

DeMarche Dashboard

Data and Commentary for Periods Ended 02/28/18

Global Overview

- **Volatility and inflation** concerns dominated markets at the beginning of the month. The stock sell-off was global in nature, with no major country or region avoiding declines. However, by the end of the month most markets had regained some of their earlier losses. In the United States, attention turned towards the new Federal Reserve chairman, Jerome Powell, as investors reassessed the first of several expected 2018 interest rate hikes in light of the sell-off in equities and increased signs of inflation.
- **Developed markets** – Wage gains in the United States drove much of early February’s concern over increasing inflation. While modest by historical standards, the uptick in pay increases was higher than typically seen during the economy’s long recovery from the 2008 crisis. Volatility was driven by forced selling of leveraged positions and compounding by algorithmic trading. Europe saw markets reach their low point during the second week of the month, with continued solid economic data and strong corporate earnings driving recovery during the second. In Japan, investors were reassured with the reappointment of Haruhiko Kuroda to head the Bank of Japan, easing fears of a departure from the bank’s current monetary policy.
- **Emerging Markets** – Emerging countries slightly trailed both the U.S. and developed international markets. Russia was one of two countries able to produce positive returns, helped by declining inflation and oil prices. Chinese markets declined, but overall economic growth continued to be solid, consistent with 2017’s pace. India and emerging Europe were among the worst performers, impacted by currency effects and a growing banking scandal in India.

U.S. Economy and Markets

- The S&P 500 Index lost 3.7% in February. Ten out of 11 sectors were negative for the month.
 - Information Technology was the only positive performing sector. Energy, Consumer Staples, and Telecomm Services were the weakest performing sectors.
- Small cap stocks slightly trailed large cap stocks. Growth stocks led value across all market capitalization ranges.
- The Russell 2000 Index lost 3.9%. Nine out of 11 sectors were negative.
 - Technology and Telecommunications were the only positively performing sectors. Energy, Consumer Staples, and Utilities were the weakest performing sectors.
- Payrolls increased well above expectations in February. Nonfarm payrolls increased by 313,000, and the unemployment rate remained steady at 4.1%. Both January and December’s payroll changes were revised upward, and wages grew by 2.6% year over year. Employment increased in construction, retail, and business services. Labor force participation was 63.0%, little changed over the past year.



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- The Consumer Confidence Index increased in February. The Index stands at 130.8 vs. 124.3 in January. Consumers' views of current conditions improved in February, and longer term outlooks remain solid.
- The 10-year Treasury rose as high as 2.94% before ending the month at 2.87%. The last time yields hit 3.0% was 2014. Investment grade corporate spreads widened, gaining almost 10 basis points to 1.00%. High-yield spreads spiked during the first half of the month, reaching nearly 390 basis points above comparable Treasury rates before tightening somewhat to end the month.
- The Bloomberg Barclays Aggregate Index lost 0.9% for the month, while the Investment Grade Corporate Index lost 1.6%, and the Bloomberg Barclays U.S. High Yield Index fell 0.8%.

International Markets

- The MSCI EAFE Index posted a decline of 4.5% in dollar terms in February. Japan was strong on a relative basis compared to Europe. Finland was the only positively performing country, while other Nordic nations were relatively stronger as well. Southern Europe, particularly Spain and Italy, fared poorly. Small cap stocks outperformed large cap EAFE stocks, with the MSCI EAFE Small Cap falling 3.5% in dollar terms.
- By style, international developed market growth stocks did better than value. The MSCI EAFE Growth Index lost 4.3%, while the MSCI Value Index returned -4.8%.
- The MSCI Japan Index dropped 1.5%, while Asia excluding Japan fell 5.0%. The Europe-wide index declined 5.9%, and the United Kingdom did slightly worse, returning -6.4%.
- The MSCI Emerging Markets Index trailed developed countries, dropping 4.6%. Thailand and Russia were the only positively performing countries. Poland, Greece, and Hungary were the weakest performing countries.
- MSCI's China Index fell 6.4% in dollar terms. Mainland Chinese equities (A Shares) lagged, losing 8.1%.
- So-called "Frontier" countries were the best performers in February. The MSCI Frontier Markets Index lost 1.5%. Kazakhstan, Tunisia, and Jordan were the strongest performing countries.
- Government bond yields moved higher in the U.S., while in Europe they were down very slightly. The JP Morgan Global Government Bond Index dropped 0.8%. The Bloomberg Barclays Euro Universal Index lost 2.0% in dollar terms, while the Bloomberg Barclays Global Treasury Ex-US Index dropped 0.2%. Emerging Markets hard currency debt fell 1.5%.



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Looking Ahead

- Focus is expected to increasingly shift to politics as midterm elections draw closer in the United States. Generally, the sitting President's party fares poorly in such elections, and results for special elections held over the past few months indicate this year will not be an exception. Investors will be watching to see if the current Congress produces any significant policy during the remainder of its term, particularly regarding infrastructure.
- The conclusion of the Winter Olympics Games in South Korea was followed by a surprise turn of events in the nuclear standoff on the peninsula. South Korean leaders announced that President Trump had accepted an invitation to meet with North Korean leader Kim Jong Un. If and when the meeting takes place, it could have major impacts on the geopolitics of Asia and markets throughout the world.
- Central banks will play a prominent role in 2018, as widespread signs of sustained global growth and increasing inflation clear the way for potential changes to central bank policy. Jerome Powell took over as the new Fed chairman in February, and was almost immediately confronted with a decision on raising a key short term interest rate in March. The Bank of Japan has signaled its monetary support will remain in place, although longer dated bond purchases have been reduced. Investors will be watching how a higher yen impacts BOJ policy, given its prominent role in depressing global yields.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates	
	Latest	2017 ^A	2018 ^A	(Most recently available)	Sovereign Bonds, 10 Year ^B	per US \$	
						Current	1 Year Ago
United States	2.50	2.30	2.70	4.10	2.75	-	-
China	6.80	6.80	6.50	3.90	3.85	6.33	6.86
Japan	1.50	1.70	1.50	2.80	0.10	106.64	112.68
United Kingdom	1.40	1.70	1.50	4.25	1.51	1.40	1.25
Euro Area	2.70	2.40	2.40	8.70	1.27	1.23	1.06
Germany	2.90	2.50	2.60	3.60	0.50	1.23	1.06
France	2.50	1.90	2.10	9.20	0.92	1.23	1.06
Italy	1.60	1.50	1.50	10.80	1.97	1.23	1.06
Canada	3.00	3.10	2.30	5.90	2.24	1.27	1.31
India	7.20	6.40	7.20	6.10	7.73	64.33	66.97
Mexico	1.50	2.10	2.10	3.40	7.63	18.56	19.74
Brazil	1.40	1.00	2.70	12.20	9.61	3.23	3.06

A. *The Economist* or The Economist Intelligence Unit estimate/forecast

B. Most recently available data

Sources: Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	-4.14	2.28	0.92	17.36	8.19	10.70	6.03
	BBgBarc US Agg Bond TR USD	-0.95	-1.64	-2.09	0.51	1.14	1.71	3.60
	Russell 3000 TR USD	-3.69	2.40	1.39	16.22	10.59	14.37	9.78
	DJ Industrial Average TR USD	-3.96	3.64	1.69	23.10	14.16	15.02	10.27
	NASDAQ Composite PR USD	-1.87	5.81	5.35	24.85	13.58	18.14	12.34
	MSCI EAFE NR USD	-4.51	1.89	0.28	20.13	5.65	7.06	2.82
	Citi Treasury Bill 3 Mon USD	0.11	0.32	0.22	0.98	0.45	0.29	0.32
	Bloomberg Commodity TR USD	-1.73	3.21	0.22	1.58	-4.69	-8.08	-8.26
Domestic Equities	S&P 500 TR USD	-3.69	2.96	1.83	17.10	11.14	14.73	9.73
	S&P MidCap 400 TR	-4.43	-1.47	-1.69	9.53	9.10	12.81	10.69
	S&P SmallCap 600 TR USD	-3.87	-1.95	-1.44	10.29	10.61	14.04	11.17
	Russell 1000 TR USD	-3.67	2.75	1.62	16.70	10.77	14.56	9.78
	Russell 1000 Growth TR USD	-2.62	5.09	4.27	26.11	13.51	17.03	11.58
	Russell 1000 Value TR USD	-4.78	0.35	-1.09	7.75	8.02	12.04	7.89
	Russell Mid Cap TR USD	-4.13	0.40	-0.52	11.95	8.01	13.01	10.05
	Russell Mid Cap Growth TR USD	-3.14	2.89	2.34	20.60	9.33	14.23	10.43
	Russell Mid Cap Value TR USD	-4.93	-1.54	-2.74	5.47	7.07	12.03	9.67
	Russell 2000 TR USD	-3.87	-1.76	-1.36	10.51	8.55	12.19	9.75
	Russell 2000 Growth TR USD	-2.85	1.06	0.94	18.44	8.93	13.72	10.74
	Russell 2000 Value TR USD	-5.00	-4.75	-3.83	2.96	8.03	10.59	8.64
International Equities	MSCI ACWI Ex USA NR USD	-4.72	2.84	0.59	21.63	6.24	6.31	2.65
	MSCI EAFE NR USD	-4.51	1.89	0.28	20.13	5.65	7.06	2.82
	MSCI EAFE Growth NR USD	-4.28	1.84	0.16	22.16	6.77	7.72	3.41
	MSCI EAFE Value NR USD	-4.75	1.93	0.39	18.18	4.45	6.32	2.16
	MSCI Japan NR USD	-1.51	3.73	3.01	21.77	9.69	10.44	3.89
	MSCI AC Asia Ex Japan NR USD	-4.98	4.97	2.21	31.93	9.92	8.09	5.01
	MSCI Europe NR USD	-5.88	0.70	-0.79	20.54	4.27	6.58	2.22
	MSCI United Kingdom NR USD	-6.40	1.24	-3.55	14.17	1.17	4.19	2.09
	MSCI EAFE Small Cap NR USD	-3.55	4.09	1.39	27.40	12.29	11.77	6.57
	MSCI EM NR USD	-4.61	7.05	3.34	30.51	8.97	5.02	2.65
Fixed Income	BBgBarc US Govt/Credit TR USD	-1.08	-1.71	-2.22	0.64	1.17	1.71	3.58
	BBgBarc US Govt/Credit Interm TR USD	-0.46	-1.22	-1.34	0.04	0.99	1.21	2.88
	BBgBarc US Govt/Credit Long TR USD	-3.16	-3.36	-5.15	2.80	1.76	3.69	6.61
	ICE BofAML US HY Master II TR USD	-0.93	-0.01	-0.30	4.12	5.21	5.35	8.13
	Credit Suisse HY USD	-0.81	0.10	-0.22	4.00	5.23	5.24	7.85
	S&P/LSTA Leveraged Loan TR	0.20	1.56	1.16	4.22	4.24	4.01	5.58
	Citi WGBI NonUSD USD	-0.65	2.62	2.53	11.17	3.72	0.90	2.01
	BBgBarc Gbl Agg Ex USD TR USD	-0.85	2.44	2.16	10.50	3.40	0.85	2.01
REITs	FTSE NAREIT All REITs TR	-7.02	-10.12	-10.03	-5.85	2.23	6.42	7.05
	Wilshire US REIT TR USD	-7.59	-11.25	-11.13	-9.97	0.22	5.86	6.48

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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