplexing many economists. The Tax Cuts and Jobs Act of 2017 may change that. Soon after passage, several companies, including the likes of AT&T and Walmart, gave large bonuses to employees, and some boosted wages.



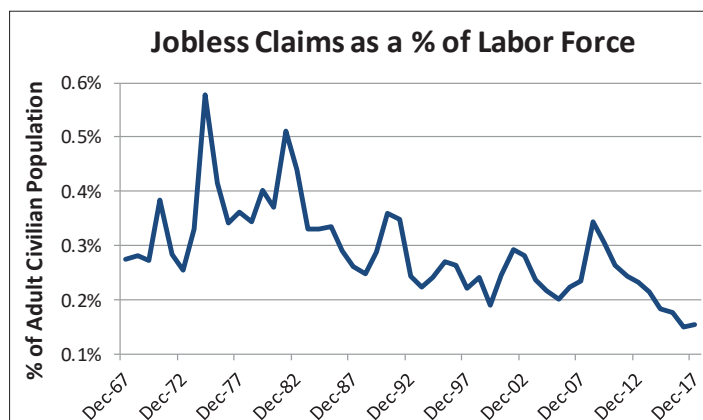
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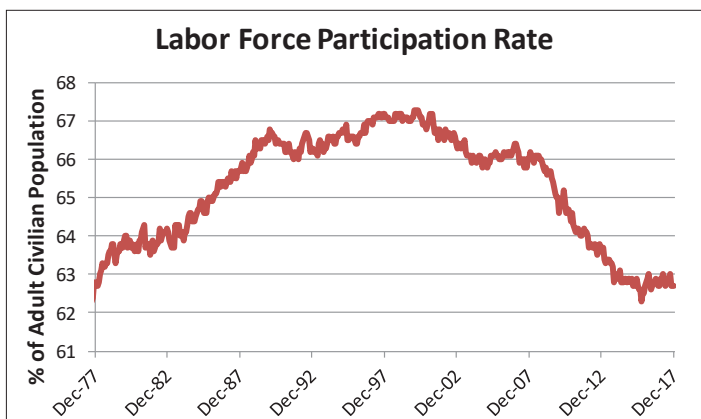
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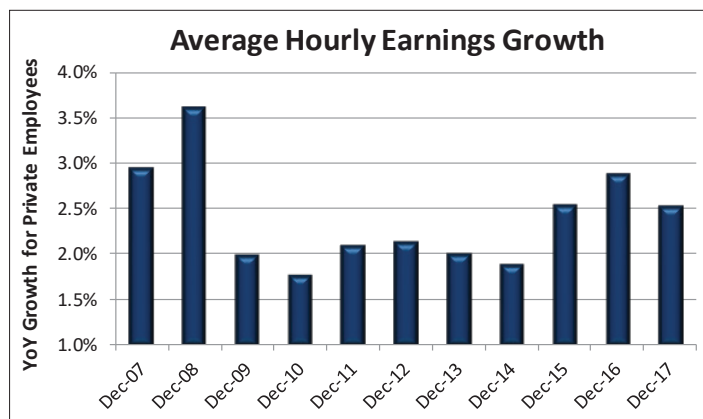
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U.S. Department of Labor



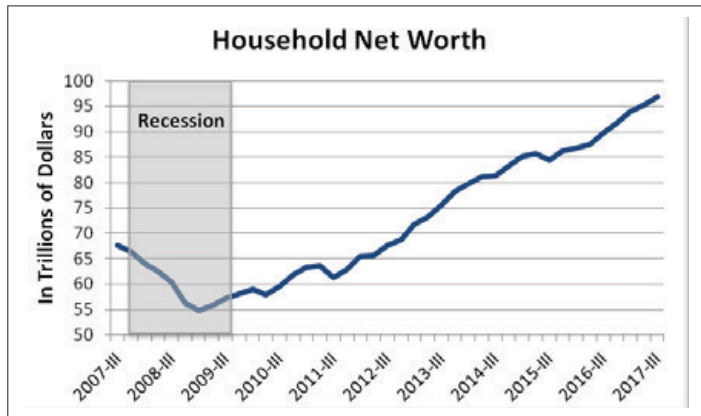
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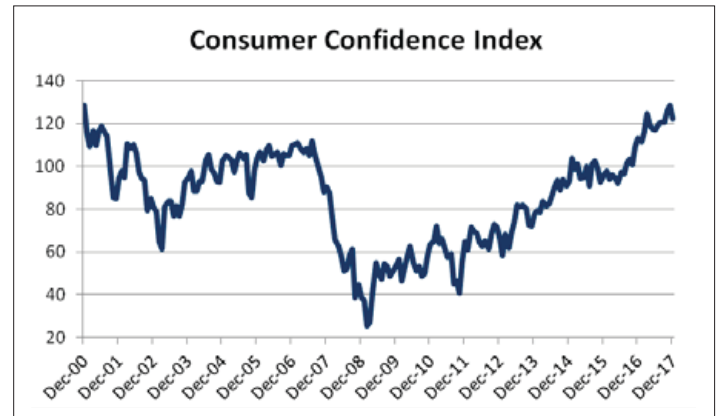
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Consumer

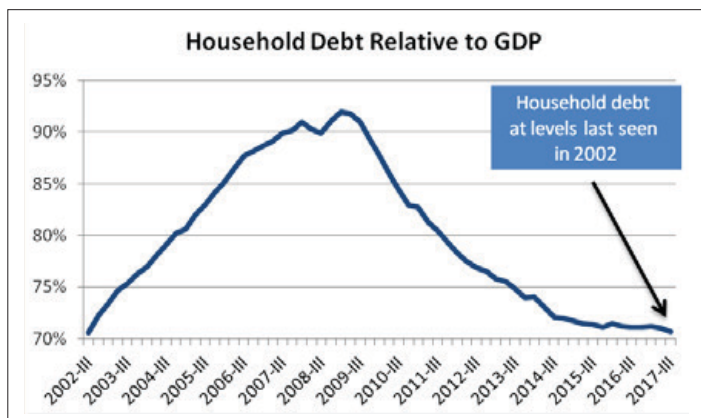
Labor market strength and continued gains in household wealth have the consumer feeling jubilant. Consumer confidence was in excess of 120 throughout the second half of 2017 and has remained above 115 for 11 consecutive months. This is the third longest streak above 115 since the inception of the index, bested only by runs of 49 months and 12 months beginning in January 1997 and December 1988, respectively. Household debt continues to trend positively as well. Although rising in absolute terms, household debt relative to U.S. economic output has declined to levels last seen in 2002. Importantly, not all is positive with the consumer. The personal savings rate recently fell to 2.9%, a paltry level only seen briefly on two occasions in our nation's past. The most notable case of such a decline was in the months leading up to the last recession. Consumer savings, wholly inadequate, leaves households ill prepared for economic downturns, unanticipated outlays, and ultimately retirement. This phenomenon also distorts economic growth to an above trend pace.



U.S. Federal Reserve



The Conference Board



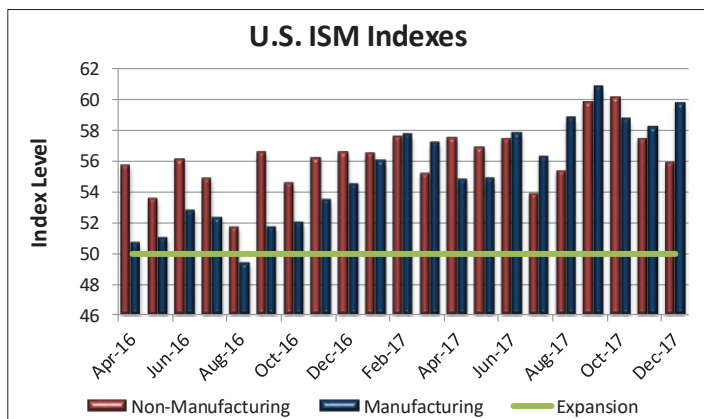
U.S. Fed. Reserve/U.S. Bureau of Economic Analysis



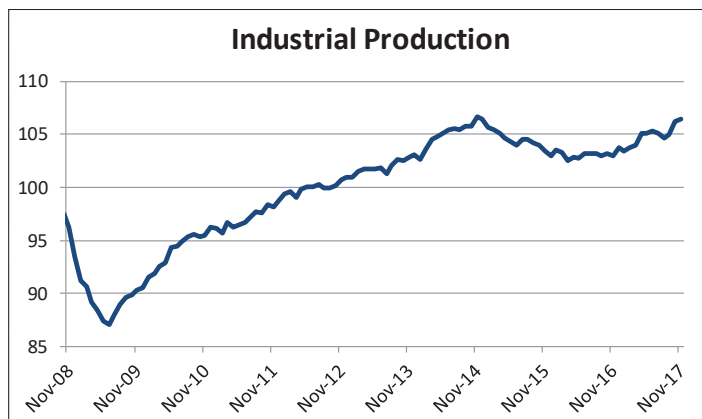
U.S. Bureau of Economic Analysis

Business Activity

As shown by graphs on the following page, both the service and manufacturing sectors remained robust in 2017, spending the whole year in expansionary territory. The 2017 rebound in Industrial Production corroborates the takeaways from the ISM reports. Manufacturing has benefited from a rebound in raw material prices, a strengthening global economy, and a weaker dollar, which serves to buoy exports. Momentum may continue in the sector given the tailwind from the Tax Cuts and Jobs Act of 2017, which incentivizes spending on capital goods. Businesses stand to benefit from other aspects of tax reform as well, such as the reduction in the corporate tax rate from 35% to 21% and lower levies on the repatriation of overseas cash.



Institute for Supply Management

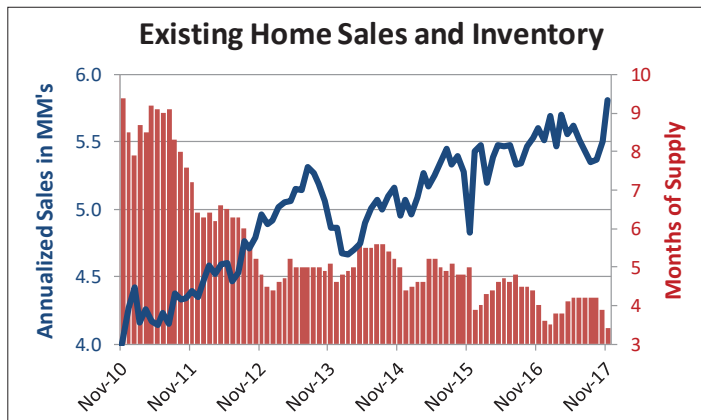


U.S. Federal Reserve

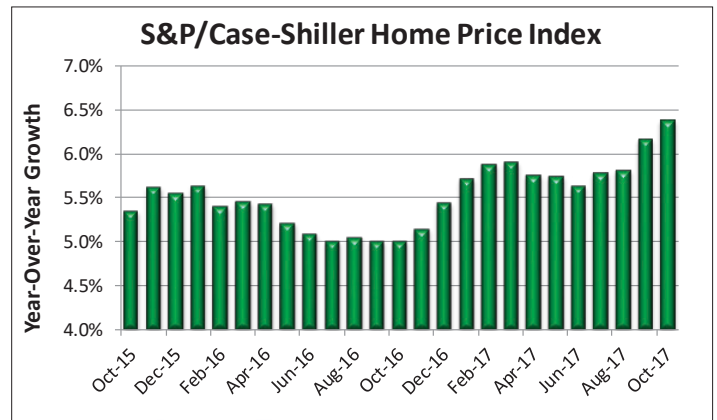
Real Estate

The housing market gained steam in 2017. After declines in the middle of the year, existing home sales rocketed higher in the back half of the year, ending 2017 at a pace not seen in over a decade. Meanwhile, a supply shortage of existing homes remains concerning and is likely contributing to the acceleration of home price increases, as exhibited by the S&P/Case-Shiller Home Price Index. Building activity remains near post-crisis highs, but new supply is being absorbed more quickly, as indicated by soaring new home sales.

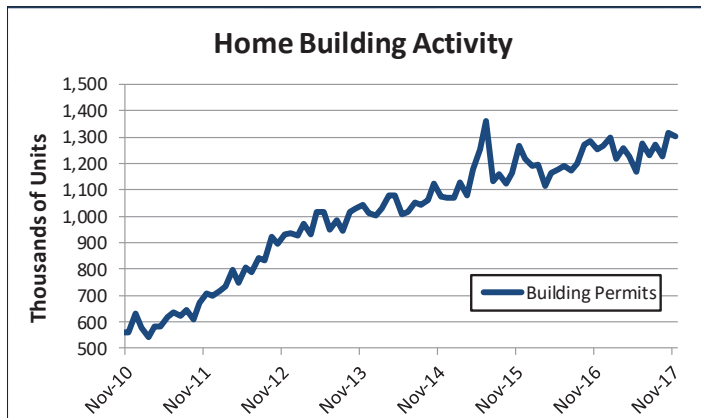
Trump's tax plan is a major shake up to the residential real estate market, and its impact is difficult to estimate for this important segment of the economy. However, the new tax code should be a positive for commercial real estate (particularly REITs).



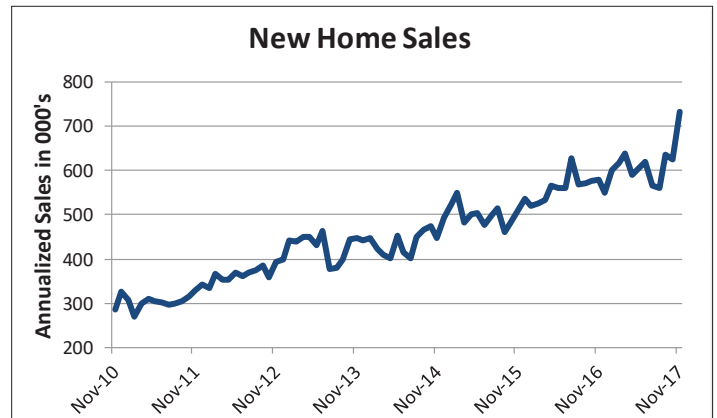
National Association of Realtors



S&P/Case-Shiller



U.S. Bureau of the Census, U.S. Department of Housing and Urban Development



U.S. Bureau of the Census, U.S. Department of Housing and Urban Development

Capital Markets Review

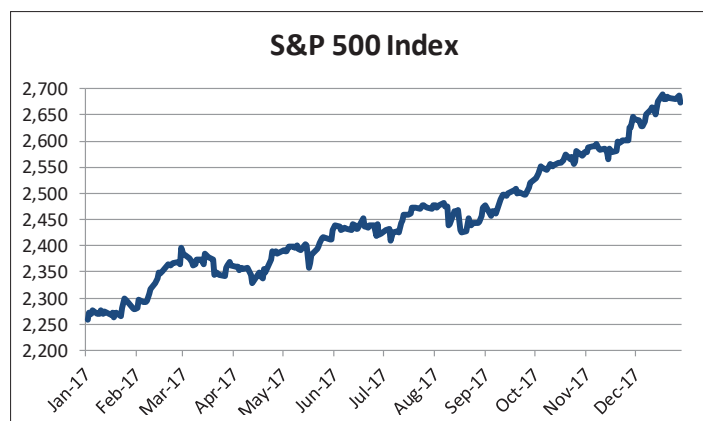
Returns

	4th Qtr 2017	Full Year 2017
Cash and Fixed Income		
U.S. Treasury Bills	0.3%	0.8%
Barclays U.S. Aggregate Bond	0.4%	3.5%
Barclays Municipal Bond	0.7%	5.4%
Barclays Gbl Agg. ex. U.S.	1.6%	10.5%
Hedge Funds and Alts.		
Bloomberg Commodity	4.7%	1.7%
DJ US Real Estate	2.6%	9.8%
HFRI FOF Composite	2.0%	7.7%

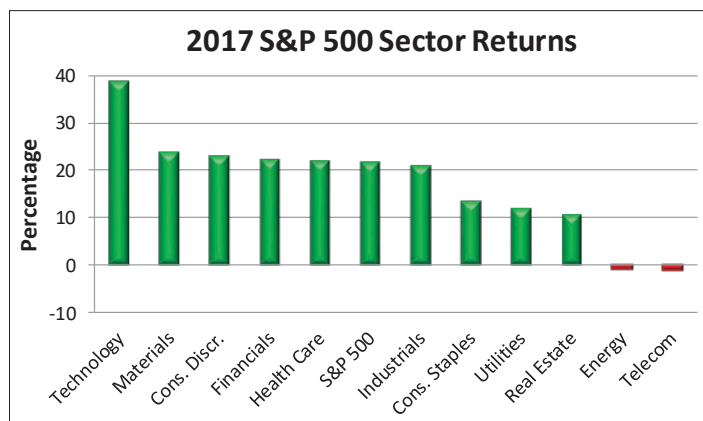
Morningstar & Hedge Fund Research, Inc.

	4th Qtr 2017	Full Year 2017
Domestic Equities		
Wilshire 5000	6.4%	21.0%
S&P 500	6.6%	21.8%
Russell 2000	3.3%	14.6%
International Equities		
MSCI ACWI ex. U.S.	5.2%	27.8%
MSCI EAFE (Developed)	4.2%	25.0%
MSCI EM (Emerging)	7.4%	37.3%

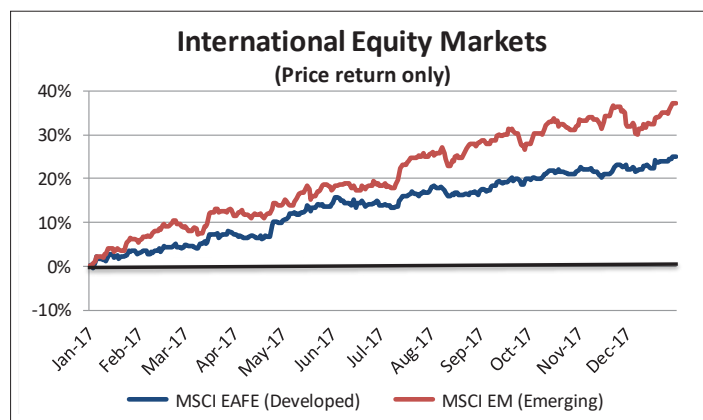
Equity Markets



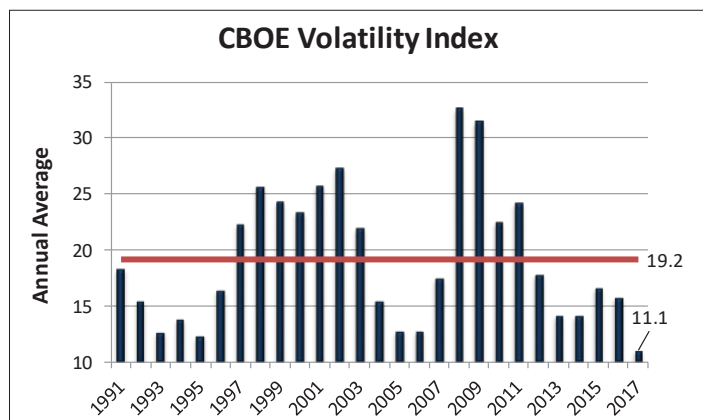
Morningstar



J.P. Morgan

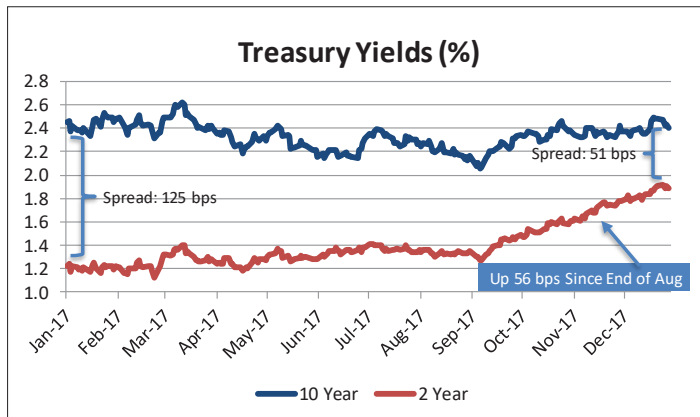


Morningstar

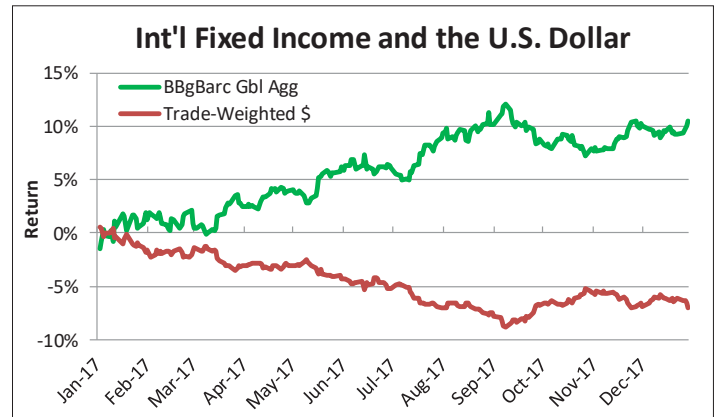


Chicago Board Options Exchange

Fixed Income Markets

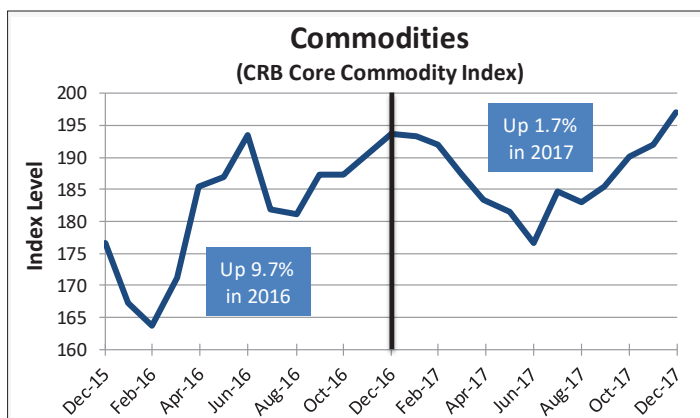


U.S. Department of the Treasury

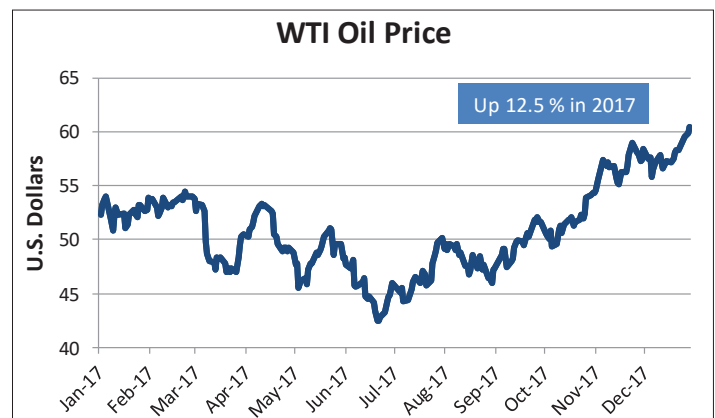


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Alternatives



Thomson Reuters



US. Energy Information Administration

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This commentary was written by Daniel Cohen, CFA, Investment Analyst, Noreen Johnston, CFA, Director of Research, and Robert Lamberti, VP and Co-CIO at Summit Financial Resources, Inc. and Summit Equities, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3600, Fax: 973-285-3666. Securities and Investment Advisory Services offered through Summit Equities, Inc. Member FINRA/SIPC, and Financial Planning Services offered through Summit Equities, Inc.'s affiliate Summit Financial Resources, Inc. Sources of Performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Wilshire 5000 Index is a market capitalization-weighted index of the market value of all stocks actively traded in the United States. The index is intended to measure the performance of all U.S. traded public companies having readily available price data. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. Emerging markets are considered risky as they carry additional political, economic, and currency risks. Real Estate Investment Trusts, REITs, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, have liquidity constraints. The Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bond, Mortgage-backed bonds, corporate bonds, and some foreign bonds traded in the U.S. Fund Category Performance is not inclusive of possible fund sales or redemption fees. Investment grade bond analysis included bonds with ratings of AAA, AA, A, and BBB. Municipal and Corporate Bonds are backed by the claims paying abilities of the issuer. TIPS are inflation-indexed securities issued by the U.S. Treasury in an effort to widen the selection of government securities available to investors. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding market or other financial information, is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

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