MARKIN MICKELSON
FINANCIAL GROUP
of Wells Fargo Advisors

Monthly Market Commentary
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US Economy

Consumer activity is an important barometer for assessing the well-being of an economy, since consumer expenditures often are the largest contributor to economic growth. According to The World Bank's data as of January, 2018, 68.8% of US GDP (Gross Domestic Product) in 2016 was attributable to consumer expenditures.[1] Consumer spending power, measured by disposable income, recently has improved. After a slowdown in late 2016 and early 2017, disposable income growth in the US economy has been gradually rising.

When consumers are confident in their future income and job stability, they tend to increase spending and drive economic growth higher. Consumer confidence indices are designed to track sentiment among households and consumers. The latest US economic recovery recently has pushed this gauge close to a level that has not been seen since the early 2000s.[2]

Economic recovery often is a lengthy process, with many setbacks along the way. Seasonal factors and policy changes, such as the threat of trade tariffs, can create periods of short-term volatility. Nevertheless, we believe that the current global economic recovery remains intact. Potential expansion in consumer expenditures, led by strong consumer confidence, is one of many drivers of this recovery. Moreover, underlying fundamental conditions, such as falling unemployment rates and rising discretionary income, are confirming indicators of this recovery trend.

US Markets

US equity markets continued their volatile streak in March as concerns about a potential trade war and the threat of ensuing inflation dominated headlines. As we have mentioned in previous communications, we do not believe a trade war is imminent. The last time the US entered a trade war was in the early 1930's, initiated by the Smoot-Hawley Tariff Act of 1930. The result of this Act was the imposition of new tariffs and the boycott of American exports by several countries. In addition, a widely-held consensus view among economists was that the Act exacerbated the Great Depression.

Instead, we believe the discussions surrounding tariffs are an attempt to lure other countries to the negotiating table as the US attempts to rebalance the global trading system. As such, we believe the recent volatility may offer an attractive entry point for investors who are holding side-lined cash. We continue to believe that the US equity markets could end the year higher based on what we perceive are solid economic fundamentals.

[1]Source: https://data.worldbank.org/indicator/NE.CON.PETC.ZS?locations=US
[2]Source: https://www.conference-board.org/press/pressdetail.cfm?pressid=7331

Fixed Income

The Federal Open Market Committee (FOMC) met in March and, as anticipated, increased the range for the federal funds target rate to 1.50% to 1.75%. The FOMC reiterated that it expects economic conditions to evolve in a manner that will warrant gradual increases in rates. The Fed will also increase its monthly balance-sheet reduction targets beginning in April. The new monthly roll-off target is $18 billion in Treasury securities and $12 billion in mortgage-backed securities – up from $12 billion and $8 billion, respectively.

Looking forward, the FOMC anticipates that inflation (excluding food and energy prices) will increase this year and stabilize around the committee's 2% objective over the medium term. The FOMC continues to expect that the US economy will expand at a moderate pace and that labor-market conditions will remain strong. The Fed continued to describe the path of future rate hikes as "gradual." The Fed's economic projections indicate that two additional rate hikes this year are likely (for a total of three rate hikes in 2018), to which we would agree.

International Markets

On Sunday, March 4th, Italy held general elections to select members of the both the upper and lower houses of Parliament. The center-right coalition of the (xenophobic) Northern League and Forza Italia emerged as the main political force. The far-left populist and former Euro-skeptic Five Star Movement (S5M) took the largest number of votes. However, a hung parliament resulted as no political group or party won an outright majority, thus forcing parties to form new coalitions.

As we have witnessed across much of Europe over the past two years, there has been a rather large backlash against the European Union (EU), particularly as it relates to broad EU policies surrounding immigration and European Central Bank-imposed austerity measures. As a result, numerous populist parties in Italy (and much of Europe) have gained a lot of support and the threat of withdrawal from the EU loomed as the elections neared. Nonetheless, political developments in Greece and the UK over the past few years have provided important case studies for supporters of leaving the economic and currency union. As such, we do not anticipate that Italy will break away from the EU in the near-future.

Commodities

President Trump's recent tariff talk on steel and aluminum has the financial community scrambling to understand what it means. Tariffs have not been a regular part of US trade policy talk for some time. US trade policy, for decades now, has been focused on globalization. And globalization typically requires open doors, not closed ones. With that said, it is not clear how far the US will go with the tariffs. So far, it appears that some countries have been exempted.

It is not unheard of for the US to impose tariffs, even while it has pursued globalization. In 2002, President Bush attached tariffs to imported steel. The effect was that steel imports fell in 2002 and 2003, and domestic steel prices spiked. If the US tariffs are imposed as they have been presented, higher steel and aluminum prices are likely coming. However, due to the commodity bear super-cycle that we are currently experiencing, it will remain to be seen if higher prices can be sustained beyond 2018.

What Does This Mean To Me?

Despite the recent market volatility, we continue to believe that the global economy is on solid footing. Consumer and small business confidence continues to rise, unemployment continues to drop, and the housing market appears to be healthy. We believe the US and many international equity markets could end the year higher. As such, we continue to recommend investors stay the course and remain vigilant during bumpy markets.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

Chad E. Mickelson, CRPC®, CFP®
Financial Advisor

Clint A. Markin, CRPC®, CFP®
Financial Advisor

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Investing in commodities is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. The prices of various commodities may fluctuate based on numerous factors including changes in supply and demand relationships, weather and acts of nature, agricultural conditions, international trade conditions, fiscal monetary and exchange control programs, domestic and foreign political and economic events and policies, and changes in interest rates or sectors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks, including futures roll yield risk.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity

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