

Economic and Capital Markets Commentary

The Return of Volatility...

After two years of relative calm, stock market volatility returned in the first quarter of 2018 as investors shifted their attention from the benefits of synchronous global growth to the prospect of higher-than-expected inflation and the uncertainty created by President Trump's trade rhetoric. The S&P 500 Index closed at an all-time high on January 26, 2018. In early February, however, the Index declined 10% – its first correction since 2016 – and throughout March stocks failed to gain traction in either direction.

Wall Street's concern is that accelerating wage growth, a sign of strong and continued economic growth, may lead to higher inflation and as a result, more Federal Reserve rate increases than anticipated. As interest rates rise, stocks begin to face more competition from other investment choices; the more investors earn from 'safe' assets (cash, short-term Treasuries), the more return they expect from 'riskier' investments (stocks).

The U.S. economy continues to expand and the 2017 Tax Cuts and Jobs Act, the Federal budget, and regulatory reform initiatives should encourage additional corporate investment and consumer spending. As a result, GDP growth should remain solid, but inflation may also pick up, a fact that is not lost on the Federal Reserve as it seeks to continue its accommodative monetary policy without letting the economy overheat.

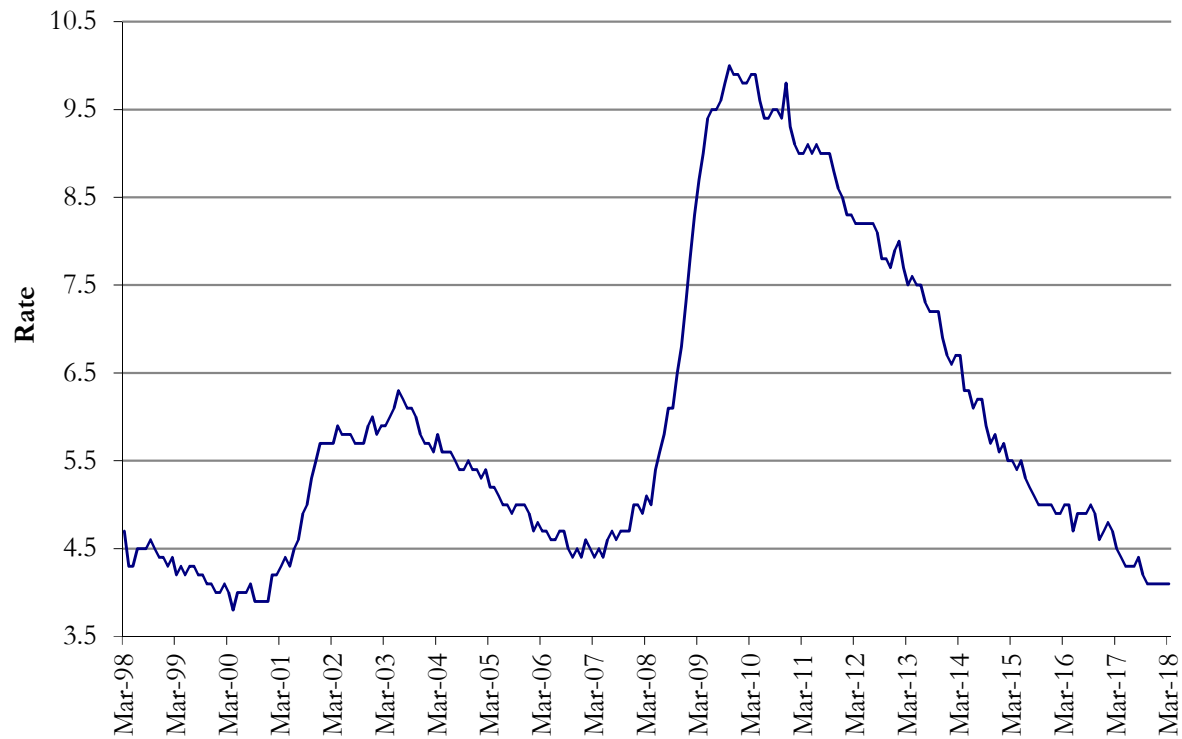
The start to 2018 reminds us that in the short-term, strong economic growth does not guarantee equity markets will behave similarly. For many reasons, volatility has returned and should be expected to continue throughout 2018. For investors, that means going back to the basics: review goals and objectives, cash needs and liquidity, and confirm that portfolio asset allocations are consistent with time horizons and risk tolerances.

Economic and Capital Markets Data

	March 31, 2018	March 31, 2017	March 31, 2013
S&P 500 Index	2641	2363	1569
Price/Earnings Ratio	21.3x	20.9x	15.7x
Yield	1.95%	1.97%	2.10%
Federal Funds Rate	1.75%	1.00%	0.25%
10 Year U.S. Treasury Yield	2.74%	2.39%	1.85%
Gold	1325	1249	1598
Oil (Brent)	70	53	110
GDP (Annualized)	2.3%	1.2%	2.8%
Unemployment	4.1%	4.5%	7.5%
Inflation (Annualized)	2.4%	2.4%	1.5%

U.S. Unemployment Rate

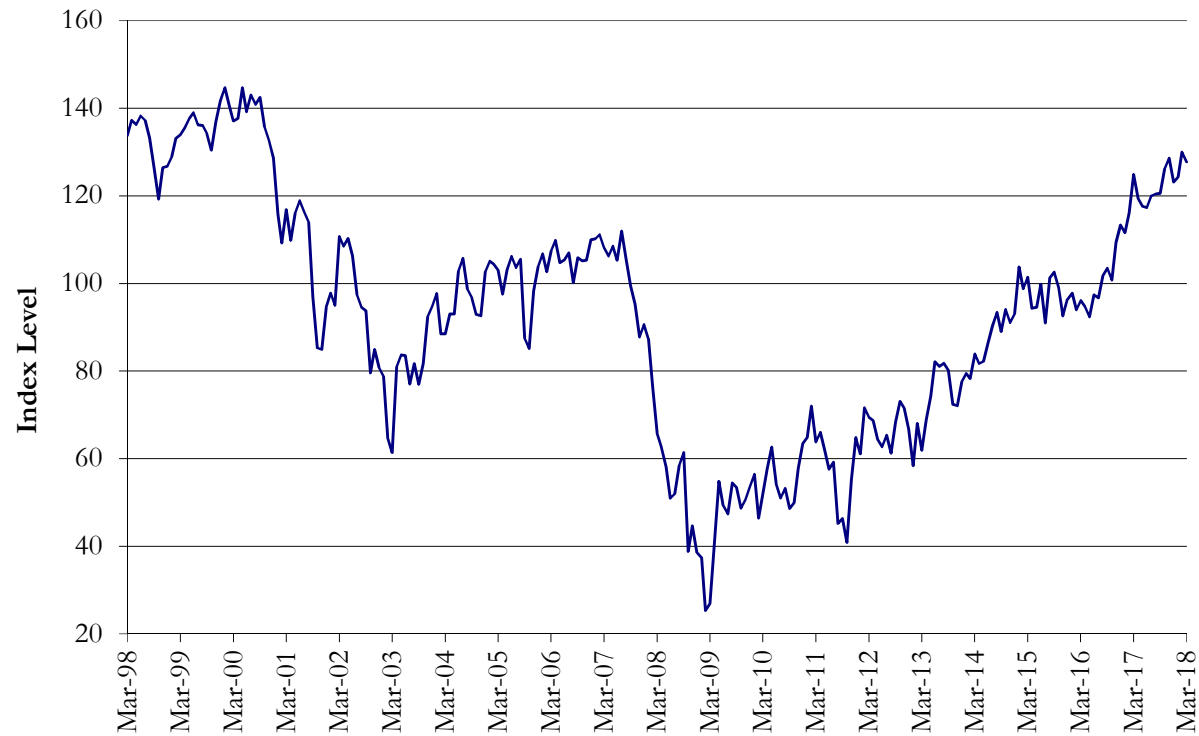
Twenty Years



Courtesy of Bloomberg

Consumer Confidence Index

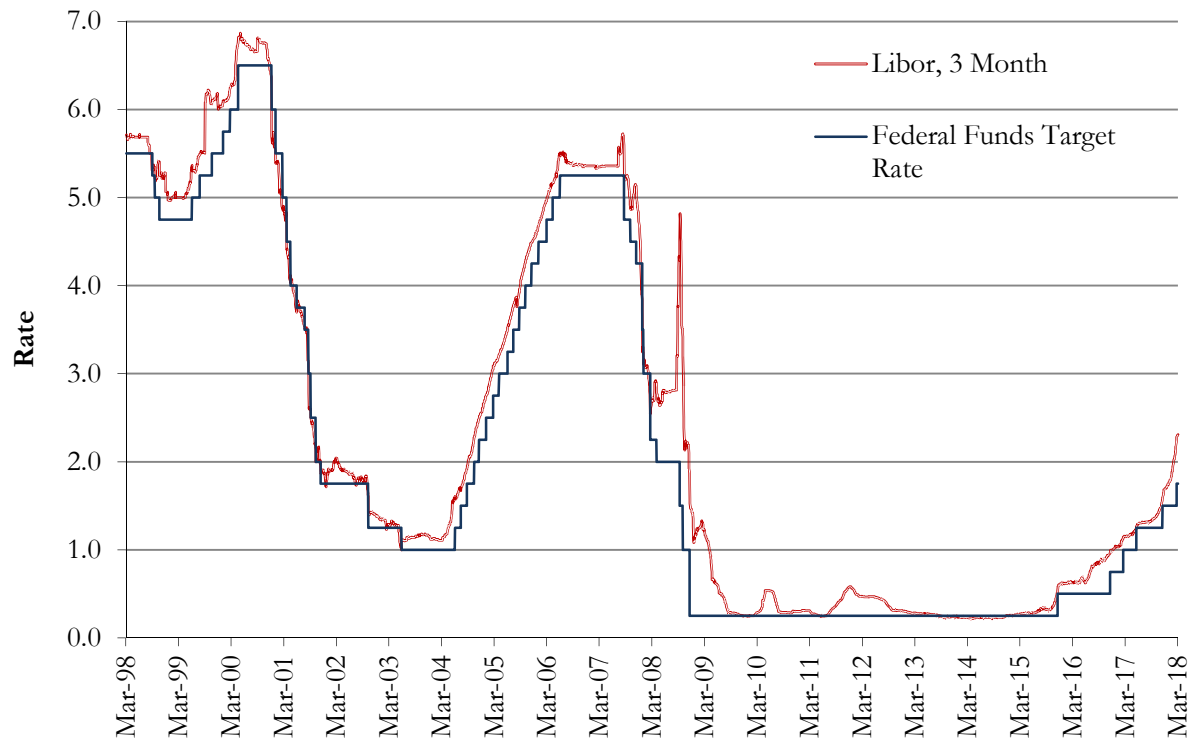
Twenty Years



Courtesy of Bloomberg

Federal Funds Target Rate & Libor USD Index

Twenty Years



Courtesy of Bloomberg

U.S. Treasury Ten Year Bond Yield

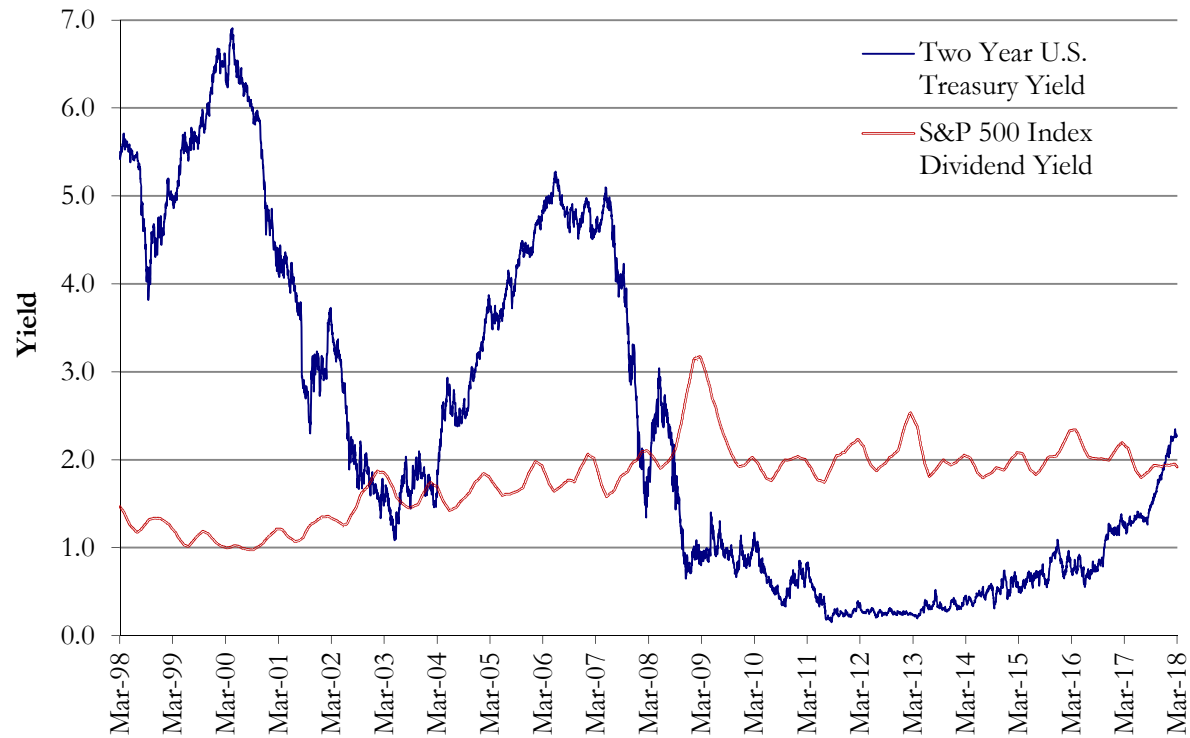
Twenty Years



Courtesy of Bloomberg

S&P 500 Index Dividend Yield & U.S. Treasury Two Year Bond Yield

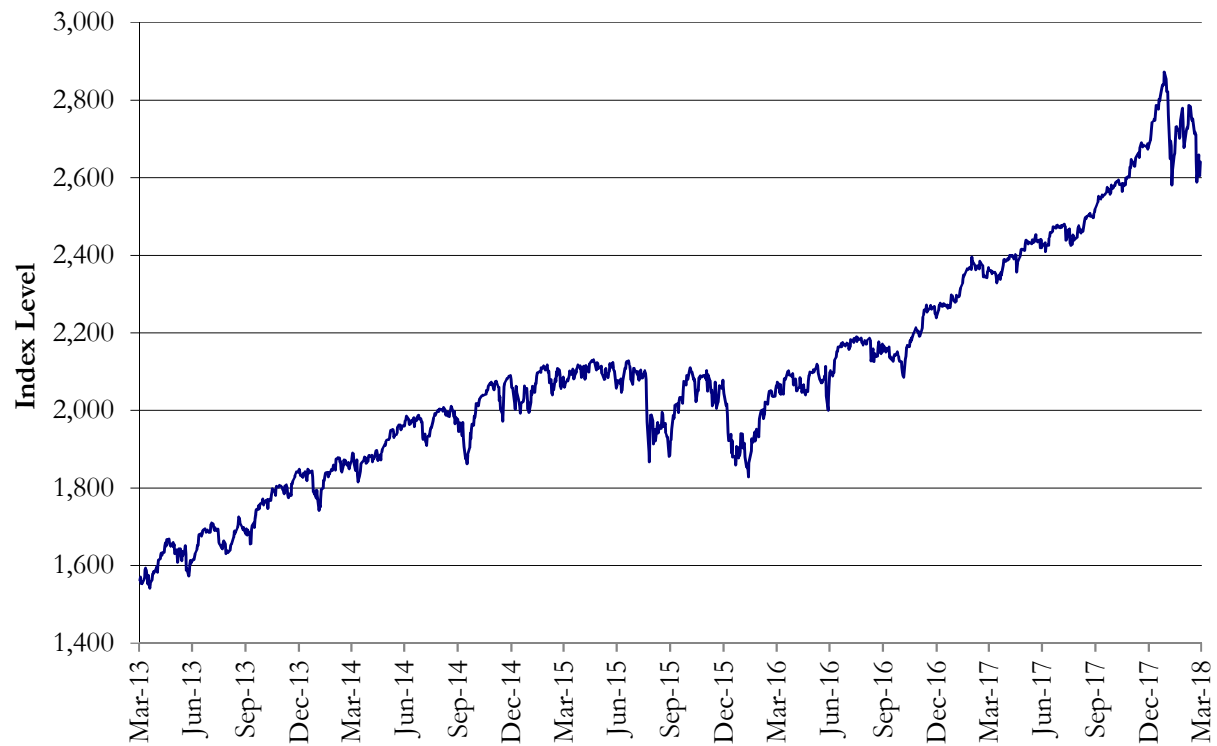
Twenty Years



Courtesy of Bloomberg

Standard & Poor's 500 Index

Five Years



Courtesy of Bloomberg

Standard & Poor's 500 Index

Twenty Five Years



Courtesy of Bloomberg