SAWGRASS ASSET MANAGEMENT LLC

Financial Review & Outlook

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Stock Market: Quarter in Review

- The equity markets finished off their spectacular 2017 campaign with another impressive run in the fourth quarter (S&P 500 +6.7 %) to end the year with the large cap indices up over 20% for the year and over 30% in the last 18 months.
- Equities continued their trend of low-volatility gains as the markets endured little in the way of resistance or notable weakness in a rally that is remarkable in its lack of investor fear.
- This noticeable absence of meaningful sell offs is evidenced by the 14-month positive return streak in the S&P 500 dating back to November 2017. The worst sell off during this run has been only 3.2%, an unusual scarcity of weakness given the length and persistence of the rally at this advanced stage in a long bull market.
- Factor strength was concentrated for the year in stocks with higher profitability and price momentum with mostly mixed results from other factors.
- Large cap and growth handily outperformed small cap and value for the year as the sector leaders were Information Technology, Consumer Discretionary, and Health Care while the relative laggards were Energy, Utilities, and Consumer Staples.

4th Quarter Scorecard		Table 1
Index	**Quarter**	**1 Year**
S&P 500	6.6%	21.8%
Russell 1000	6.6%	21.7%
Russell 2000	3.3%	14.7%
Russell 3000	6.3%	21.1%
Russell 3000 Growth	7.6%	29.6%
Russell 3000 Value	5.1%	13.2%
Barclays Capital US Aggregate	0.4%	3.5%
3 Month T-Bills	0.3%	0.9%

Source: Bloomberg & Russell Investments

Stock Market: The Quarter Ahead

- Stocks enter 2018 on a high note and in full momentum mode after shaking off one concern after another in the course of this historic bull market that is now approaching its ninth anniversary.
- The recent tax legislation has likely been discounted by the markets for some time. The benefit from such legislation remains to be seen in terms of economic growth.
- Earnings and economic growth have improved recently making some of the earlier concerns about valuation less relevant. However, the markets are still at valuations high enough that these improvements will need to be more meaningful and longer lasting to justify current levels.
- The continued domestic and international political uncertainties could become larger issues for the markets as the year progresses given the current volatility of U.S. politics.
- The major indices have little in the way of resistance to slow the current surge to new highs in the short to intermediate term, until buying exhaustion is reached and brings the first meaningful correction in a year and a half.
- Investor complacency about gains and the ease that they are achieved with seemingly little risk are concerning this late in a bull market cycle given the crowding effect that is created during the rise. Any subsequent reversal may be less orderly.

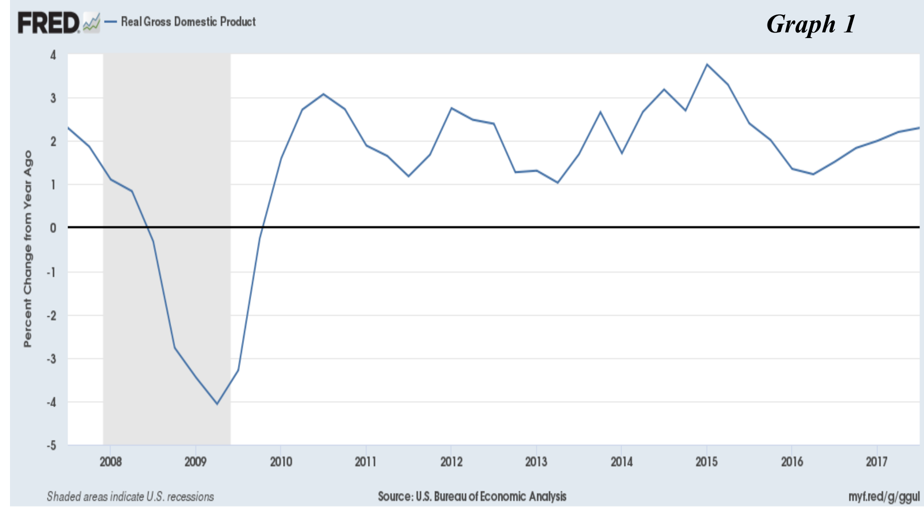
- While we continue to believe that equities are the superior long-term asset class, twenty years of experience leads us to believe near-term returns will be more modest.

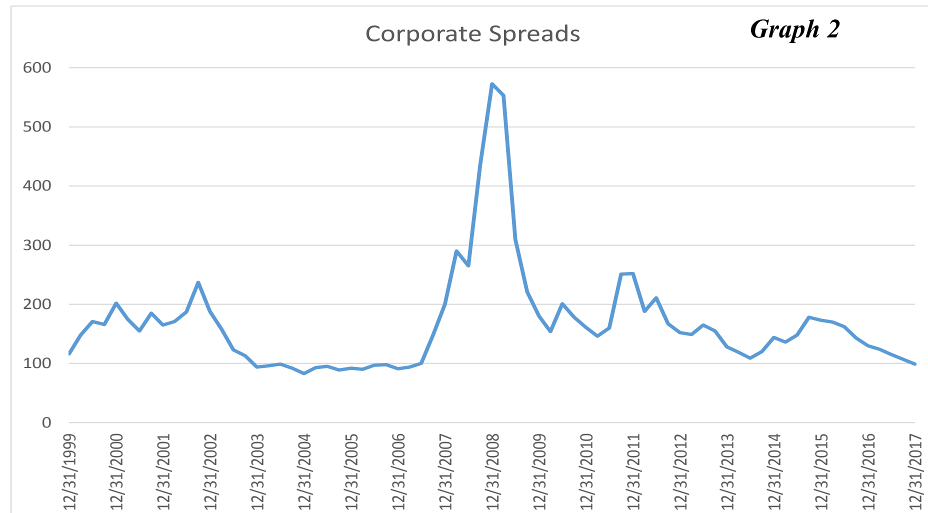
Fixed Income Markets

As we look back on 2017, there is a noticeable divergence between the narrative created from the headlines seen throughout the year and the reality of how the markets performed. Investors were hit with a barrage of news reports, whether they be geopolitical (North Korea, Brexit), domestic (legislative successes and failures) or a bit more unconventional (Bitcoin!) that represented potential risks and would leave one to believe that the year was full of tumult. But, despite these prospective hazards, the markets displayed an ability to tune out most of the noise and exhibit relative calm. The equity market continued its ongoing bull run as the S&P was up 21.8% for the year. The 10 year Treasury remained range-bound, starting the year at 2.44% and ending at 2.41% while the Barclays Aggregate was up 3.54%, due in large part to credit spread tightening.

Many of the questions that existed going into 2017 have been answered, providing a bit more clarity for investors than a year ago. Developments included the passage of tax reform and the Federal Reserve announcing the reduction of its balance sheet to go along with their continued pace of rate hikes. While the path of fiscal and monetary policies may seem clearer moving forward, growth remains sluggish (See Graph 1) and the impact they will have on GDP and how much of that is already priced in to asset prices is far from it. The lack of consensus can be seen in the Treasury yield forecasts of some of the major investment banks; Goldman Sachs is predicting a 2018 year-end 10 year rate of 3.0% while Morgan Stanley forecasts a rate of 1.95%. Considering the low absolute rates that currently exist, the gap in opinions is quite wide. The ongoing doubts about long-term growth are also reflected in shape of the yield curve, with the 2 year—30 year curve flattening to its lowest level since 2007.

Nine years of an equity bull market and credit spreads sitting near all-time lows (See Graph 2) would typically equate to market exhaustion and a possible correction. And while some concerns have been alleviated, new ones are sure to arise (Federal Reserve Board turnover, continued subdued inflation, effect of tax reform, etc.) that could cause volatility to resurface. It is during these times that proper risk management and adherence to a consistent investment process are extremely important. We envision the economy continuing to grow at a modest pace and that interest rates will rise along with the economic strengthening and gradual pace of rate hikes. We wish everyone a happy new year and should you have any questions about the current investing environment or your portfolio, we are always available to talk.





Source: Bloomberg

Interest Rate Summary **Table 2**

	12/31/16	9/30/17	12/31/17	Qtr Change	12-Month Change
3 Month T-Bills	0.5	1.0	1.4	+0.5	+0.9
5 Year Treasury	1.9	1.9	2.2	+0.3	+0.3
10 Year Treasury	2.4	2.3	2.4	+0.1	0.0
30 Year Treasury	3.1	2.9	2.7	-0.2	-0.4
5 Year Corporate (‘A’)	2.6	2.5	2.7	+0.2	+0.1
10 Year Corporate (‘A’)	3.4	3.2	3.2	0.0	+0.2
30 Year Fixed Rate Mortgage	4.1	3.8	3.9	+0.1	+0.2

Source: Bloomberg