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INVESTMENT SUMMARY

1st Quarter 2018

After several quarters of calm markets and steadily increasing stock prices, global equity markets became more volatile in the first quarter of 2018, resulting in minor losses for the period. The S&P 500 finished the quarter down less than 1% (first quarterly loss since 2009), while the major bond benchmark lost 1.8% of value on the heels of rising interest rates. With both stocks and bonds slightly lower to start the year, there were few places for investors to hide. For the record, the market fall in February was a correction, as stocks fell by 10% from their record high prices. However, by historical measures, this correction would be deemed a minor one, as prior stock market corrections have typically averaged a steeper 14% drop.

Despite the unnerving market volatility exhibited in the first quarter, the fundamentals of our economy appear to be on good footing. In fact, U.S. GDP growth is expected to be in the 3% range for the remainder of 2018, thanks to strength in personal income, durable goods orders, and manufacturing. The employment picture has also been encouraging, with the jobless rate at a seventeen year low, and wages on the rise throughout the economy. With the passing of the Tax Cuts and Jobs Act this past December, many Americans are reporting higher take-home pay as well, which in turn could bolster upcoming retail sales data that is an important driver of the U.S. economy.

Looking ahead, risks to the economic expansion and rising stock market are real. New Fed Chairman Jerome Powell is on a moderately restrictive path with monetary policy and is expected to raise the Fed Funds rate five or six times through 2019. Higher interest rates not only serve as a brake on the global economy, but also make fixed income investments a more attractive alternative to stocks (as the income yield of the former increases). Geopolitical tensions also bear close watching as ongoing disagreements with Russia, China, North Korea, and Syria could devolve into more serious conflicts. Finally, contentious trade negotiations with China (the world's second largest economy) are also a concern, given the important role that trade plays for businesses around the globe.