SEIZERT CAPITAL PARTNERS

DIRECTIONS

A PERIODIC PUBLICATION OF STOCK MARKET INSIGHTS AND OBSERVATIONS

Dear Clients,

The domestic equity market marched higher in the fourth quarter, as the current bull market is now three months closer to being the longest in history. In 2017, the S&P 500 gained 21.83%, the Russell 1000 gained 21.69%, and the Russell 2000 gained 14.65%. Large cap and mega cap stocks notably outperformed smaller issues with technology leading the way. Another sub-plot of the market returns in the past year was investor's desire for growth stocks over value stocks. The spread between the twelve-month returns of the Russell 1000 Growth and the Russell 1000 Value indices was 16.54%, the widest margin since the late '90s. Similarly, the spread between the returns of the Russell 2000 Growth and the Russell 2000 Value indices was 14.33% in 2017. Probably the most surprising aspect of the market was the lack of volatility amidst political noise and geopolitical issues. In 2017, there were just eight days in which the market experienced a 1% move and no days with more than a 2% daily change. Comparatively, in 2016, there were forty-eight 1% daily changes and the market experienced nine daily moves greater than 2%.

At year-end, investor sentiment seemed elevated yet below euphoria, reflected in lofty valuations that seems supported by earnings growth, company fundamentals, relatively low interest rates and decent economic prospects. Third quarter estimates of gross domestic product (GDP) indicate a 3.2% expansion, unemployment is estimated at 4.1%, and wages have started to increase which is boosting persistently low inflation readings. The Federal Reserve (Fed) has been very deliberate and consistent in its decisions to raise short-term interest rates, doing so three times over the past year. While the Fed has a new leader in Jerome Powell, the deliberate nature and communication about 2018 appears to allow the market to project three interest rate increases in the upcoming year.

Fundamentally, businesses have used this period of historically low interest rates to recapitalize their balance sheets, which lowers the cost of funding internal projects and the accompanying break-even costs. One negative outcome of persistently low interest rates and a growing economy has been the lack of differentiation between quality businesses and those of lesser quality. However, the GOP tax plan has offered a point of differentiation by lowering the corporate tax rate from 35% to 21%. This may disproportionately benefit large companies with cash on their balance sheets should they choose to bring money back to the US; although a case can be made for small cap equities benefiting more due to a greater domestic revenue mix. CEOs can now use this capital to reinvest in the company, repurchase stock, increase compensation to employees, or distribute to shareholders. There is much debate as to how corporate executives will choose to deploy this capital, the prevailing hope is that they will choose the appropriate mix in a way that will grow their businesses, reward shareholders, and benefit society.

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We will continue to work on your behalf to identify stocks for your portfolio that are financially sound, are undervalued, are generating strong economic returns and are deploying capital in shareholder's best interests.

With gratitude,

Gerry

Gerald L. Seizert, CFA, CIC
Managing Partner

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