

Global Economy

The ongoing growth & inflation story took center stage in February, as markets re-priced the potential for overheating. Concerns over rising wages fueled the fire early in the month, with the January data showing average hourly wages increasing by 2.9% year-over-year.

Despite the latest reading on 4Q-17 GDP being revised down slightly to 2.5%, reports on the US economy and corporate fundamentals continue to display signs of strength. The unemployment rate remained at 4.1% for the fifth consecutive month, primarily because the participation rate edged up to 63.0%. Core PCE, the Federal Reserve's preferred measure of inflation, held steady at 1.5% over the past 12-months.

The Federal Open Market Committee (FOMC) did not meet in February, but Jerome Powell took over as the new Chair. His public comments thus far have been slightly hawkish, leading to increased expectations for at least three and perhaps four (>35% probability by month end) rate hikes by the end of 2018. The markets reacted to positive comments about the economy by pricing in a more rapid rise in inflation, with both the equity and bond markets declining.

The European Central Bank (ECB) adjusted its growth estimate for 2018, which has now inched up to 2.4%. Inflation expectations remain anchored, with expectations of just 1.4% year-over-year price increases for both 2018 and 2019. Fear of trade wars and protectionism rose in February as the US prepared to impose import tariffs on steel and aluminum.

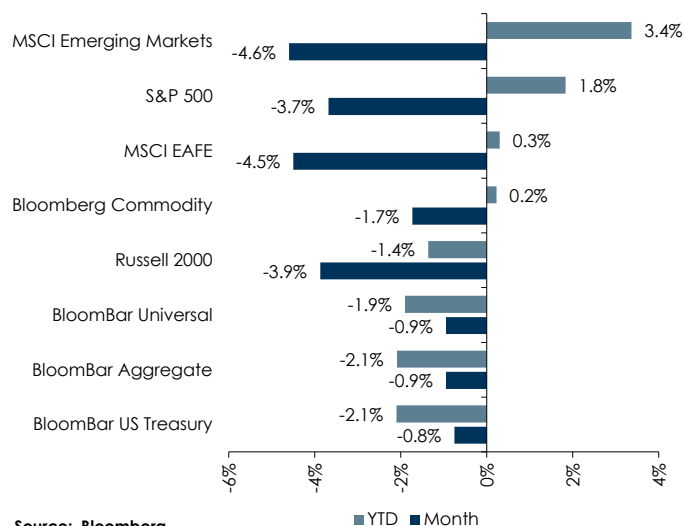
China's official Purchasing Managers' Index (PMI) dropped to 50.3 in February, below forecasts, but still remained in expansion territory. Perhaps more notable was the Communist Party's announced repeal of the constitutional provision relating to presidential term limits, which could allow Xi Jinping to stay in power beyond 2023 and perhaps indefinitely.

	Current	Dec-17
US GDP (%)	2.50	3.20
US Unemployment (%)	4.10	4.10
CPI (Core) (%)	1.80	1.70
Fed Funds (%)	1.25 – 1.50	1.25 – 1.50
10 Year UST Yld (%)	2.86	2.41
S&P 500 Div Yld (%)	1.88	1.89
S&P 500 P/E (Trailing)	21.93	22.45
Gold/oz.	\$1,317.90	\$1,309.30
Oil (Crude)	\$61.64	\$60.42
Gasoline (Natl Avg)	\$2.67	\$2.59
USD/Euro	\$1.22	\$1.20
USD/GBP	\$1.38	\$1.35
Yen/USD	¥106.68	¥112.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Market volatility returned with a vengeance in February, with the impact felt across all asset classes. Although large domestic stocks, as represented by the S&P 500, are still up for the year. This key benchmark fell into correction territory (decline of at least 10% from the prior high) as of February 8th. A subsequent recovery ensued, but the index finished down -3.7% for the month, breaking the streak of 15 consecutive months of positive returns. All major sectors were down for the month, with Energy (-11.3%), Consumer Staples (-7.8%), Telecom (-7.1%), and Real Estate (-7.0%) the hardest hit.

Small cap returns were also negative for the month and consequently, down year-to-date. The Russell 2000 gave back -3.9% for the month, erasing the gains of January and then some. Somewhat surprisingly in the risk-off atmosphere, small cap value (-5.0%) trailed small cap growth (-2.9%).

In the broad international developed markets, the MSCI EAFE index was down -4.5% in February, but was able to hold onto year-to-date gains (+0.3%). Among the various regions, Japan outperformed on a relative basis, down just -1.5%, while MSCI Europe suffered a loss of -5.9%. Currency played a material role in this spread, with the US dollar (USD) continuing to decline against the Yen, but appreciating versus the Euro. Developing economies were also down significantly in February (-4.6%), but the MSCI Emerging Markets index is still solidly up for the year at +3.4%. Within the index, Latin America (+9.1%) and Eastern Europe (+8.4%) have been the regions of strength.

Real estate was weak again in February, with the FTSE EPRA/NAREIT Developed index down -6.6%, and the FTSE NAREIT US Real Estate index down -7.0%. Rising interest rates and late cycle characteristics hampered returns.

The Alerian MLP index (-9.7%) declined in February, with higher interest rates and softer energy prices among the suspected reasons. The Bloomberg Commodity index was down -1.7%, similar to the decline in the USD.

Global Markets (continued)

The US Treasury (UST) market suffered its second consecutive monthly loss. As the yield curve steepened, longer-term issues were hit particularly hard (20+ year index down -3.1%). While rates finished off their intra-month peaks, and showed traditional diversification benefits on days when stocks suffered their worst losses, there are a number of ongoing headwinds contributing to UST weakness. The Federal Reserve will next meet on March 20-21, and markets are pricing a 100% chance for an upward rate hike. The group's updated economic and policy projections will be closely watched.

The Bloombar US Aggregate index lost -0.9% in February, bringing year-to-date losses to -2.1%. Given universal spread widening, government issues actually outperformed the primary market's other key sectors on a duration-matched basis. IG corporate credit spreads were 10 bps wider, and overall yields for IG corporates now exceed 3.7%.

The Bloombar 1-15-Year Municipal index returned -0.3%, as tax-exempt issues outperformed at virtually all points along the maturity spectrum. Notable retail mutual fund outflows, along with weaker corporate demand softened the technical environment. While valuations are not cheap, the tax benefit of municipals grows as yields continue to rise.

The Bloombar US Corporate High Yield index produced a loss of -0.9% in February. While spreads appeared resilient amid equity market volatility, the benchmark's overall spread level widened by 17 bps. Local currency emerging market bonds lost -1.0%, but dramatically outperformed sovereign and corporate issues, which are more sensitive to US rates.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.05	0.04
Germany	0.65	0.42
France	0.92	0.78
United Kingdom	1.50	1.19
Spain	1.53	1.56
Italy	1.97	2.01
United States	2.86	2.41
Mexico	7.62	7.65
Brazil	9.61	10.26

Source: Bloomberg

Indices Report (Periods Ending February 28, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-3.69	1.83	17.10	11.14	14.73	9.73	10.36
Russell 1000	-3.67	1.62	16.70	10.77	14.56	9.78	10.60
Russell 1000 Growth	-2.62	4.27	26.11	13.51	17.03	11.58	11.22
Russell 1000 Value	-4.78	-1.09	7.75	8.02	12.04	7.89	9.85
Russell 2500	-4.11	-1.19	11.17	8.29	12.30	10.09	12.05
Russell 2000	-3.87	-1.36	10.51	8.55	12.19	9.74	11.50
Russell 2000 Growth	-2.85	0.94	18.44	8.93	13.72	10.74	12.05
Russell 2000 Value	-5.00	-3.83	2.96	8.03	10.59	8.64	10.83
Wilshire 5000 Cap Wtd	-3.69	1.37	16.18	10.85	14.48	9.80	10.81
MSCI ACWI	-4.16	1.27	19.41	8.93	10.66	6.22	10.00
MSCI ACWI ex US	-4.70	0.62	22.18	6.73	6.78	3.12	9.69
MSCI EAFE	-4.50	0.30	20.69	6.15	7.54	3.30	9.10
MSCI EAFE Local Currency	-3.24	-2.08	10.85	5.08	9.80	4.85	8.27
MSCI EAFE Growth	-4.27	0.17	22.61	7.17	8.12	3.78	9.03
MSCI EAFE Value	-4.73	0.42	18.84	5.04	6.89	2.75	9.08
MSCI Emerging Markets	-4.60	3.36	30.97	9.37	5.39	2.99	13.17
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.04	-0.32	-0.13	0.41	0.48	1.13	1.95
BloomBar US Aggregate	-0.95	-2.09	0.51	1.14	1.71	3.60	3.90
BloomBar Gov't Bond	-0.74	-2.06	-0.52	0.37	0.91	2.68	3.28
BloomBar US Credit	-1.51	-2.43	2.12	2.17	2.77	5.01	4.89
BloomBar 10 Yr Municipal	-0.43	-1.95	2.28	2.16	2.59	4.88	4.46
BloomBar US Corp High Yield	-0.85	-0.26	4.18	5.19	5.33	8.30	8.64
Citigroup World Gov't Bond	-0.68	0.94	7.00	2.55	0.81	2.14	3.90
BloomBar Global Aggregate	-0.89	0.29	6.01	2.45	1.23	2.67	4.07
BloomBar Multiverse	-0.93	0.29	6.16	2.71	1.44	2.89	4.28
Real Assets							
NCREIF Property	0.00	0.00	6.98	9.39	10.19	6.08	9.02
NFI ODCE Net	0.00	0.00	6.66	9.42	10.51	4.07	7.29
FTSE NAREIT US Real Estate	-7.71	-11.57	-10.12	0.39	5.75	6.62	10.09
Bloomberg Commodity	-1.73	0.22	1.58	-4.69	-8.08	-8.26	-0.97
Cash and Equivalents							
US T-Bills 90 Day	0.09	0.22	0.99	0.48	0.31	0.35	1.29

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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