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Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

Global Considerations for 2018

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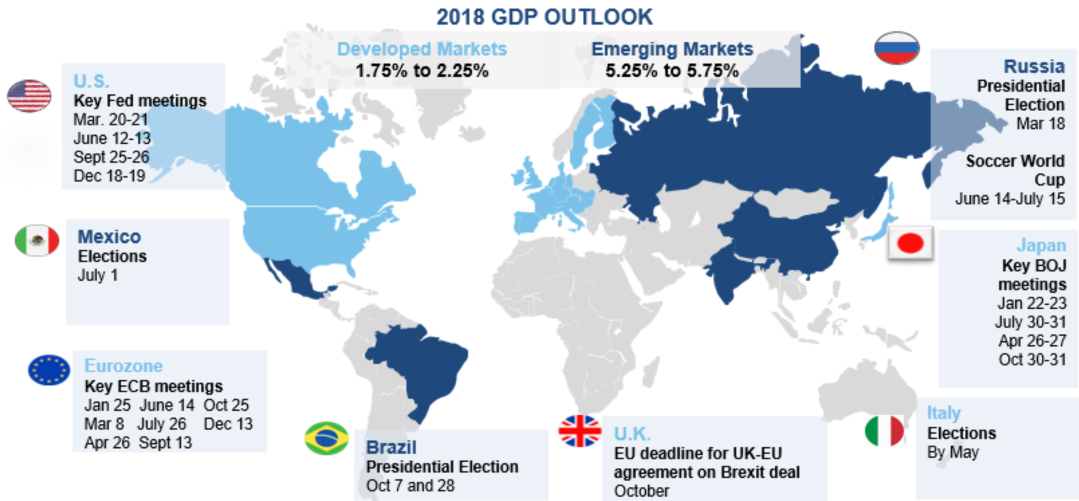
Given elevated valuations in the U.S., international markets appear to be relatively attractive, with higher dividend yields and earnings growth potential when compared to domestic markets. Rightsizing allocations is important as risks remain with upcoming negotiations to trade agreements and fluid geopolitical events (e.g. Venezuela, Catalonian Elections, Iran unrest, North Korea, etc.) may dampen those growth prospects.



Source: GDP Outlook: PIMCO's Cyclical Outlook, IMF 2018 World Economic Outlook, Calendar: Blackrock Global Investment Outlook 2018

Key Points:

- **United States:** The Federal Reserve is expected to raise rates three times in 2018, taking the fed funds rate range to 2% - 2.25% by year end. The Fed's balance sheet will shrink at a pace that will accelerate quarterly in 2018. The new Fed Chair, Jerome Powell signaled his intention to follow the path set by his predecessors. Financial conditions for U.S. equities should be favorable through the first half of 2018, supported by lower corporate tax rates. The equity rally to start 2018 may limit upside in the short-term, however, the strong start is warranted as it reflects the expectation that corporations will use excess cash from tax cuts to spur M&A activity and corporate buybacks. Fixed income remains a mixed bag of sorts as global investors search for yield and signs of persistent inflation. Due to a lack of durable inflationary pressures, long-term rates are likely to remain well-anchored, causing additional rate hikes to flatten the yield curve. Upside in the current low yielding environment remains limited in 2018, however, slow and steady global growth along with stubbornly low inflation should likewise limit the downside in our view. The value of the U.S. dollar relative to foreign currencies is worth watching in 2018.

- **Eurozone:** The European Central Bank (ECB) remains accommodative and signaled its intention to begin tapering its bond purchase program next year, but have not signaled a likelihood to raise interest rates in the near term. European stocks should continue to perform well in 2018 as the growth story takes shape, despite being plagued by numerous political events (Germany inched closer to forming a new government, Italian voters head to the polls this spring, Brexit continues).

- **Japan:** Consensus on when the Bank of Japan (BOJ) will seek to shift away from its accommodative monetary policy remains less certain. Should the BOJ declare the end of deflation, it is likely to announce changes to its overall yield curve control policy, raise the target to the 10-year yield above 0% and reduce its exchange traded fund purchases. Will 2018 be the year Japan experiences inflation?

- **China and Emerging Markets:** Following the 19th National People's Congress in October, Chinese authorities are expected to ramp up efforts to reform China's state-owned enterprises and reduce corporate debt, potentially slowing the Chinese economy and hinder overall emerging market equity returns in 2018. Ongoing initiatives to transition the economy from export-driven growth to a consumption-based model could be a source of upside for Chinese equities, particularly the financial sector. Emerging market equities are poised to benefit from stronger growth than their developed counterparts. IMF global growth forecasts still predict China and India will account for more than half of world growth in 2018. Given emerging market equity valuations remain attractive compared to valuations of developed market equities, we remain committed to emerging markets as a core allocation in a well-diversified portfolio.

For further information, please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

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Steve provides investment consulting services to institutional clients and nonprofit organizations. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process, fiduciary stewardship, and overall investment management. Prior to joining the firm in 2017, Steve was an Associate Client Investment Officer with Northern Trust Asset Management where he provided comprehensive investment management services to discretionary institutional client portfolios. Steve earned a BA in Economics and Finance from the University of Illinois Urbana-Champaign and expects to earn a Masters of Analytics from the University of Chicago in June 2018. He is a CFA® Charterholder and a member of the CFA Institute, CFA Society of Chicago, and The Chicago Council on Global Affairs. Steve enjoys outdoor activities and spending time with family.