

THE ADVISOR

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MANAGING WEALTH.

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Extended Period of Low Volatility Continues

Global stock markets have been extraordinarily calm over the last year. This period of market performance is a perfect example of the difficulty in predicting short-term market movements. There have been numerous news developments and geopolitical risks since last summer, which investors could have used as excuses to sell stocks: elections in France and Germany, “Brexit,” increasing risks related to North Korea, and so on.

On top of these risks, earnings-based valuation metrics on U.S. stocks such as the Price-to-Earnings ratio, or “P/E ratio,” are elevated relative to history. While valuations are not in the stratospheric heights that they hit during the tech-stock bubble in the early 2000s, valuations at current levels are a headwind for future returns.

Yet an investor interpreting these news stories and valuation metrics as “sell” signals and attempting to time the market accordingly, would have failed miserably since last summer.

Even when stocks are “expensive,” they may continue to rise for some time. And despite the negative news flow, markets are influenced by myriad other external factors which can make short-term markets seem counterintuitive to what is reported on TV or published online.

One major factor that is helping markets is the continued low inflation and low interest rate environment. The current inflation dynamic – low unemployment, decent economic growth, yet low inflation – is confounding economists. One recent study from the San Francisco Fed asserts that low inflation is partly explained by high-wage retiring baby boomers being replaced with younger, lower-wage workers. Vanguard’s chief economist believes that globalization of the workforce and the rapid adoption of technology

has also kept wages down and inflation at bay. The President of the Minneapolis Fed asserts that the current inflation environment has been created by the Fed itself, as the

Fed’s action of raising its short-term target rate, combined with its plan to shrink its balance sheet, is leading to lower inflation expectations.

Clearly, there is much disagreement about whether low interest rates around the world are a temporary phenomenon or if there is something more structural and long-term at work. The broader capital markets environment has helped to dampen volatility in stock markets around the world. Although impossible to time, volatility will return, and it is critically important that portfolio asset allocations are forward-looking in this regard.



RETURNS AS OF 9/30/2017

ASSET CLASS	3Q 2017	YTD
EQUITIES		
Large Cap US Equities (S&P 500)	4.5%	14.2%
Mid/Small Cap US Equities (Russell 2000)	5.7%	10.9%
International Developed Market Equities (MSCI EAFE)	5.4%	20.0%
Emerging Market Equities (MSCI Emerging Markets)	7.9%	27.8%
FIXED INCOME		
Bloomberg Barclays Capital US Aggregate Bond Index	0.9%	3.1%
BofA Merrill Lynch Municipals, 3-7 years	0.7%	3.7%
ALTERNATIVES		
Real Estate (FTSE EPRA/NAREIT Developed Index)	1.8%	7.3%

Founded in 1988, Indiana Trust and Investment Management Company is an independent trust company chartered under the Indiana banking statutes. It is a single-purpose financial institution

INDIANA TRUST
& Investment Management
COMPANY

dedicated exclusively to providing investment management and trust services to individuals, trusts, employee benefit plans, corporations, and not-for-profit organizations.

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The S&P 500 was up 14.2% for the year through the end of September. Corporate earnings have been strong in 2017, and global economic performance has provided fuel for positive investor expectations for earnings growth. Indeed, growth-oriented companies continue to substantially outperform more defensive sectors of the market. Apple's shares were up 7% in the quarter on strong expectations for the new iPhone launch. Energy prices rose in the quarter, aiding a rebound in shares of firms such as ConocoPhillips and ExxonMobil.

Foreign-developed stock markets continue to be a bright spot in 2017. Stock markets in Europe were once again relieved by

the results of an intra-quarter election, last quarter in France and this time in Germany. Energy and mining company stocks were the best European performers. The Japanese stock market continued to perform well, led by its major auto manufacturers as well as by its tech sector.

Emerging equity markets had an outstanding quarter. The MSCI Emerging Markets index is up 28% this year, easily the best performing major equity asset class. Technology stocks such as Tencent, Alibaba and Samsung are driving strong returns for emerging markets. Brazil was the best performing market for the quarter: state-owned Petrobras, up 30%, may be on the brink of reforming its corporate structure.

Fixed Income Markets

All major sectors of the U.S. bond market registered positive returns for the third quarter. Interest rates nudged slightly higher on the short end of the yield curve, as investors digested the likelihood of one more overnight target-rate increase from the Federal Reserve. While short-term rates have increased as a result of the Fed's rate actions, intermediate-term rates have fallen in 2017. The Treasury yield curve has flattened. The result is that the U.S. bond market has performed well for the year – up over 3%.

In the face of low interest rates, U.S. fixed income investors continue their search for higher yields, which has led to strong flows into corporate bonds – both investment-grade and bonds rated below-investment-grade. The spread of corporate bonds over comparable U.S. Treasury bonds continues to fall. Also, foreign demand for U.S. bonds has been an important reason rates have remained low. The U.S. bond market is attracting global investors due to even lower interest rates abroad.

In an effort to further diversify sources of returns in fixed income allocations, Indiana Trust has introduced small allocations to emerging markets debt in many client portfolios. Emerging markets debt has grown to become an important part of the global bond market, representing \$20 trillion in issuance. The allocation is intended to generate incremental yield as well as deepen diversification of the asset class.



Tax and Gifting Update

Before the end of every year, all mutual funds must distribute any net capital gains to all shareholders. Capital gains distributions may be long- or short-term, but usually tilt toward long-term. In recent years, some funds have been able to offset gains with losses from previous years. Given market strength, particularly in the U.S., Indiana Trust anticipates distributions of capital gains from mutual funds to be higher in 2017 than they have been in recent years. Also, we have rebalanced many portfolios by trimming allocations to U.S. stocks – which have become overweight in most portfolios by virtue of their strong performance. This rebalancing discipline also may result in some long-term capital gain recognition.

On the gifting front, many Indiana Trust clients use the annual Federal Gift Tax exclusion to make end-of-year gifts to individuals. As a reminder, the annual gift tax exclusion amount for 2017 is \$14,000 per individual. This amount will increase next year — the new exclusion amount in 2018 will be \$15,000 per individual.

Welcome Our Newest Board Members

Indiana Trust & Investment Management Company is pleased to formally introduce two new members recently elected to our board of directors: **B. Douglas Hayes** and **Bradley LaTour**.



A resident of Goshen, Indiana, **B. Douglas Hayes** was welcomed as a member of our board of directors in October 2016.

Mr. Hayes is a Partner at Yoder Ainlay Ulmer & Buckingham, LLP. As a Board Member of Indiana Trust Company, he serves on the Audit Committee.

Mr. Hayes received his J.D., magna cum laude, from the University of Notre Dame in 1989 and was admitted to the bar the same year. He earned a bachelor's degree in Music, summa cum laude, from Fort Wayne Bible College in 1983. He is a Board Certified Indiana Trust and Estate Specialist by the Indiana Trust and Estate Board of the Indiana State Bar Association. He is also licensed to practice law in the state of Florida.

Mr. Hayes has served as a board member and officer of the Bashor Children's Home and Reason Enough to Act (RETA), and is currently a member of the Goshen Economic Improvement Development Board.



Bradley S. LaTour, of Muncie Indiana, was elected to our board of directors in April 2017.

Mr. LaTour currently serves as Vice President and Wealth Advisor at Indiana Trust Company. Mr. LaTour graduated from the University of Akron School of Law in 1995. In

addition to his law degree, he holds a B.S. in Psychology from Brigham Young University and also the Certified Trust and Financial Advisor designation (CTFA™).

Mr. LaTour has almost 20 years of combined legal and trust administration experience. Prior to joining Indiana Trust in 2009, Mr. LaTour practiced law in Ohio and also worked in the trust departments of two major Midwest banks.

Mr. LaTour is an active participant in his church, the Muncie Rotary Club, and the East Central Indiana Estate Planning Council. He also serves as a member of the David Owsley Museum of Art Friends Advisory Council, and is a member of the Minnetrista Board of Trustees.

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Welcome Haley Buchanan!



Haley Buchanan joined Indiana Trust in October 2017 as an Administrative Associate. She will be assisting Wealth Advisors to help ensure clients are achieving their financial goals. Haley received her bachelor's degree from Bethel College. Prior to joining Indiana Trust, Miss Buchanan was the

Center Director of Sylvan Learning in Mishawaka, IN. She has experience in client relations and account maintenance.

Haley volunteers regularly with South Bend City Church. She has also been a mentor to an area youth for four years through a program called Transformation Ministries, located in South Bend, IN. Haley loves to spend time with her family at the lake when the weather is warm. On the weekends, she enjoys visiting friends and family in their own cities.

Annual Client Reception

Indiana Trust Company will be hosting its annual reception for clients and friends on Wednesday, November 15th at The Beiger Mansion located at 317 Lincolnway E. Mishawaka, Indiana. The reception will take place from 4:30 p.m. until 6:30 p.m. and will include cocktails and hors d'oeuvres. R.S.V.P. by emailing Chris at callen@indtrust.com or by calling your Wealth Advisor.



The Beiger Mansion