Mimosa Investment Management

1st Quarter 2017

Mimosa Memorandum

The Year in Review

2016 was a year of volatility for equities across the globe. We began 2016 with a significant downturn as the markets reacted strongly to the threat of a slowdown in Chinese growth. The S&P 500 declined more than 10% to start the year. Beginning in mid February the market rallied strongly and actually closed the first quarter with a slight gain. Volatility continued in the second quarter when Brexit passed in the UK, and the market dropped before recovering quickly. Finally, the up and down pattern continued into the third and fourth quarters as the election results loomed and were subsequently realized.

The surprising win of Donald Trump along with Republican majorities in both the House and Senate resulted in a significant rally into year end. The market anticipates lower taxes, the reduction of some regulations in the banking industry, and the repeal and replacement of Obamacare. We'll see if and when any of these changes actually occurs.

Index	**2016 Total Returns**
Dow Jones Industrial Average	16.50%
S&P 500	11.96%
S&P Mid Cap 400	20.74%
Russell 2000 Small Cap	21.31%
FTSE All World	8.60%
Barclay's Intermediate Gov/Credit	2.08%

Headwinds in 2017

OPEC reached an agreement late in 2016 to cut oil production this year. Prices have rallied from under $30 per barrel to more than $50 per barrel. While this is a significant percentage increase, prices are still far below the $100+ per barrel prices in the recent past.

The Fed raised interest rates by 1/4 of a percent in December. They showed a dot plot that suggested that the majority of the members felt there would be three more increases in 2017. That will likely occur only if economic growth picks up from the current 2% rate.

Tailwinds

In addition to lower tax rates and decreased regulation, the incoming administration has stated a preference for increasing spending on infrastructure. Our roads and bridges are in need of updating and replacing, but it is not readily apparent where the funds for such increases would come from.

Trump has also indicated that he would like to decrease corporate taxes, which are currently among the highest in the world. This proposal could include a tax holiday to allow companies to bring back cash from overseas at a reduced rate. This provision would potentially spur additional growth in the US.

Outlook

As we enter 2017, the US stock market continues to move upward. Legislative changes seem to be priced into current valuations. Certainly bonds will likely have a tough year if the Fed raises rates three times. Most economists predict that the US will sustain growth at 2% to 2 1/2%. If that remains the case, interest rate increases could be fewer than currently anticipated. For the first time in the last six years, we will likely see some meaningful legislation passed by Congress and signed by the President. Until we see the priorities and what they're actually able to pass, it'll be difficult to anticipate the path for the economy and the markets in the new year.