Market Update

March 31, 2018

The biggest market development during the first calendar quarter of 2018 is the resurgence in volatility. During all of 2017 there were only 14 days where the Dow Jones Industrial Average recorded a gain or loss of more than 1%. There were 23 such days during the first quarter of 2018. If that frequency continues for the full year, the Dow Jones Average will experience three such gain/loss moves every two weeks.

Investment returns in this volatile environment wound up being remarkably benign. NASDAQ was up 2.5%, largely due to strong gains from Amazon and other large technology companies. The Dow Jones Average was down 2.5% as financial stocks pulled down the overall average. All the other market indices we monitor recorded results somewhere between the NASDAQ and the Dow Jones Averages.

Interest rates on the 10 year U.S. Treasury Note rose by 40 basis points during the first quarter, increasing from 2.4% to 2.8%. The Federal Reserve raised interest rates by 0.25% in December of 2017, and again in March of 2018. The increase in the yield of the 10 year U.S. Treasury Note was the most rational response by any market to change from outside the marketplace itself.

The overall economy is growing at roughly a 3% pace. The usual seasonal adjustment factors used by the Labor Department that negatively affect reported GDP growth during the first calendar quarter, are not having the same impact this year. Employment growth is faster than expected by most economists and some believe it is unsustainably strong. Inflation is still tracking below the Federal Reserve's 2% target. Corporate profits, when reported in April of 2018, are likely to be the best year over year results in a decade or more.

Concerns about immigration, tariffs, and potential trade wars dominate financial news coverage. The fact remains that corporate results are likely to be outstanding this year. The soundest investment strategy is to avoid trading too much. Many make this mistake with the hope of capturing market upturns and avoiding market downturns. We are confident that 2018 will end on a positive note and we are invested to participate in that outcome.

Raymond A. Beplat, CFA
Chief Investment Officer