STRAIGHT TALK

1st Quarter 2018

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Market Returns

Domestic Large
S&P 500
-0.76%

Domestic Small
Russell 2000
-0.08%

Intl Developed
MSCI EAFE
-1.53%

Emerging Markets
MSCI EM
1.42%

Fixed Income
BBgBarc US
Aggregate Bond
-1.46%

**Market data is from Morningstar and is through 3/31/18. All returns are with dividends reinvested.*

It's been a long time since we've had to comment on negative returns in markets, but that's the case this quarter. For the first time since Q3 2015 the S&P 500 recorded a quarterly loss, and other markets suffered a similar fate. In fact, the only area to give us some positive returns was emerging market stocks, which continue to perform well and remain a favorite area of ours. Besides the return of volatility in stocks, the first quarter was notable for the spike in bond yields, resulting in negative fixed income returns. Despite the selling, we're not ready to start panicking. We continue to believe that underlying economic fundamentals remain strong, which should translate to continued earnings growth and higher stock prices. As we stated in our last newsletter, however, we should be prepared to see more ups and downs in markets.

After a strong start things changed as we moved through the quarter. First inflation fears and then news of tariffs and potential trade wars rattled investors, causing selling the likes of which we hadn't seen in two years. While we do believe that inflation is set to rise in the coming months, there's a good chance that concerns have been exaggerated and a more gradual rise in the data is likely. Regarding tariffs, we believe that the president is using them as a negotiating tool for ongoing trade talks. There are legitimate complaints with the business and trade practices of certain countries, namely China. Ultimately though, we expect either concessions from trade partners or some watered down tariffs that will have a limited economic impact.

Turning to fixed income, for the fourth time since the beginning of 2015, we saw negative quarterly returns in the bond market. This might lead some to question the value of holding bonds, however, they remain an important ballast against larger drops in equity markets. With the recent rise in short-term interest rates cash and cash equivalents can once again be seriously considered as investment options. Although returns are still low, cash will benefit from rising rates, protect against the potential for short-term losses in bonds, and will also help dampen any increases in portfolio volatility that may come from stock and bond markets. We've been positioned for rising rates for some time and you can expect that we will continue to gradually increase cash levels as rates continue to rise.

The first quarter brought more ugliness in markets than we've seen in a while, and while we believe that it signaled an end to the period of easy returns and low volatility, we don't anticipate that we're on the verge of some bigger breakdown. Global economic data remains in solid shape, and while there are headline risks surrounding various political and economic events, ultimately it's the fundamentals that drive markets. Based on the data markets should be set to bounce higher in the coming months. We'll be watching the data (and tweets) closely, and remain believers in the bull market. Please call us if you have any questions and enjoy the spring...if it ever comes.

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