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Insights

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February

2017 market recap

For nearly all of the 2017 calendar year, major news outlets were consistently publishing articles about the remarkable performance of the stock market. It seemed like every week the Dow Jones Industrial average (DJIA) broke a new threshold or the S&P 500 closed at all-time high.

Now that the calendar has flipped, it is a good time to look back at how major stock market indices performed in 2017 and what it all means for the U.S. and its citizens.

What the stock market is — and what it is not

Before defining what the stock market is comprised of, it is important to note that the performance of stock market indices is not necessarily synonymous with the health of the American economy. Most economists and financial professionals measure the health of an economy based on a variety of factors, including gross domestic product, unemployment rates, and the consumer price index. Though a stock market index can certainly point to the general health of an economy, it is ultimately investors and speculators that dictate stock prices.

In the past, tulip bulbs, beanie babies, and dot-com stocks all saw sudden, dramatic increases in value due to a widespread uptick in demand. In the end, however, these meteoric rises often saw equally significant decreases in valuation once excitement wore off and the reality of the long-term sustainability of the investments set in.

This is not to say that the growth major indices experienced last year was a fluke. It is important, however, to carefully examine the more tangible aspects of the companies whose stocks saw increases in value — such as debt-to-equity ratio, return on equity, return on assets, and operating margins.

What made the markets newsworthy in 2017?

The DJIA experienced an increase of more than 25 percent from the previous year, its second-best year since the beginning of the Great Recession. There have been only seven instances since 1976 where the DJIA has increased by at least 25 percent in a calendar year. When compared to the historical average of about 7.75 percent growth, the DJIA far outpaced what most investors come to expect from a year's worth of growth. Additionally, the DJIA did not experience a net loss in value in any calendar month in 2017, which had previously never happened. For all intents and purposes, stockholders saw truly remarkable growth in their investments, adding trillions of dollars to the aggregate net worth of Americans.

Who does the stock market affect the most?

The individuals most affected by stock market fluctuations are those who directly own stock — which, according to a Gallup poll released in May 2017, is only about half of American households. A closer examination reveals that stock ownership increases in lockstep with earnings. In 2017, only 21 percent of those making less than $30,000 invested in the stock market. Conversely, 89 percent of individuals making $100,000 or more own stock.

A well-performing stock market is undoubtedly beneficial for those who own stocks, and the resulting effects create positive ripples across the economic landscape of the U.S. Keep in mind that a successful stock market, however, does not offer as significant of a direct benefit to those who have below-average earning power.

Conclusion

America is in the midst of one of the longest bull markets of all time, as the DJIA has risen by about 300 percent since hitting its nadir in March 2009. While history has shown that bull markets eventually fizzle out, investors are enjoying an incredibly lucrative period in the history of the stock market.

The market at a glance

January

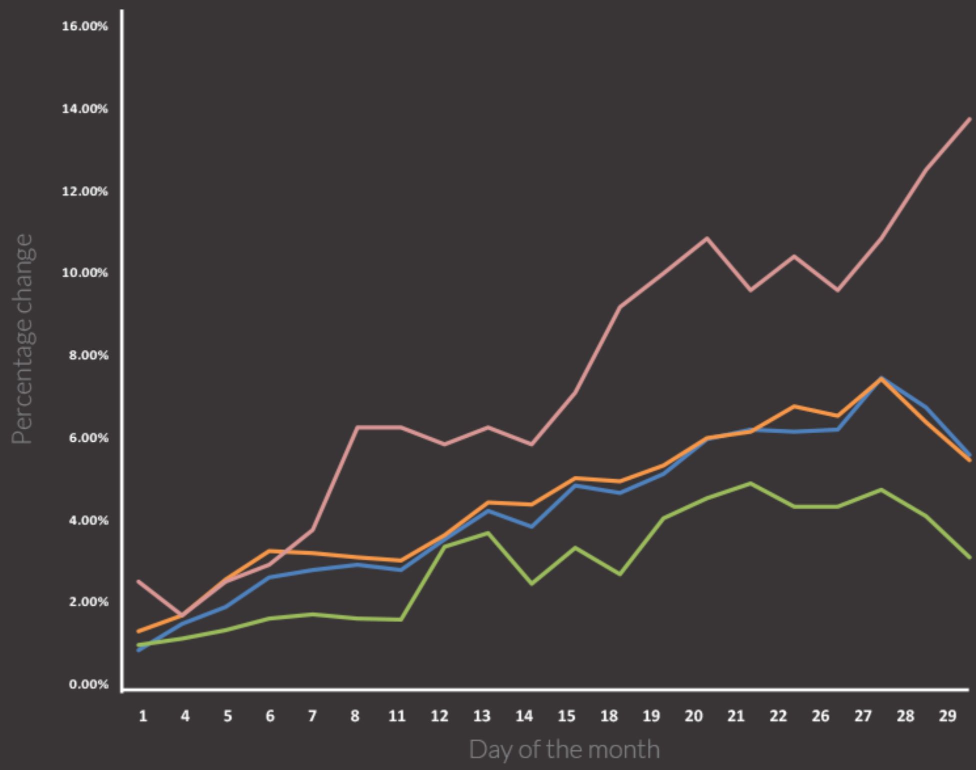
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

U.S. Large Cap
(S&P 500)
2,823.81 (5.62%) ▲

U.S. Mid/Small
(Russell 2000)
1,574.98 (2.57%) ▲

International Large
(NYSE International 100)
6,104.05 (5.39%) ▲

U.S. Bond Market
(Dow Jones Equal Weight U.S. Issued Corporate Bond Index)
2.72 (13.33%) ▲



The market in action

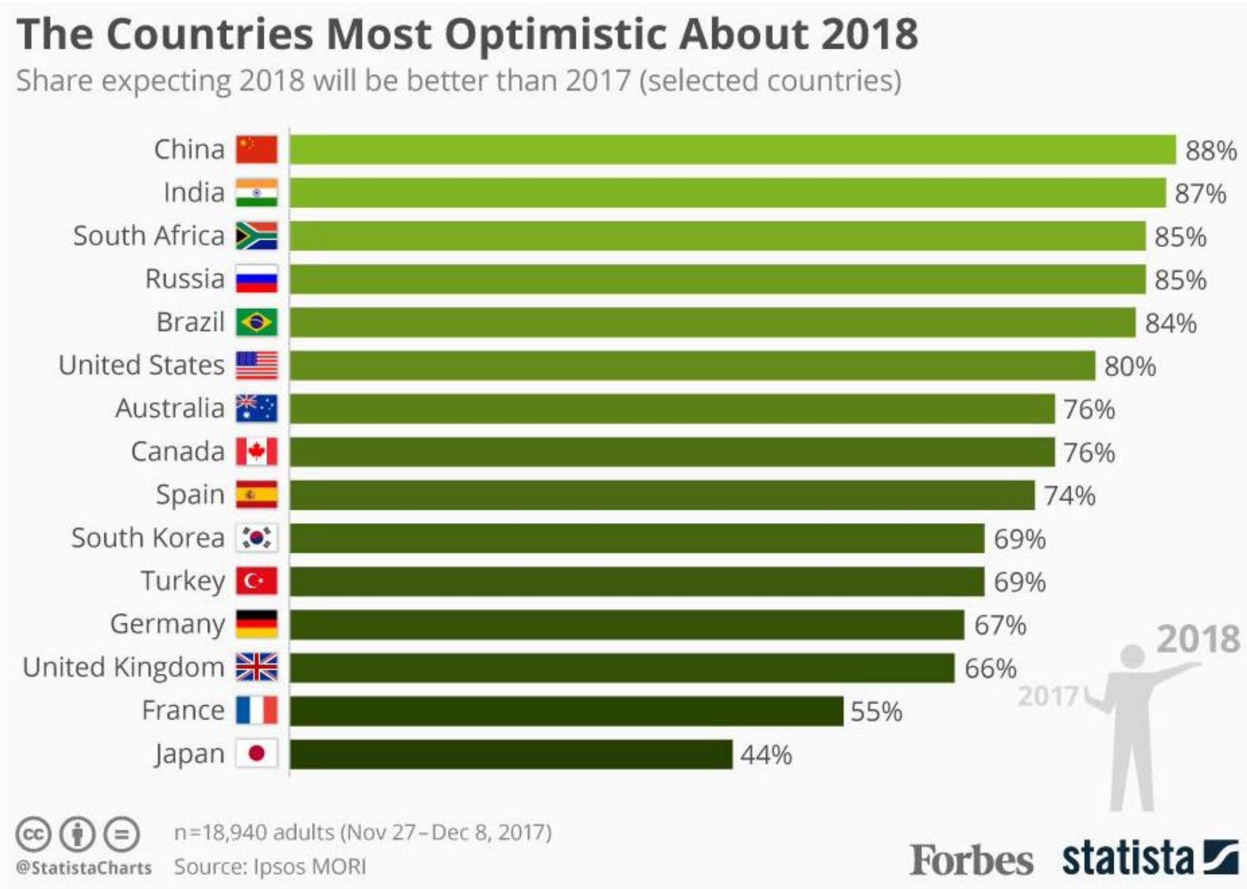
- Major retailers had a rough start to the year. Sears plans on closing more than 100 of its locations — including Kmart stores — starting in March. Sears is also reportedly laid off 220 employees, mainly from their corporate headquarters. Macy's also announced cutbacks, as the retailer is set to lay off over 5,000 workers and close seven locations. After filing bankruptcy, Toys R Us will close about 180 stores in the United States.
- After reviewing over 200 proposals, finalists for the second headquarters of Amazon were announced. Amazon will chose between the remaining 20 cities sometime this year.
- Tobacco giant Phillip Morris International announced that, beginning in 2018, the company will emphasize alternatives to traditional tobacco consumption — such as e-cigarettes. Moving forward, the company plans on replacing cigarettes in their offering and "designing a smoke-free future."
- One of the largest diamonds in history was uncovered recently in southern Africa. The 910-carat stone is initially estimated to sell for at least $40 million.
- Unemployment rates in Canada have fallen to their lowest levels in 40 years. At just 5.7 percent, Canada is riding one of the strongest labor market increases since the 1970s.
- With over $300 billion in estimated economic impact, 2017 is likely to go down as the costliest year in US history in terms of damage caused by natural disasters. There were 16 separate billion-dollar disasters last year alone.
- According to a new report from Bankrate, just 39 percent of Americans said that they would be able to cover an unplanned expense of $1,000.

Global Optimism

Most people tend to be optimistic about the future, and 2018 is apparently no exception. An online survey conducted by the Ipsos organization in 28 different countries found that 76% of global citizens think 2018 will be a better year than 2017. Overall, Latin Americans are the most optimistic this year and Europeans are the least.

As you can see from the accompanying chart, Chinese and Indian citizens—who happen to participate in two of the most rapidly-growing economies in the world—are the most optimistic, with 88% and 87% respectively feeling upbeat about the coming year. You might be surprised to see that Russians are more optimistic than Americans this year (does Putin have a health issue we don't know about?), or that the French and Japanese are the most pessimistic by a wide margin.

Source:
https://www.forbes.com/sites/niallmccarthy/2018/01/19/the-countries-most-optimistic-about-2018-infographic/



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