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Nauset Market Commentary
First Quarter 2017

Market Performance Recap: **Broad Stock Gains Open Year**

US stocks continued to rally in Q1 on solid economic news and expectations of beneficial policy reform. Led by tech, health care and consumer stock sectors, the Russell 1000 gained +6.0% and the NASDAQ 100 rose +12.1%. International stocks also did well with the MSCI EAFE up +7.2%. While most stock sectors posted gains, telecom and energy stock sector returns were negative. With the Fed raising rates in March, bond returns were muted as the Barclays Intermediate Gov't/Credit Index inched up +0.8%.

Economic & Market Discussion: **Trumped Up Returns?**

In these early days of the Trump administration, markets are reacting both positively and negatively to evolving policy reform. Let's check on the potential impact of possible policy reform on US growth.

- What Can Help – Tax reform, deregulation and infrastructure could all be boosts to US growth. Our opinion is that some version of corporate tax reform and deregulation may be enacted and have an impact in 2017. Infrastructure may garner bi-partisan support, but that impact will likely occur in 2018.
- What Might Hinder – Trade and immigration policy reform carry the most risk to US growth. The difficulty of passing significant reform in each area may actually lessen this risk. Our view is that the Trump administration will focus on other areas where economic upside is more evident.
- Why Reform May Matter Less – First and foremost, the US economy is slowly improving without any concrete policy reform. Soft data in the US and globally are signaling some economic strength. Hard data will need to catch up, but there is a degree of momentum. The prospect of beneficial reform can be viewed as a plus that can boost that momentum. Or on the downside, a lack of reform may, at some point, slow it down.

In summary, policy reform will take more twists and turns under Trump. The US economy and markets are hopeful for positive news, but future growth is not reliant entirely on those developments. As such, we will monitor the economy first and the progress of policy reform and its potential impact second.

Portfolio Strategy: **Balancing Act**

Our general approach to asset allocation remains in place from the prior quarter. We see a solid US economy with possible upside, but rising rates and a fully-valued equity market will make gains difficult to achieve. Our managed-risk approach is focused on the following strategies:

- Diversify Equity – We continue to favor equity over fixed income even with lower return expectations after Q1 equity gains. We have also diversified equity exposure across US sectors as well as developed and emerging international allocations.
- Balance Opportunity with Risk – Rising rates present risk across income-producing classes and subclasses. We are overweight holdings less affected by rising rates, such as hedged income, high yield bond and business development corp. investments.
- Buffer with Alternatives – Despite recent challenges, we continue to use alternative investments as both a buffer to expected market volatility, and a source of funds to rebalance into new opportunities.

Market Performance **% Change for Periods Ended 3/31/2017**

Market Index	First Quarter	2017 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	6.03	6.03	17.43	9.98	13.26
MSCI EAFE – Non-US	7.24	7.24	11.67	0.50	5.83
Russell 2000	2.47	2.47	26.22	7.22	12.35
MSCI Emerging Markets Equity	11.44	11.44	17.21	1.17	0.80
DJ US Real Estate	3.22	3.22	5.58	9.88	9.53
NASDAQ 100	12.09	12.09	22.77	16.21	16.06
Barclays Gov't/Credit Interm. Bond	0.78	0.78	0.42	2.01	1.88

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