First Quarter 2018 Market Perspective

Asset Class Returns: Q1 2018

US Equities		**Fixed Income**	
S&P 500 Index	-0.76%	US Treasury Bonds (GOVT)	-1.27%
NYSE	-2.79%	Investment-Grade Corp. Bonds (LQD)	-2.89%
NASDAQ	2.32%	Low Quality Corporate Bonds (JNK)	-1.49%
Equal-Weight Indices		**Precious Metals**	
Value Line Geometric	-2.78%	Gold Bullion	1.73%
Economically-Sensitive Indices		Silver Bullion	-3.28%
Dow Jones Transportation Index	-2.03%	Precious Metals Miners (GDX)	-4.66%
Hedged Equity Benchmark Index		**Commodities**	
HFRX Equity Hedge Index	1.17%	Bloomberg Commodity Index	-0.79%
International Equities		**Currencies**	
MSCI EAFE (Developed Markets)	-1.70%	US Dollar (DXY)	-2.14%
MSCI Emerging Markets	1.28%	Euro (FXE)	2.35%
		Japanese Yen (FXY)	5.83%

Sources: Kitco, Google Finance, Standard and Poors, HFR, StockCharts.
Data as of March 29, 2018.

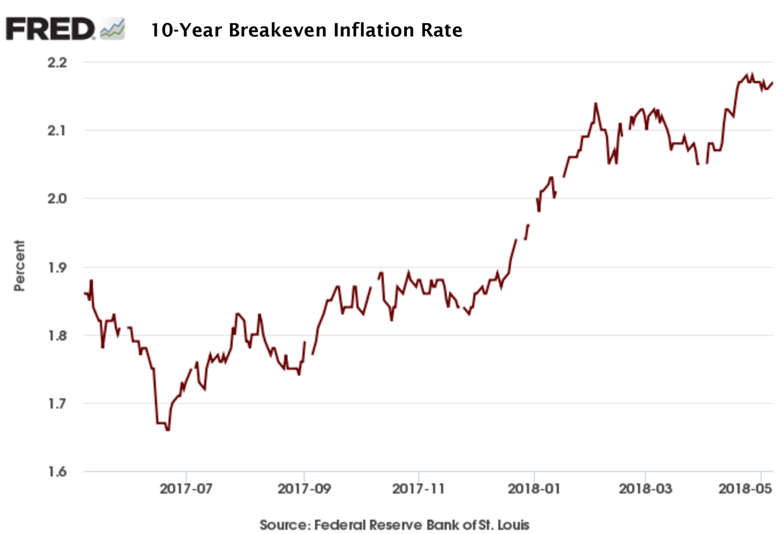
For the first time in ten quarters, most global developed equity markets declined in value for the period ending March 31, 2018. The-tech heavy NASDAQ was able to advance, along with emerging market equities.

The year began with rampant optimism around equities as individual sentiment hit a record high and January marked the fifteenth consecutive monthly gain for the S&P 500. However, by the second week in February equity markets began to experience significant volatility. In the first seventy-one trading days of 2018, the S&P 500 has had twenty-eight days of 1% change or greater, often with swings in either direction on alternating days. By contrast, there were only eight such days for all of 2017.[1,2]

The International Monetary Fund said recently in its semi-annual Global Financial Stability Report that risks to financial stability have increased over the last six months, a shift that could make the "road ahead bumpy" for markets.[3] The April Conference Board report reflected the most pessimistic views since 2011 with the majority of respondents expressing expectations that equity markets will move lower over the next twelve months.[4]

Fixed income markets have not provided a safe haven, due to the continued rise in interest rates. All but the shortest maturities declined in value during the first quarter. In early April, the yield curve inverted with the shortest-term rates exceeding longer term rates. Inversion would generally signal either end-of-cycle trouble for risky equity markets, or reflect market expectations that the Federal Reserve may alter its current course.[5,6] Yields on ten-year U.S. Treasuries reached the psychologically important 3% level for the first time since 2014, and yields on two-year Treasuries reached their highest point since 2008.

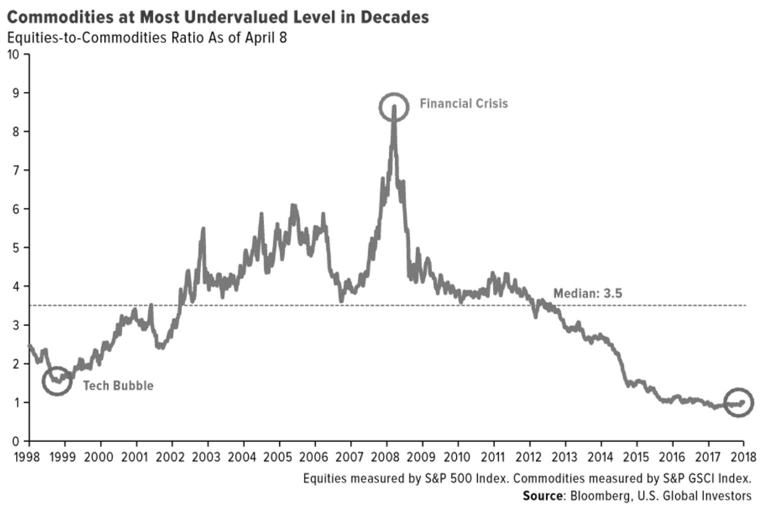
Gross Domestic Product in the U.S. grew 2.3% for the first quarter; this growth is slower than the previous three quarters and further prolongs the weakness of the current economic expansion. The two most recent expansions -- from 2001-2007 and from 2009-2018 -- have been historically meager. GDP climbed only 18% and 21.8% respectively during those periods. This is a sharp contrast to the economic expansion ending in 2001, when GDP grew 42.6%, and the strong economic advance ending in 1990, when GDP increased 38.4%.[7]



The dollar moved lower during the quarter against many currencies, but lifted sharply in April. Corporate profits are relatively strong, and general economic conditions domestically and globally show continued signs of strength. Geopolitical events continue to amplify short-term volatility as markets adjust to prospects of trade wars amidst economic expansion.

Inflation expectations (as measured by the Federal Reserve's Breakeven Expectation Rate) troughed in December and rebounded sharply this year. Trade wars are likely to further increase inflationary pressures, and have a negative effect on the U.S. dollar. While a weak dollar could help export competitiveness, imposing tariffs will increase import prices. This has the potential to further increase inflation pressure in the U.S.[8]

Since bottoming in late 2015 at $1050 per ounce, gold bullion has made a series of higher lows each of the last two and a half years, such that gold is up 26% from that trough. It continues to trade within the upper 20% of its four-year trading range. We expect gold to continue working its way higher during 2018.



Commodities are another asset class we believe represents tremendous value. Commodities remain at their most undervalued level in decades relative to the S&P 500. We began increasing our exposure to commodities in late 2017 and have continued to add to those positions. We expect to continue to do so opportunistically throughout this year.

While some investors view the overall economic, corporate-earnings, and interest rate conditions as supportive of equities, others see extreme valuations which could greatly magnify any missteps by companies or central bankers. We believe that the most likely result for the second quarter of 2018 will simply be continued volatility in all markets.

Sources:

[1] "Why the Price of Gold is Heading for a Double-Digit Surge in 2018". Money Morning. April 16, 2018.
[2] "Speed Bump". Kanawha Capital Management. April 2018.
[3] "Markets Should Brace For More Volatility, IMF Finance Chief Says". Bloomberg News. April 19, 2018.
[4] "American Investors Just Gave Up On The Bull Market In Equities". Bloomberg News. April 24, 2018.
[5] "The Yield Curve Just Inverted". FINSUM. April 9, 2018.
[6] "Bad Omen For Markets From First Signs of Yield Curve Inversion". Bloomberg News. April 9, 2018.
[7] "Rising Interest Rats and Deficits Make a Dangerous Cocktail, Gundlach Says". Financial Advisor Magazine. May 9, 2018.
[8] "Is Gold Really the Diversifier to Stocks?" Financial Advisor Magazine. April 2, 2018.
