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First Quarter Market Watch

US equities entered 2018 with a turbulent first quarter. In the beginning of the year, the S&P 500 and the Dow Jones Industrial Average continued to rise, setting fresh records. This rally was propelled by the passage of the US tax reform, and the anticipation of a strong corporate earnings season. Then in early February, equity indexes fell just as quickly, suffering losses of more than 10%. While the S&P 500 and the Dow Jones Industrial Average mostly recovered from their February tumble, they ended March 2018 with the first quarterly declines since 2015, losing 0.8% and 2.0%, respectively.

Developed international equity markets were off to a weak start to 2018 as well, as the MSCI EAFE Index lost 1.6% during the quarter. Global financial markets ended the first quarter with escalating rhetoric around global trade policies. President Trump recently imposed aggressive tariff increases on steel and aluminum imports from U.S. trading partners. Shortly afterwards, the European Union and China responded with retaliatory tariff increases on selective industrial, agricultural commodity and consumer goods. The fear of a trade war between the US and its major trading partners has continued to weigh on major manufacturers, commodities producers, and other companies with significant exposure to global trade.

During of the first quarter, the CBOE volatility Index surged 80%. After a long stretch of market serenity, investors are growing apprehensive as they brace for accelerated interest rate increases and policy uncertainty. The US Federal Reserve has raised rates five times since December 2015, with the most recent rate increase in March 2018. The Federal Reserve expects to raise rates two to three times this year, and an additional three times in 2019. What's more, the U.S. Fed, as well as other central banks are increasingly likely to remove the accommodative monetary policy that has been in place since the global financial crisis. or the market intervention, in place since the global financial crises. The combination of rate hikes and balance sheet reduction could lead to higher volatility and less predictable returns.

The yield on the bellweather10-year US Treasury note posted its third consecutive quarterly increase, boosted by expectations for faster economic growth and inflation in wake of the $1.5 trillion, ten-year tax cut. Recent increases in consumer prices and wages triggered additional speculation for rising inflation, which undermines the value of bonds due to the erosion of purchasing power. As a result, investors are more inclined to sell US government bonds, leading to a decline in bond prices and higher yields. Despite these potential inflation pressures, the key

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2018	12/31/2017	% chg	3/31/2017	% chg
DJIA	24,103.11	24,719.22	-2.0%	20,663.22	19.4%
S&P 500	2,640.87	2,673.61	-0.8%	2,362.72	14.0%
NASDAQ Composite	7,063.45	6,903.39	2.6%	5,911.74	20.8%
Russell 2000	3,801.01	3,816.13	-0.1%	3,444.36	11.8%

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2018	12/31/2017	% chg	3/31/2017	% chg
Japan Nikkei 225	21,159.08	22,764.94	-1.5%	18,909.26	16.9%
MSCI EM (Emerging Markets)	1,169.27	1,158.45	1.3%	958.37	25.2%
MSCI EAFE	2,002.23	2,050.79	-1.6%	1,792.98	15.1%
MSCI AC World	505.44	513.03	-0.9%	448.87	15.4%
FTSE 100	6,049.76	6,519.85	-3.8%	6,036.73	13.0%
SSE Composite Index	3,160.53	3,307.17	-1.1%	3,222.51	7.4%

US Equity Style

	Q1	1-yr ret.
Consumer Discretionary	3.1%	17.6%
Consumer Staples	-7.1%	-1.0%
Energy	-5.9%	-0.7%
Financials	-1.0%	18.5%
Health Care	-1.2%	11.2%
Industrials	-1.6%	14.0%
Information Tech	3.5%	27.8%
Materials	-5.5%	10.5%
Telecom	-7.5%	-5.5%
Utilities	-3.3%	1.6%

US Equity Style

	Q1	1-yr ret.
Russell 1000 Value	-2.8%	7.0%
Russell 1000 Growth	1.4%	21.5%
Russell 2000 Value	-2.6%	6.3%
Russell 2000 Growth	2.3%	20.4%

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measures of price inflation have largely remained below the Federal Reserve's 2% target.

The US dollar has weakened since the US presidential election. For the past year, most of the decline in the dollar exchange rate was due to the global economic recovery, which has picked up speed, lifting foreign currencies against the dollar. However, looking ahead, an aggressive U.S. fiscal policy could add to fiscal deficits, which could put further pressure on the US dollar. This, however, could be partly offset by a higher real U.S. interest rate.

Turning to crude oil prices, even as oil price changes have remained range-bound in the year-to-date, a more balanced supply and demand outlook, along with more disciplined investment spending among US onshore producers, should support the energy sector's contribution to S&P 500 earnings.

Even after a rocky quarter, major equity indexes have remained not only in positive territory for the past twelve months, but up double digits. Other risk assets have also generated mostly positive returns in the past year. The global economic outlook remains mostly positive. It is instructive to note that the S&P 500 has ended up positive in twenty-nine of the past thirty-eight years, or 76% of the time, despite intra-year declines triggered by political and economic disruptions.

That said, we are increasingly cautious about the elevated valuations and potential risks from unintended, higher stakes policy consequences. These underlying factors will likely result in continuing volatility and asset return variation. The investment professionals at the 1911 Trust Company are therefore exercising greater scrutiny in portfolio allocations, and security selection, and continue to maintain a disciplined investment approach to safeguard your assets. We continue to believe that selectivity is increasingly important, as asset prices are not broadly attractive across the range of asset classes in our investment universe.

Bond Yields

	Mar 18	Dec 17	1 Yr. Ago
Treasury Bill, 90 Day	1.06	0.50	0.27
Treasury Note, 2 Year	1.47	1.20	0.76
Treasury Note, 5 Year	1.92	1.92	1.15
Treasury Bond, 10 Year	2.33	2.44	1.60
Treasury Bond, 30 Year	2.86	3.07	2.32

US Bond Sector Performance

	Q1	YTD	1-Year Return
BAR CAP Govt. Interm. TR	-0.7%	-0.7%	-0.3%

Exchange Rates (Rate per US dollar)

	3/31/18	1 Qtr Ago	1 Year Ago
Canadian Dollar	1.253	1.251	1.341
Mexican New Peso	19.566	18.159	20.602
Euro	0.833	0.846	0.948
British Pound	0.739	0.745	0.809
Swiss Franc	0.975	0.968	1.016
Chinese Yuan	6.512	6.643	6.950
Indian Rupee	63.828	65.320	67.870
Japanese Yen	112.650	112.565	116.635

Commodities

	3/31/2018	1 Qtr Ago	1 Yr. Ago
Gold	1,327.30	1,309.30	1,251.20
Crude Oil	64.94	60.42	50.60
UD Dollar Index	89.81	91.83	100.22
Bloomberg Commodity Index	87.47	88.17	85.35

Interest Rates

	3/31/2018	1 Qtr Ago	1 Yr. Ago
PRIME RATE	4.75	4.50	4.00
FEDERAL FUNDS RATE	1.68	1.43	0.91
LIBOR RATE 30 DAY	1.88	1.56	0.98
LIBOR RATE 3 MONTHS	2.31	1.69	1.15
30YR FIXED MORTGAGE	4.45	3.99	4.14

Economic Sentiment

	3/31/2018	1 Yr. Ago
Unemployment Rate	4.10	4.50
Average Single Family Home	281,900	279,300
Capacity Utilization	77.66	75.54

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