

~ FEBRUARY 2018 NEWSLETTER ~

Monthly Summary

The S&P 500 index declined in February for the first time in 16 months. A streak of this duration is unprecedented dating back to 1970! Considering this record, and the minimal volatility that went along with it, it is little wonder why investors felt shell shocked by an 8.5% decline over just six trading days to start the month. While gut wrenching, the decline should be considered within the broader context of previous market gains. January's gain of 5.7% established 2018 as the strongest annual start for U.S. stocks in nearly 30 years. Likewise, despite February's overall loss of 3.7%, the S&P 500 finished the first two months of 2018 in the positive camp — hardly a catastrophe.

Hints of inflation and a corresponding rise in interest rates were the culprits behind the stock market's new bout with volatility. More specifically, January wage inflation of 3.9% was a post recession high, and the yield on the 10 year U.S. Treasury Note rose to a four year high. Higher interest rates can translate into lower asset prices, and inflation erodes the purchasing power of money over time. Both can also be an indication of an accelerating economy. While economic expansion is a positive, investors often become concerned about the potential for restrictive monetary policy. For this reason, investors seem to have now migrated to the paradoxical mindset that good news is bad and vice versa.

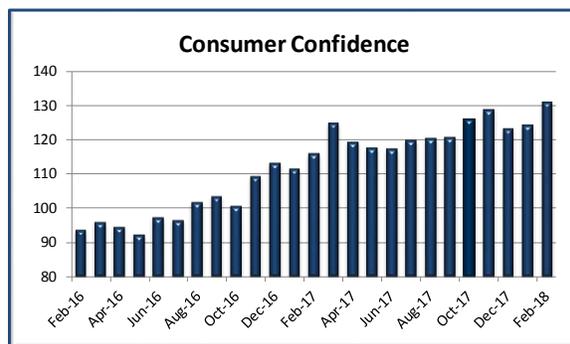
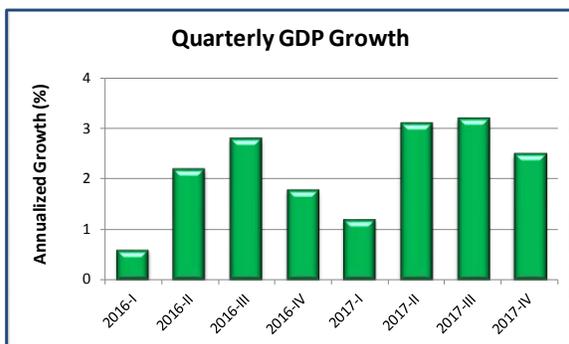
As for other economic news, the picture is generally positive, yet somewhat mixed. The labor market remains quite positive, including initial jobless claims recently hitting a 49 year low. At the same time, some weakness has surfaced in housing, manufacturing, and consumer spending. Likewise an exploding trade deficit has been a drag on U.S. GDP growth. Importantly, rising trade deficits merely reflect strong growth relative to global trading partners. That's not a bad thing and neither are trade deficits for that matter. Allowing each economy to do what it does best drives the most efficient use of global resources which, in turn, fosters global growth and higher living standards. For this reason, the Trump administration's late February move to impose tariffs on primary metal imports was greeted unfavorably by investors.

Economic Data

| General | Prior | Current |
|----------------|----------------|----------------|
| GDP growth | 3.2% (Q3) | 2.5% (Q4) |
| Trade balance | -\$50.4B (Nov) | -\$53.1B (Dec) |

| Employment | Prior | Current |
|-----------------------------|----------------|----------------|
| Initial jobless claims | 220,000 (2/17) | 210,000 (2/24) |
| Continuing claims | 1.87MM (1/20) | 1.93MM (2/17) |
| Change in non-farm payrolls | 160,000 (Dec) | 200,000 (Jan) |
| Unemployment rate | 4.1% (Dec) | 4.1% (Jan) |
| Average weekly hours | 34.5 (Dec) | 34.3 (Jan) |

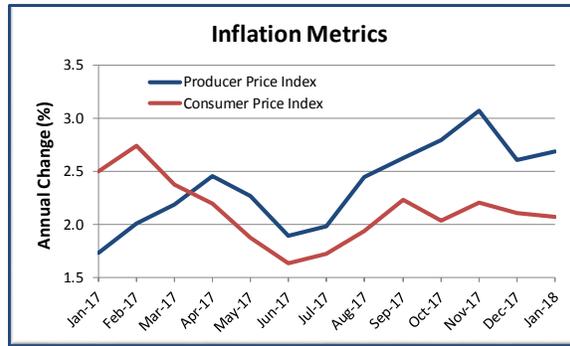
| Consumer | Prior | Current |
|--|---------------|----------------|
| Consumer confidence index (Conference Board) | 124.3 (Jan) | 130.8 (Feb) |
| Retail sales growth | 0.0% (Dec) | -0.3% (Jan) |
| Change in consumer credit | \$31.0B (Nov) | \$18.5B (Dec) |



| Manufacturing & Service | Prior | Current |
|------------------------------------|--------------|----------------|
| ISM manufacturing index | 59.3 (Dec) | 59.1 (Jan) |
| ISM non-manufacturing index | 56.0 (Dec) | 59.9 (Jan) |
| Durable goods orders growth | 2.6% (Dec) | -3.7% (Jan) |
| Industrial production growth | 0.4% (Dec) | -0.1% (Jan) |
| Capacity utilization | 77.7% (Dec) | 77.5% (Jan) |

| Real Estate | Prior | Current |
|---|---------------|----------------|
| New home sales | 643,000 (Dec) | 593,000 (Jan) |
| Existing home sales | 5.6MM (Dec) | 5.4MM (Jan) |
| S&P CoreLogic CS home price index (YoY) | 6.1% (Nov) | 6.3% (Dec) |

| Inflation | Prior | Current |
|--|-----------------|-----------------|
| Consumer price index/Core (YoY growth) | 2.1%/1.8% (Dec) | 2.1%/1.8% (Jan) |
| Producer price index/Core (YoY growth) | 2.6%/2.3% (Dec) | 2.7%/2.5% (Jan) |



Market Returns

| | Feb 2018 | YTD 2018 |
|---------------------------|-----------------|-----------------|
| Fixed Income | | |
| BBgBarc Aggregate Bond | -0.9% | -2.1% |
| BBgBarc Municipal Bond | -0.3% | -1.5% |
| BBgBarc Gbl Agg. ex. U.S. | -0.8% | 2.2% |
| Alternatives | | |
| Bloomberg Commodity | -1.7% | 0.2% |
| DJ U.S. Real Estate | -6.7% | -9.3% |

| | Feb 2018 | YTD 2018 |
|-------------------------------|-----------------|-----------------|
| Domestic Equities | | |
| Wilshire 5000 | -3.7% | 1.4% |
| S&P 500 | -3.7% | 1.8% |
| Russell 2000 | -3.9% | -1.4% |
| International Equities | | |
| MSCI EAFE (Developed) | -4.5% | 0.3% |
| MSCI EM (Emerging) | -4.6% | 3.3% |

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