



2017 Fourth Quarter Review and Outlook

Many of our clients have asked us to explain why US financial markets were able to generate such strong returns in 2017, even after eight years of gains and in the face of political uncertainty, geopolitical threats, a tightening Federal Reserve, and other concerns.

The “heat map” below sums up the reason for this strength in a single image. It shows global manufacturing trends over the past twenty-four months for the major developed and emerging markets. Red indicates contraction while green signals expansion. At a glance, one can see that the global economic expansion is broadening and strengthening (spreading green). Moreover, for the first time since the financial crisis, every major economy has been growing in a synchronized upswing. A decade of loose monetary policy is finally bearing fruit in a global manufacturing boom, with unemployment dropping and corporate profits surging around the world. Add to this healthy backdrop continued low inflation, supportive central banks, deregulation, and the prospect of tax cuts, and the rally in stock markets seems less mysterious.

Global Purchasing Managers' Index (PMI) for manufacturing

| | 2016 | | | | | | | | | | | | 2017 | | | | | | | | | | | | |
|-------------------|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | |
| Global | 50.9 | 50.0 | 50.6 | 50.2 | 50.1 | 50.4 | 51.0 | 50.8 | 51.1 | 52.0 | 52.1 | 52.7 | 52.8 | 53.0 | 53.0 | 52.7 | 52.6 | 52.6 | 52.8 | 53.2 | 53.3 | 53.5 | 54.1 | 54.5 | |
| Developed Markets | 52.1 | 50.8 | 50.9 | 50.5 | 50.4 | 51.2 | 51.5 | 51.2 | 51.5 | 52.6 | 53.0 | 53.8 | 54.2 | 54.1 | 53.9 | 54.1 | 54.1 | 53.9 | 54.0 | 54.2 | 54.6 | 55.2 | 55.8 | 56.3 | |
| Emerging Markets | 49.4 | 48.9 | 50.2 | 49.5 | 49.5 | 49.3 | 50.3 | 50.1 | 50.3 | 51.0 | 50.8 | 51.0 | 50.8 | 51.3 | 51.6 | 50.9 | 50.6 | 50.8 | 51.0 | 51.7 | 51.4 | 51.2 | 51.7 | 52.2 | |
| Developed | U.S. | 52.4 | 51.3 | 51.5 | 50.8 | 50.7 | 51.3 | 52.9 | 52.0 | 51.5 | 53.4 | 54.1 | 54.3 | 55.0 | 54.2 | 53.3 | 52.8 | 52.7 | 52.0 | 53.3 | 52.8 | 53.1 | 54.6 | 53.9 | 55.1 |
| | Canada | 49.3 | 49.4 | 51.5 | 52.2 | 52.1 | 51.8 | 51.9 | 51.1 | 50.3 | 51.1 | 51.5 | 51.8 | 53.5 | 54.7 | 55.5 | 55.9 | 55.1 | 54.7 | 55.5 | 54.6 | 55.0 | 54.3 | 54.4 | 54.7 |
| | Japan* | 52.3 | 50.1 | 49.1 | 48.2 | 47.7 | 48.1 | 49.3 | 49.5 | 50.4 | 51.4 | 51.3 | 52.4 | 52.7 | 53.3 | 52.4 | 52.7 | 53.1 | 52.4 | 52.1 | 52.2 | 52.9 | 52.8 | 53.6 | 54.2 |
| | UK | 52.3 | 50.9 | 51.3 | 49.6 | 50.5 | 53.0 | 48.5 | 53.1 | 55.7 | 54.0 | 53.1 | 55.9 | 55.4 | 54.6 | 54.3 | 57.1 | 56.4 | 54.2 | 55.3 | 56.8 | 56.1 | 56.3 | 58.2 | 56.3 |
| | Euro Area | 52.3 | 51.2 | 51.6 | 51.7 | 51.5 | 52.8 | 52.0 | 51.7 | 52.6 | 53.5 | 53.7 | 54.9 | 55.2 | 55.4 | 56.2 | 56.7 | 57.0 | 57.4 | 56.6 | 57.4 | 58.1 | 58.5 | 60.1 | 60.6 |
| | Germany | 52.3 | 50.5 | 50.7 | 51.8 | 52.1 | 54.5 | 53.8 | 53.6 | 54.3 | 55.0 | 54.3 | 55.6 | 56.4 | 56.8 | 58.3 | 58.2 | 59.5 | 59.6 | 58.1 | 59.3 | 60.6 | 60.6 | 62.5 | 63.3 |
| | France | 50.0 | 50.2 | 49.6 | 48.0 | 48.4 | 48.3 | 48.6 | 48.3 | 49.7 | 51.8 | 51.7 | 53.5 | 53.6 | 52.2 | 53.3 | 55.1 | 53.8 | 54.8 | 54.9 | 55.8 | 56.1 | 56.1 | 57.7 | 58.8 |
| | Italy | 53.2 | 52.2 | 53.5 | 53.9 | 52.4 | 53.5 | 51.2 | 49.8 | 51.0 | 50.9 | 52.2 | 53.2 | 53.0 | 55.0 | 55.7 | 56.2 | 55.1 | 55.2 | 55.1 | 56.3 | 56.3 | 57.8 | 58.3 | 57.4 |
| | Spain | 55.4 | 54.1 | 53.4 | 53.5 | 51.8 | 52.2 | 51.0 | 51.0 | 52.3 | 53.3 | 54.5 | 55.3 | 55.6 | 54.8 | 53.9 | 54.5 | 55.4 | 54.7 | 54.0 | 52.4 | 54.3 | 55.8 | 56.1 | 55.8 |
| | Greece | 50.0 | 48.4 | 49.0 | 49.7 | 48.4 | 50.4 | 48.7 | 50.4 | 49.2 | 48.6 | 48.3 | 49.3 | 46.6 | 47.7 | 46.7 | 48.2 | 49.6 | 50.5 | 50.5 | 52.2 | 52.8 | 52.1 | 52.2 | 53.1 |
| Emerging | China | 48.4 | 48.0 | 49.7 | 49.4 | 49.2 | 48.6 | 50.6 | 50.0 | 50.1 | 51.2 | 50.9 | 51.9 | 51.0 | 51.7 | 51.2 | 50.3 | 49.6 | 50.4 | 51.1 | 51.6 | 51.0 | 51.0 | 50.8 | 51.5 |
| | Indonesia | 48.9 | 48.7 | 50.6 | 50.9 | 50.6 | 51.9 | 48.4 | 50.4 | 50.9 | 48.7 | 49.7 | 49.0 | 50.4 | 49.3 | 50.5 | 51.2 | 50.6 | 49.5 | 48.6 | 50.7 | 50.4 | 50.1 | 50.4 | 49.3 |
| | Korea | 49.5 | 48.7 | 49.5 | 50.0 | 50.1 | 50.5 | 50.1 | 48.6 | 47.6 | 48.0 | 48.0 | 49.4 | 49.0 | 49.2 | 48.4 | 49.4 | 49.2 | 50.1 | 49.1 | 49.9 | 50.6 | 50.2 | 51.2 | 49.9 |
| | Taiwan | 50.6 | 49.4 | 51.1 | 49.7 | 48.5 | 50.5 | 51.0 | 51.8 | 52.2 | 52.7 | 54.7 | 56.2 | 55.6 | 54.5 | 56.2 | 54.4 | 53.1 | 53.3 | 53.6 | 54.3 | 54.2 | 53.6 | 56.3 | 56.6 |
| | India | 51.1 | 51.1 | 52.4 | 50.5 | 50.7 | 51.7 | 51.8 | 52.6 | 52.1 | 54.4 | 52.3 | 49.6 | 50.4 | 50.7 | 52.5 | 52.5 | 51.6 | 50.9 | 47.9 | 51.2 | 51.2 | 50.3 | 52.6 | 54.7 |
| | Brazil | 47.4 | 44.5 | 46.0 | 42.6 | 41.6 | 43.2 | 46.0 | 45.7 | 46.0 | 46.3 | 46.2 | 45.2 | 44.0 | 46.9 | 49.6 | 50.1 | 52.0 | 50.5 | 50.0 | 50.9 | 50.9 | 51.2 | 53.5 | 52.4 |
| | Mexico | 52.2 | 53.1 | 53.2 | 52.4 | 53.6 | 51.1 | 50.6 | 50.9 | 51.9 | 51.8 | 51.1 | 50.2 | 50.8 | 50.6 | 51.5 | 50.7 | 51.2 | 52.3 | 51.2 | 52.2 | 52.8 | 49.2 | 52.4 | 51.7 |
| | Russia | 49.8 | 49.3 | 48.3 | 48.0 | 49.6 | 51.5 | 49.5 | 50.8 | 51.1 | 52.4 | 53.6 | 53.7 | 54.7 | 52.5 | 52.4 | 50.8 | 52.4 | 50.3 | 52.7 | 51.6 | 51.9 | 51.1 | 51.5 | 52.0 |

Source: Markit, J.P. Morgan Asset Management.
Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Past performance is not a reliable indicator of current and future results. *Figure is flash estimate.
Guide to the Markets – U.S. Data are as of December 31, 2017.

Portfolio Notes

The improving global economic environment helped to generate robust returns for equity investors in 2017. International equities led the way, with emerging markets at the head of the pack. For the first time in years, the US market lagged its developed counterparts, though its gain of roughly +21% was amply rewarding. Within domestic stocks, large companies outperformed small ones, reversing the trend of 2016. Such changes in leadership (domestic vs international, large vs small) are often quick and usually unpredictable, which is one reason why we make sure that our clients’ portfolios are broadly diversified. In global bond markets, interest rates remained very low, though

short-term yields have begun rising in the US and elsewhere as central banks move to normalize monetary policy.

Outlook

The cliché that bull markets do not die of old age is well illustrated by the current market. Historically, bear markets have been triggered by aggressive tightening of monetary policy (1987), recession (2008), economic shocks (1973 oil embargo), or by bubbles in investor sentiment (2000). No such threats appear to be imminent. The Federal Reserve, though in the process of raising rates, is doing so cautiously. Stock market valuations, though higher than average, are nowhere near those of the dot-com bubble and are supported by low interest rates and improving earnings. There is some complacency in investor sentiment but it is far from euphoric. The global upswing in manufacturing described above suggests that a near-term recession is unlikely. A hot war in Korea would provide the kind of exogenous shock that undermines market sentiment and economic growth, but trying to base one's investment strategy on the possibility of such an event has time and again proven futile.

This ongoing bull market could soon challenge the 1990's as the longest expansion since World War II. In the current climate of steady growth, low inflation, shrinking unemployment, strong profit growth, tax reform, and deregulation, it may well claim the record. Against this backdrop, we continue to expect stronger returns from stocks than from bonds and would not be surprised to see cheaper, international markets continue to outpace the US.

This assessment should not be interpreted to mean that LongView is complacent or standing still. We have increased the overall credit quality of our bond portfolios in view of the high prices (and modest yields) of lower-rated securities. We anticipate that the Fed will follow through with several more interest rate hikes in 2018 and that tighter monetary policy, combined with a shortage of workers, will constrain economic growth to more moderate levels once the temporary boost of tax cuts in 2018 has been digested. We are also keeping a close eye on inflation, which has crept up since mid-2016, though it remains below historical levels.

LongView News

We have been incorporating socially responsible funds in client portfolios for over a decade and, of our roughly \$125 million in assets under management, over \$50 million is now in sustainable and ESG investments, putting LongView at the forefront of independent investment advisors in New Mexico focused on socially responsible investing.

Since its inception, LongView has supported numerous community organizations including the Santa Fe Public Library, St Elizabeth's Shelter, ArtSmart, the New Mexico Environmental Law Center, and Santa Fe Conservation Trust. In 2017, we were honored to be listed among the Charitable and Non-Profit Supporters of the Women's International Study Center (WISC). Based at the historic Acequia Madre House in Santa Fe, WISC is dedicated to inspiring and enabling women around the world to achieve their full potential. Their residency program has brought internationally acclaimed scholars, artists, activists and entrepreneurs to study and lecture in Santa Fe on topics relating to women's engagement in the public sphere. Past lecturers and fellows have included Tarja Halonen, President of the Republic of Finland; Ellen Malcom, founder of Emily's List; Linda Ditmar, Israeli author, feminist and film critic; and Joe Marie Burt, author, educator human rights activist, and Latin American war crimes researcher. You can find out more about WISC and the important work they do at www.wisc-amh.org

On a personal note, we are pleased to mention that Harlan's sister, Tina Smith, was sworn in on January 3rd as the new US Senator for Minnesota. We congratulate Senator Smith on her achievement and wish her well in what will no doubt be a challenging new role.

With much gratitude and our warm wishes for 2018!

A handwritten signature in black ink, appearing to read "David Cantor". The signature is fluid and cursive, with a large initial "D" and a long, sweeping tail.

David Cantor

A handwritten signature in black ink, appearing to read "Harlan Flint". The signature is cursive and somewhat stylized, with a large initial "H" and a long, sweeping tail.

Harlan Flint