

March 19, 2018

Musical Chairs Continues

Who will be in the crosshairs next? It's a natural question among investors, who generally don't like uncertainty. And it's a natural question to ask following the departures of Secretary of State Rex Tillerson and former White House National Economic Council Director Gary Cohn. As for Tillerson, there are plenty of reports suggesting President Trump saw him as "too establishment," and the President wanted a change as planned talks with North Korean leader Kim Jong Un approach and trade negotiations across the globe continue.

To the credit of investors, U.S. markets have taken the transitions in stride with indices taking a slight pause in their advance toward making all-time highs and not coming under nearly the same pressures experienced in February. Interestingly, smaller capitalization stocks have performed better of late and may make the push to new heights before their large-cap counterparts. From a technical analyst's perspective, advancing to higher highs is a positive but obviously requires breaking through resistance, which may prove to be a challenge. If so, this may require another retest of recent lows. Market corrections often have a bottoming process through both time and price. February's sell-off checked the 10% price correction box but lacked the traditional time component. The good news is historically strength in the riskier small-cap stocks has been a good omen for overall future returns as the risk-taking animal spirits of market participants reassert themselves. Time will tell if this is the case again, but rhetoric out of Washington for protectionism and the benefit of tax cuts could be playing into the hands of a domestically focused asset class.

Unfortunately, the same cannot be said of international stocks. Upon announcing Tillerson was fired, the STOXX Europe 50, a group of the leading 50 stocks from 18 European countries, sold off approximately 1%. The export-heavy German economy took the brunt of the selloff with the DAX retreating 1.6%. The world is clearly taking note of the departures and the rising possibility of a trade war developing as more conservative, free-trade advisors are being replaced with those who appear to have a more protectionist mind set from an economic policy perspective.

Outside of the firing of the Secretary of State and the hiring of a CNBC commentator as the President's top economic advisor, last week was relatively quiet by modern standards. This could potentially be the calm before the storm as the Federal Open Market Committee meets March 20-21, and the markets are fully expecting another 25 basis-point interest-rate hike. Investors have shown some angst over the possibility of rising inflation and a Fed that may raise rates four times in 2018 vs. the three that markets seem to be anticipating starting the year. We remain in the camp of three rate hikes as we believe the FOMC is anticipating slightly higher inflation at this point in the cycle. At this point, the data is inconclusive, but first-quarter earnings announcements and management commentary surrounding wage pressures will be closely monitored. It is interesting to note that the 10-year treasury halted its advance at 2.94% and was consolidating last week to end at 2.84%. Perhaps the market is not fearing as much inflation in the coming quarters now.

The FOMC meeting will also be important to monitor for clues regarding incoming Chairman Jerome Powell. This will be his first meeting as chairman to message insights on his leadership and style differences. Will he hold news conferences after every meeting versus the current quarterly cycle? Does this mean every meeting is "live" for a rate change? How much is the fiscal stimulus (tax cuts) impacting the committee's decision to be more hawkish? These are all questions investors have dealt with over the past several months. At least for now, a good bit of uncertainty has become the norm.

	Price/Yield			Total Return (%)			
	3/16/2018	1 Week Ago	1 Month Ago	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	24946.51	-1.51	-0.89	1.47	21.97	14.36	14.20
S&P 500	2752.01	-1.20	0.90	3.38	17.86	12.07	14.36
NASDAQ	7481.99	-1.02	3.44	8.64	28.15	16.26	19.57
Russell 2000 Index	1586.05	-0.65	2.88	3.53	15.93	10.09	12.26
MSCI World ex US	2027.29	0.25	-1.32	-0.47	16.29	6.76	6.47
MSCI EM	1213.14	0.68	1.25	5.00	29.23	11.82	5.96
Bloomberg Barclays US Aggregate	3.18	0.22	0.12	-2.00	1.43	1.31	1.79
Bloomberg Barclays Global Aggregate	1.86	0.29	-0.17	0.84	7.33	3.41	1.44
Bloomberg Barclays US Corporate Index	3.79	0.17	-0.31	-2.80	3.12	2.51	3.02
Bloomberg Barclays 10-Year Muni Index	2.67	0.06	0.16	-1.87	3.24	2.32	2.78
Bloomberg Barclays High Yield Index	6.19	-0.19	-0.11	-0.59	4.77	5.48	5.10

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	3/16/2018	1 Week Ago	1 Month Ago	12/31/2017	1 Year Ago	3 Years Ago	5 Years Ago
1 Month LIBOR (rate)	1.82	1.75	1.59	1.56	0.98	0.18	0.20
30 Year Mortgage (average rate)	4.30	4.34	4.30	3.86	4.10	3.88	3.57
2 Year Treasury (yield)	2.29	2.27	2.19	1.88	1.33	0.65	0.26
10 Year Treasury (yield)	2.84	2.89	2.88	2.41	2.54	2.07	2.00
30 Year Treasury (yield)	3.08	3.16	3.14	2.74	3.15	2.65	3.21
WTI Crude (closing price)	62.35	62.02	61.89	60.46	48.30	43.93	93.03
Brent Crude (closing price)	66.21	65.19	64.30	66.73	50.56	55.97	109.38
Gold (NYM \$/oz)	1311.30	1322.40	1353.20	1306.30	1226.50	1153.30	1592.50

Source: FactSet

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