

December 2017 Market Watch

As we close the books on another year, 2017 will be remembered for the surging stock market, continued low bond yields, and historically low levels of volatility in spite of geopolitical uncertainty both domestically and abroad. Domestic indices reached new all-time highs, with the NASDAQ Composite (+28.2% YoY) and Dow Jones Industrial Average (+25.1% YoY) leading the way. The NASDAQ benefitted throughout the year from its significant exposure to the Technology sector, which rallied 38.8% YoY led by the mega-cap companies within the space. The combined market value of Apple, Google, Microsoft, Amazon and Facebook soared 43% for the year. This year marked the fourth best yearly return for the Dow Jones (DJIA) index over the past twenty years. The rally in domestic stocks throughout the year was broad-based, with nine of the eleven S&P 500 (+19.4% YoY) sectors finishing 2017 with double-digit returns. The Energy (-1.0% YoY) and Telecom (-1.3% YoY) sectors were the worst performers and were weighed down by continued low energy prices and fierce competition within the wireless industry among the four major carriers.

Corporate earnings remained strong throughout the year, with operating earnings for the companies in the S&P 500 expected to grow roughly by 18% in 2017. The companies that make up the S&P 500 now trade at roughly 23 times their past 12 months earnings

	Date	1 Week Ago		1 Month Ago		1 Year Ago		YTD
	12/31/17	12/24/17	%chg	11/30/17	% chg	12/31/16	% chg	Return*
DJIA	24,719.2	24,754.1	-0.1%	24,272.4	1.8%	19,762.6	25.1%	25.1%
S&P 500	2,673.6	2,683.3	-0.4%	2,647.6	1.0%	2,238.8	19.4%	19.4%
NYSE Comp Index	12,808.8	12,797.4	0.1%	12,627.8	1.4%	11,056.9	15.8%	15.8%
NASDAQ Composite	6,903.4	6,960.0	-0.8%	6,8734.0	0.4%	5,383.1	28.2%	28.2%
Russell 2000	1,535.5	1,542.9	-0.5%	1,544.1	-0.6%	1,357.1	13.1%	13.1%
Japan Nikkei 225	22,764.9	22,902.8	-0.6%	22,725.0	0.2%	19,114.4	19.1%	19.1%
MSCI EM (Emerging Markets)	1,158.5	1,141.1	1.5%	1,120.8	3.4%	862.3	34.3%	34.3%
MSCI EAFE	2,050.8	2,032.7	0.9%	2,020.1	1.5%	1,684.0	21.8%	21.8%
FTSE 100	7,687.8	7,592.7	1.3%	7,326.7	4.9%	7,142.8	7.6%	7.6%
SSE Comp Index	3,307.2	3,297.1	0.3%	3,317.2	-0.3%	3,103.6	6.6%	6.6%

US Equity Sector Performance

	December	YTD	1 Yr Ret.
Consumer Discretionary	2.4%	23.0%	23.0%
Consumer Staples	2.2%	13.5%	13.5%
Energy	4.9%	-1.0%	-1.0%
Financials	2.0%	22.2%	22.2%
Health Care	-0.6%	22.1%	22.1%
Industrials	1.9%	21.0%	21.0%
Information Tech	0.0%	38.8%	38.8%
Materials	1.9%	23.8%	23.8%
Telecom	5.8%	-1.3%	-1.3%
Utilities	-6.1%	12.1%	12.1%
Real Estate	-0.5%	10.4%	10.4%

US Equity Style Performance

	December	YTD	1 Yr Ret.
Dow Jones Utilities	-6.1%	9.7%	9.7%
AMEX DJ TRANS Avg.	3.4%	19.0%	19.0%
Russell 1000 Value	1.5%	13.7%	13.7%
Russell 1000 Growth	0.8%	30.2%	30.2%
Russell 2000 Value	-1.0%	7.8%	7.8%
Russell 2000 Growth	0.1%	22.2%	22.2%

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versus their ten year average of about 17 times earnings.

International markets also finished the year with strong returns. The MSCI Emerging Markets (+34.3% YoY), MSCI EAFE (+21.8% YoY) and Japan's Nikkei 225 (+19.1% YoY) indices were the best performers in 2017.

This year's surge in stock prices was accompanied by historically low levels of volatility. The CBOE Volatility Index, called the VIX, did not once close above its long-term average during the year and reached 22 of its lowest 25 readings ever in 2017.

The yield curve continued to flatten throughout the year. The short end of the curve has risen due to the Federal Reserve's decision to raise benchmark interest rates three times in 2017, including at their December meeting. Bond prices move inversely to bond yields, therefore an increase in bond yields results in a decline in bond prices and vice versa. The yield on the 3-Month U.S. Treasury bill increased 89 basis points (bps) YoY to 1.39%, while the yield on the 30-Year U.S. Treasury bond decreased 33 bps YoY to 2.74%.

The Bloomberg Commodity Index finished the year slightly positive (+0.7% YTD), despite a recovery in oil prices and a rally in gold. Crude oil recovered to close the year at \$60.31/barrel (+12.3% YoY), while gold surged (+14.1% YoY) to reach \$1,313.70/ounce. The U.S. dollar snapped a five year winning streak to post its largest yearly percentage drop in a decade (-10.5% YoY). The dollar's decline has come as the global outlook has brightened, in particular in Europe and emerging markets. U.S. unemployment remains at historically low levels (4.1%), while wage inflation has remained muted at +2.5% YoY. U.S. unemployment has only reached levels below 4.0% twice (in the late 1960s and early 2000s) over the past fifty years.

Bond Markets (%)

	12/31/17	1 Mth Ago	1 Yr Ago
US Benchmark Bond – 3 Mth	1.39	1.27	0.50
US Benchmark Bond – 6 Mth	1.52	1.44	0.62
US Benchmark Bond – 2 Yr	1.88	1.79	1.20
US Benchmark Bond – 5 Yr	2.21	2.14	1.92
US Benchmark Bond – 10 Yr	2.41	2.42	2.44
US Benchmark Bond – 30 Yr	2.74	2.83	3.07

Commodities (In US dollars)

	12/31/17	1 Mth Ago	1 Yr Ago
Gold	1,313.70	1,276.70	1,151.70
Crude Oil	60.31	57.40	53.72
US Dollar Index	91.59	93.00	102.29
Bloomberg Commodity IDX	88.17	85.70	87.51

US Bond Sector Performance

	December	YTD	1 Yr Ret.
Bloomberg Barclays U.S. Aggregate Govt. Intrm.	0.0%	1.1%	1.1%

Interest Rates (%)

	12/31/17	1 Mth Ago	1 Yr Ago
Prime Rate	4.50	4.25	3.75
Federal Funds Rate	1.43	1.16	0.66
Libor Rate 30 Day	1.56	1.37	0.77
Libor Rate 3 Months	1.69	1.49	1.00
30yr Fixed Mortgage	3.99	3.90	4.32

Exchange Rates (per US dollar)

	12/31/17	1 Mth Ago	1 Yr Ago
Canadian Dollar	1.253	1.288	1.341
Mexican New Peso	19.566	18.606	20.602
Euro	0.833	0.839	0.948
British Pound	0.739	0.739	0.809
Swiss Franc	0.975	0.982	1.016
Chinese Yuan	6.512	6.611	6.950
Indian Rupee	63.828	64.480	67.870
Japanese Yen	112.650	111.905	116.635

Economic Sentiment

	12/31/17	1 Yr Ago
Unemployment Rate	4.10%	4.70%
Average Single Family Home	290,200	275,600
Capacity Utilization	77.14%	76.03%

*Performance for world indices represents price returns (excluding dividends) for the DJIA, S&P 500, NASDAQ, Russell 2000, MSCI EM, MSCI EAFE, NYSE, SSE, and Nikkei, due to data availability.

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