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Monthly Market Commentary
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US Economy

Despite the recent market volatility, the US economy continues to improve. The employment rate continues to remain low, wage prices are rising, inflation is tame, housing is performing well, gasoline prices are low (which means we have more money in our pockets), and, while the Fed is raising interest rates, they remain near historic lows. Outside of the US, many developed and emerging market economies appear to be doing well too. All of these factors could bode well for the US economy moving forward. As such, barring any major geopolitical event (war with North Korea, a major cyberattack, etc.), we are not anticipating a recession in 2018.

US Markets

After an extended period of low volatility, equity markets have experienced sizeable swings in the past few weeks. Stock market euphoria over US tax reform and global synchronized economic and earnings growth was abruptly replaced by concerns over budget deficits, rising rates, inflation, and volatility strategies (i.e. computer algorithmic trading) that may have exacerbated the sell-off. Regardless of the cause, since the 1920's, equity markets correct (at least a 10% decline from the most recent highs) on average, once every 11 months, and the last correction was nearly two years ago. Our view is that the latest decline is a normal market correction that does not signal the end of this bull market. Instead, we believe that it is simply a temporary pause in what is still a technically up-trending market.

Fixed Income

US bond yields have been trending higher since the beginning of 2018. In early February, a strong employment and wage inflation report sent bond yields to their highest level in four years. While yields have been rising, the recent increase in yields has been "well-behaved," devoid of bond-market panic, and well within normal historical bond-yield movements.

While market volatility has risen from last year's extremely low levels, we regularly experience bond-market volatility in both directions. While near-term risks are to the upside for yields, we do not believe that we have entered a new higher-yield regime. We anticipate that systemic issues likely will conspire to keep rates relatively contained over the next decade. These factors include an aging demographic, high government debt levels, low productivity growth, and relatively low international bond yields.

International Markets

Chinese equity markets were strong performers last year and have started 2018 with modest increases (as of this writing). Valuations for Chinese equities are fairly reasonable; however, financial stocks

(including many state-owned banks) are heavily represented in the major indices in China. This can keep valuations artificially low.

While Chinese valuations are reasonable and earnings are improving, we believe risks are rising. The first risk is that trade protection rhetoric could increase. This recently happened around aluminum and steel tariffs. Secondly, Chinese President Xi Jinping may capitalize upon the strong economic growth and financial markets to more energetically tackle long-term problems like the growing debt burden and pollution, and by instituting other reforms that could temper growth. Nonetheless, we believe that China's economy will continue to expand in 2018 and we retain a neutral outlook on their equities.

Commodities

Despite recent equity and bond market volatility, gold prices (historically a "safe-haven" asset) have remained rather muted in 2018. While stock market volatility, a persistently weak US dollar, and global inflationary concerns would typically boost prices, gold has been hard pressed to break above $1,350 per ounce. The main reason that we feel gold prices could struggle to exceed $1,400 is the commodity bear market super-cycles that we have discussed in the past. We also believe there is a second reason – China. China is that largest buyer of gold in the world and Chinese demand has been diminishing since 2014, partly due to diminishing consumer demand.

For gold to move above $1,400, and stay there, we believe that it needs a few trends to reverse. The first is the end of the commodity bear super-cycle. Second, China needs to buy more gold. We do not see either of these trends reversing in 2018, and as such, we believe gold prices could remain stagnant.

What Does This Mean To Me?

The US economy continues to grow, supported by an economic expansion in key parts of the world, and modestly rising inflation. US interest rates have been rising, though within normal historical parameters. The current economic expansion, with low inflation and interest rates still below historically average levels, remains positive for equities, and we anticipate new highs in equity prices later this year. However, the ride may be bumpier than in 2017, thanks to evolving inflation and interest-rate trends. 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,

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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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