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Surprise election results, worldwide? Geopolitical tensions? Interest rate hikes? Extreme partisanship, sweeping fiscal "reforms" and a generally acerbic political climate? Didn't matter! The global financial markets took it all in stride last year and then some, remaining unfazed throughout and delivering above-average returns, with extremely low volatility. There was a general ebullience that pervaded, as the S&P 500 was positive in every month of 2017. Sentiment among companies and consumers is at long-term highs and global economic data has been robust, which the markets have rewarded handsomely.

Global growth and a synchronization of expansion were perhaps the most important themes of 2017 and they continue in to 2018. The eurozone is enjoying the fastest rate of growth since 2011 and emerging markets growth, despite uncertainty surrounding China, appears quite healthy. Both developed and emerging economies surprised to the upside last year, and though we don't expect above-trend growth to continue at the same rate, the outlook going forward is for sustainable, steady growth, backed by strong corporate earnings, robust international trade, commodity price stability and a favorable inflation environment.

In reality, one could merely look back to our commentary from the third quarter and essentially carry all the themes forward, as little has changed in either the world economy, or our outlook, since we last wrote. Perhaps the biggest change, though not unexpected, was the passage of the tax overhaul plan. While much of its passage has already been priced in to the market, it remains to be seen whether the cuts will truly impact corporate earnings and household wallets. Proponents of the plan tout companies' ability to increase capital expenditures and invest in their businesses, yet access to capital at historically low levels has not been an issue in the current economic cycle; much of the money saved may go directly to share buybacks, which is a positive for shareholders, but at what price? Nonetheless, tax reform has certainly fueled an atmosphere of optimism and in turn, lifted markets.

One potential hiccup could present itself in the actions of the major central banks. While the Fed is almost guaranteed to continue its tightening program and has essentially telegraphed its intentions, as such, a stumbling block could occur if the inflation rate diverges significantly from expectations. Similarly, if monetary policy of the eurozone and Japan bifurcates drastically from the Fed, volatility would undoubtedly ensue. We expect that interest rate normalization in those markets will continue to lag the US and should further support stock prices internationally, but markets will be sensitive to any changes, whether real, or perceived, by policy makers.

At current levels, valuations are not cheap. These have been heady times, as investors seem keen to take above-average risk; equity and cash percentages among funds are at recent highs and lows, respectively, illustrating market participants' willingness to eschew caution. Though it is easy to say that this bull run may be long in the tooth, not all of the signs are warning of a reversal in the trend. In fact, almost all leading indicators point towards further economic expansion. Does this mean that we expect 2018 to be a repeat of last year? Assuredly not. We posit that the risk for a correction going forward is greater than it has been, but we nonetheless remain confident in the world economy and view any market dip as a potential buying opportunity.

Prepared by Flagship Capital Management, Inc.
Flagship Corporate Center | 2. W. Baltimore Ave. | Suite 200 | Media, PA 19063
t 610.565.9580 | flagshipcap.com

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Continuing the theme, we anticipate only slight changes in our asset allocation. With relative valuations in equities favoring international markets versus the US, we expect to take profits in some of our big domestic winners, reducing position sizes and re-allocating those funds where we see opportunity: namely developed and emerging international markets, with a bent towards small cap companies. We believe that fuel remains in the tank of the current bull market, supported by accelerating economic growth and strong corporate earnings, which underpin admittedly high historical P/E ratios. Our outlook for fixed income markets also remains unchanged. With spreads tight and yields low, total return levels will rely almost exclusively on income, with little price appreciation expected. That said, as rates rise, we may realize more entry point opportunities, allowing us to diversify our holdings away from the mutual funds that we've continued to utilize throughout this intractable rate environment. In summation, the theme remains "cautious optimism," with perhaps a bit more emphasis on the former than the later, but we are confident, nevertheless.

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