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UPDATE

WINTER 2017

ECONOMIC REVIEW

As we move into the final weeks of a calendar year, it is not unusual to see an increased focus on taxes. Investors traditionally consider shifting some investments based on their tax situation, while also reviewing deductions, particularly pertaining to charitable contributions. But with significant tax reform legislation moving rapidly through Congress, 2017 has become an annual period of heightened awareness and discussion.

Ever since the presidential election of 2016, the markets have been anticipating business-friendly tax legislation. These expectations accelerated in November as measures which include major business tax relief passed the House and moved through committee in the Senate. While much of the details in this legislation remains uncertain as the legislation faces Senate action and awaits the potential for House/Senate reconciliation, one of the mainstays of the drafts in progress is a reduction of the corporate tax rate.


As the prospect for passage improved through November, the stock market showed its enthusiasm. The S&P 500® Index had some banner days in late November and moved up 3.1% for the month, up 20.5% year-to-date. Largely because the effective payment of corporate taxes varies widely by industry and sector, November's gains diverged by sector. Financial companies, which typically pay near the top of the business tax bracket, showed particular strength in late November, boosting a sector which had underperformed the market leaders for the year.

As year-to-date domestic stock returns exceeded the 20% level, it was only natural for stock investors to pause from their celebration to consider valuation, risk and the prospects for 2018 and beyond. One consideration was the overall investment environment, where we saw positive economic news around the world and a rise in equity prices across the globe. In the United States, corporate earnings continued to be robust, the overall employment market continued to expand and housing prices moved upward. In short, the rise in equity prices was moving in concert with general economic expansion, mitigating to some extent concerns over valuation.

At the same time, the rise in equity valuations was fueled by optimism for future corporate earnings sparked by advantageous tax policy, and as such, was in effect borrowing from future returns. In other words, excessive gains in 2017 are likely to produce a longer-term period of reduced stock market advances. Other signs of investor exuberance could be seen in alternative investments, including spikes in the art market (highlighted by the record \$450 million purchase of a Leonardo da Vinci painting) and the boom in crypto-currencies (Bitcoin valuation spiked to \$10,000). These are signs of an environment where speculation has triumphed over considerations of risk. Such indicators remind us of the importance of keeping a balanced outlook as well as a recommitment to a rebalanced, appropriate asset allocation.

In addition to considering the market reaction to proposed tax legislation, individual investors should be alert to changes which

could affect their particular tax situation. Among the proposed changes which are most pertinent are the potential elimination of some previously deductible expenses, particularly local and state

taxes. This year more than most, we encourage you to consult with your tax advisor regarding year-end tax planning. 

NEWS YOU CAN USE

Tax Forms

With income tax filing on the horizon, Madison Funds may send you tax forms in late January to help you complete your income tax returns. When you receive them, keep them for your records. The forms you receive are specific to the type of account you hold and your circumstances.

Form 1099-DIV: Reports dividends and capital gains paid to taxable accounts. Madison Funds observes an IRS rule that allows us not to send Form 1099-DIV if your taxable ordinary dividends for any fund totals \$10 or less, however, you must still include such dividends on your income tax return. Please review the enclosed year-end investor statement to see if this applies to you.

Form 1099-B: Reports the proceeds from any shares you sold or exchanged in taxable accounts.


Form 1099-R: Reports redemptions from qualified retirement accounts such as IRAs.

Form 1099-Q: Reports redemptions from Coverdell Education Savings Accounts (ESAs).

Form 5498 and 5498-ESA: The Fair Market Value statement mailed in May (5498) and April (5498-ESA) will report contributions made to qualified individual retirement accounts (e.g. IRAs) and ESAs through April 15, 2018 for the 2017 tax year. As of December 31, 2017, we report the Fair Market Value of these accounts on your year-end investor statement.

TurboTax® and H&R Block® Tax Software: Download your tax information from your Madison Funds account directly into your tax return if you use TurboTax or H&R Block software. You can import your fund-related information from three tax forms: 1099-DIV, 1099-B, and 1099-R. Follow the instructions provided with your tax software.

Tax Inserts: Madison Funds prepares tax inserts that may accompany your tax forms. The inserts include general information on capital gains and losses from the sale of fund shares, fund specific percentages of income derived from U.S. government obligation, and AMT tax liability for tax-free funds. We recommend you consult with your tax advisor for complete information when doing tax planning and preparing your tax return.

Feel free to contact Shareholder Services at 1-800-877-6089 if we can be of further assistance. You can reach us Monday through Friday from 8 a.m. to 7 p.m. Central Time. But please remember we cannot offer tax advice; that is best left to tax professionals who can better answer questions and advise you about your specific circumstances. 



Contact Us

Shareholder Services
Madison Funds
Post Office Box 8390
Boston, MA 02266-8390
800.877.6089

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Bonds are subject to certain risks including interest rate risk, credit risk and inflation risk. Equity risk is the risk that securities will fluctuate in value due to general market or economic conditions.

Consider the investment objectives, risks, and charges and expenses of Madison Funds carefully before investing. Each fund's prospectus contains this and other information about the fund. Call 800.877.6089 or visit madisonfunds.com to obtain a prospectus and read it carefully before investing.

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