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First-Quarter 2018 Market Review ~ Normalcy Returns

April 2018 - Whoosh!! After an unusually calm period, volatility reappeared during the first quarter of 2018 like a winter nor'easter. Investors dumped stocks at the outset of February, resulting in the Dow Jones Industrial Average retreating by more than one thousand points twice in one week, the two largest point losses in history. The decline resulted in a market "correction," defined as a drop of 10% or more from a recent high, the first correction since January 2016. It was the worst week since the 2008 financial crisis.

Stocks had advanced every month since November 2016, culminating in a January 2018 gain greater than 5%. It was the longest monthly winning streak for the Standard & Poor's 500-Stock index since 1959.

Stocks also fell in March, ending nine consecutive up quarters for the Dow Jones and S&P 500. At quarter end, the Dow Jones was off 2.5%, the S&P 500 (total return) slipped 0.8%, while the NASDAQ Composite index managed to add 2.3%. The minor year-to-date losses hid a "stealth" bear market, as nearly a quarter of S&P 500 stocks were trading at least 20% below their 52-week highs.

International Developed Country indexes were nearly flat to slightly lower, while Emerging Markets eked out 1.3%.

Markets were initially roiled in February by concerns about inflation and the potential for rising interest rates. A second round of sell-offs in March was prompted by the likely economic impact from the possibility of import tariffs and trade wars.

The Federal Reserve met twice during the quarter, leaving interest rates unchanged at the first meeting, while lifting its short-term target by a quarter percent at the second to a range of 1.50% to 1.75%. It was the sixth rate hike since the Fed began raising rates off near-zero in December 2015. The key interest rate is now at its highest level since 2008. A majority of Fed board members forecast two more hikes in 2018, with the economy expected to expand by 2.7% and 2.4% in 2018 and 2019, respectively. Unemployment is projected to fall to 3.8% by year end and 3.6% in 2019, which would be the lowest level since 1969.

Bond prices were essentially lower across-the-board in the first quarter of 2018. The yields on five and 10-year U.S. Treasury notes jumped by approximately a third of a percent during the quarter, ending the period at 2.56% and 2.74%, respectively.

Below are rates of return for selected market indices for the first quarter of 2018, full-year 2017, and the three, five, and 10-year compound annual returns as of December 31, 2017.

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	1Q:2018	2017	3-Year	5-Year	10-Year
Equity (Stock) Indices					
Domestic					
Russell 1000 - Large Cap	-0.69%	21.69%	11.23%	15.71%	8.59%
Russell Midcap	-0.46%	18.52%	9.58%	14.96%	9.11%
Russell 2000 - Small Cap	-0.08%	14.65%	9.96%	14.12%	8.71%
Real Estate (FTSE NAREIT Equity REITs)	-8.20%	5.23%	5.62%	9.46%	7.44%
Commodity (S&P Global LargeMidCap)	-1.24%	18.68%	4.38%	0.09%	-0.53%
International					
MSCI EAFE Developed Large Cap	-1.58%	25.62%	8.30%	8.39%	2.42%
MSCI EAFE Developed Small Cap	0.05%	33.50%	14.60%	13.23%	6.14%
MSCI Emerging Markets	1.33%	37.75%	9.50%	4.73%	2.02%
Global - MSCI All Country IMI	-0.86%	24.58%	10.10%	11.58%	5.53%
Fixed-Income (Bond) Indices					
Bloomberg Barclays					
Global Aggregate - Unhedged	1.37%	7.39%	2.02%	1.24%	3.35%
Global Aggregate - Hedged	-0.11%	3.04%	2.66%	NA	NA
U.S. Aggregate	-1.46%	3.54%	2.24%	2.10%	4.01%
U.S. Treasury TIPs	-0.79%	3.01%	2.05%	1.54%	4.25%
U.S. Corporate High Yield	-0.86%	7.50%	6.35%	5.00%	7.63%
Municipal	-1.11%	5.45%	2.98%	3.62%	4.76%
International Emerging Markets	-1.48%	8.17%	6.38%	5.00%	7.59%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloombergindices.com

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