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summaries

SIGMA INVESTMENT COUNSELORS

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Market Commentary

The first quarter of 2018 brought with it a level of volatility that was absent from the markets for all of 2017. At first glance, a quick reference of global benchmark returns appears to show nothing more than a "pause" after a breakout year in 2017, perhaps leading one to assume that not much happened since the first of the year.

Benchmark Returns as of 3/31/2018

	2017	Q1 2018
Domestic Equities		
S&P 500 Large Cap	21.83%	-0.76%
S&P 400 Mid Cap	16.24%	-0.77%
S&P 600 Small Cap	13.23%	0.57%
International Equities		
MSCI EAFE Dev Int'l	25.03%	-1.53%
MSCI Emerging Mkt	37.28%	1.42%
Bonds		
Barclays US Agg Bond	3.54%	-1.46%

Anyone who has followed the financial news and the path that the markets have taken over the first three months of the year knows that this is far from the truth. While the S&P 500 ended the quarter down by just 0.76%, investors experienced the first US equity market correction (as defined by a drop of 10% or more from a recent high) since early 2016. In fact, February marked the first month in 11 that the S&P 500 posted a negative return.

The S&P 500 has had more than 90 corrections since 1928, which averages out to roughly one per year. While market corrections are bound to happen, their timing, size, and duration are nearly impossible to predict. Further, a pullback in equity prices after an extended uptrend can be healthy for markets as short-term investors who start to perceive equities as risk-free providers of high returns are flushed out and buying opportunities are afforded to those with a longer-term view.

Our assessment of current economic and corporate fundamentals remains quite positive. Domestically, unemployment stands at 4.1%, having peaked at 10.0% in October of 2009, while labor force participation rates appear to have bottomed and real GDP growth continues to hold at around 3.0%. Further, a reduction in the US corporate tax rate from 35% to 21% is likely to make US corporations more globally competitive, with tax savings being redirected into capital investment, dividend increases, share buybacks and employee bonuses. As an example, we've seen more than 20% of the companies in the S&P 500 increase dividends in the first quarter of 2018, with the average increase coming in at just under 15%. On top of a reduction in corporate tax rates, the current administration's trend toward easing regulations has resulted in a general increase in overall business confidence as evidenced by a willingness of management teams to put shareholder capital to work.

On the fixed income side of client portfolios, the biggest news has been a gradual increase in interest rates as the Fed has continued to move their benchmark rate higher (currently at 1.75%), with 2-3 additional rate increases expected throughout the remainder of the year. We have intentionally kept the average maturity within client portfolios relatively short in order to lessen the negative price effect of interest rates going up. On the plus side, we may now be re-entering an environment where the yields on cash and short-term debt instruments are no longer 0%. Not only does this allow for conservative depositors to once again earn a modest rate of interest, but it also signals that the economy is no longer heavily dependent upon the Fed's zero rate interest rate policy. A slow, orderly normalization of interest rates is a welcomed change, in our opinion.

At the time of this writing, the primary risk that is being digested by the markets is that of a potential trade war. While a number of tariffs on US imports have been announced, along with a number of retaliatory announcements from China, many of the final details are likely several months out. It is true that an all out trade war has the possibility of driving up production costs and slowing global growth, but our sense is that the end result is likely to be significantly less drastic.

As always, we would like to take this opportunity to thank you for your continued confidence in Sigma Investment Counselors.

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