FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

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Third Quarter Market Update

International markets, measured by the MSCI EAFE index, continued their trend from the first half of the year, ending the third quarter up 5.4%. Domestic markets, measured by the S&P 500, also had a strong showing, ending the period up 4.5%, translating into year-to-date gains of 14.2%. Domestic equities have been led by growth companies during the year, which have outperformed value positions by approximately 10% YTD. Fixed income markets, measured by the Barclay's US Aggregate Bond Index, continued their steady growth and finished the quarter up .85%. While it is nice to see all the major asset classes having a positive period, we encourage investors to not become complacent in the management of their portfolios, and look to rebalance, if needed, back to their targeted allocations.

Continued Strength

Domestic equity markets continued their steady ascent during the third quarter, ending up 4.5% for the period and 14.2% for the year. The Q2 earnings season ended as it started, as 70% of the S&P 500 index constituents reported sales that beat analyst expectations. Furthermore, according to Factset, it was the first time since 2011 that the index reported double digit earnings growth two quarters in a row. While the index continues to trade above its historical average P/E ratio, there is fundamental strength behind these elevated valuations. While domestic markets have been led by growth stocks this year; during the period, stock from smaller companies, as measured by their market capitalization and referred to as small caps, which are tracked by the Russell 2000 index, also outperformed the S&P 500. Small Cap stocks had trailed their large and mid-cap brethren through the first half of the year, but had a bounce-back quarter, ending the period up 5.7%, trailing only emerging market equities performance during the quarter. While more volatile, small caps have historically outperformed their large cap counterparts over a full market cycle. With small Caps expected to benefit from potential tax reform and other pro-growth policies, this trend may continue through the end of the year.

During the quarter, the Federal Reserve did not raise interest rates, and at this point, market participants are looking at December as the next time the Federal Reserve might possibly do so. While fixed income continues to be the laggard asset class, increasing a modest .85% during the period and 3.14% for the year, it remains a cornerstone asset class and one that could come into more and more favor if rates continue to normalize. A key factor the Federal Reserve considers is the status of the US jobs market when making their decision on where to set interest rates. On October 6, the Bureau of Labor Statistics released the September Employment Situation Report, which, for the first time in seven years, showed a monthly job loss. The loss has largely been attributed to the devastating storms Irma and Harvey and most market participants expect the numbers to normalize and then continue to improve. If these numbers normalize and then continue to improve as anticipated, we would expect that the Federal Reserve will continue to slowly increase interest rates, making fixed income a higher yielding and more attractive asset class.

As noted above, international markets, measured by the MSCI, had another good quarter and were up 5.4% for the period and 20.13% for the year. Emerging markets led all major asset classes in the period and are up 27.8% year-to-date through the end of the third quarter were up 7.9% for the period. Whereas domestic markets are trading above their historical P/E valuations, international markets started and ended the quarter trading below their historical averages. This positive relative valuation and a weaker US Dollar has many market participants believing these asset classes are poised for continued growth.

Reflecting on the quarter it is reassuring to see the positive performance nearly all the major asset classes have enjoyed this year, rewarding diversified investors. While it may seem investments are on autopilot in times like these, we would continue to remind investors that asset classes can move at different rates and at different times and although markets have seemingly increased across the board, it is important to continue to rebalance the accounts back to their original allocation based on your individual goals, time horizons and risk tolerances. We are always ready to assist you and answer any questions regarding this newsletter or any other financial matter that may have come up. If any changes to your situation have occurred, please contact us at your convenience.

	Closing Price: 6/30/2017	Closing Price: 9/30/2017	Q3 2017 Return %	CY 2017 Return
S&P 500 TR USD	2,423.41	2,519.36	4.48%	14.24%
MSCI EAFE NR USD	1,883.19	1,973.81	5.40 %	20.13%
Barclays US Aggregate Bond TR	2,021.31	2,038.46	0.85 %	3.14%

Written by Finity Group