SAFE HARBOR Wealth Management

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Weekly Market Commentary

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The Markets

As New York Fashion Week ended, inflation strutted its stuff.

Ever since the Federal Reserve began raising the Fed funds rate in 2015, analysts have been anticipating higher inflation. The fact that price increases remained relatively small was a perplexing mystery. Then, last week, inflation increased faster than expected.

The Bureau of Labor Statistics reported the Consumer Price Index (CPI), one measure of inflation, rose 0.5 percent in January. As you might expect, the cost of some items rose faster than others. For example, energy costs rose by 3.0 percent, while the cost of food was up 0.2 percent. In total, during the last 12 months, the all-items index rose 2.1 percent. When food and energy are excluded, the increase was 1.8 percent.

Barron's reported, "Leaving aside the month-to-month squiggles, the real story is that inflation is closing in on the Fed's 2 percent target…And even if January's rise in the CPI was overstated, a real cyclical uptrend is under way…Deflation in the prices of consumer goods we like to buy is ending; the rate of increase in the cost of things we have to buy either is rising, as for food and energy, or remains high, as for services or rent."

Higher prices are one side of the inflation coin; the other side is higher interest rates. Inflation is one of the data points the Federal Reserve considers when determining how well the economy is performing. Rising inflation signals a robust economy. That may encourage the Fed to raise rates more aggressively during 2018 to prevent the economy from overheating. The possibility of more concerted Fed tightening helped bump U.S. treasury rates higher last week.

Higher interest rates could become a boon for income-oriented investors. For years, persistently low rates have caused some investors to accept higher risk than they might have otherwise. As interest rates move higher, there may be opportunities to reduce portfolio risk and still generate attractive levels of income.

Despite inflation-inspired volatility mid-week, stock markets around the world moved higher. In the United States, major indices once again moved into positive territory for 2018.

Data as of 2/16/18	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	4.3%	2.2%	16.4%	9.2%	12.3%	7.3%
Dow Jones Global ex-U.S.	4.2	1.4	19.4	5.3	4.5	0.9
10-year Treasury Note (Yield Only)	2.9	NA	2.5	2.1	2.0	3.9
Gold (per ounce)	2.9	4.3	9.0	3.2	-3.4	4.1
Bloomberg Commodity Index	3.0	0.0	-0.3	-5.3	-8.7	-6.3
DJ Equity All REIT Total Return Index	2.0	-7.8	-1.6	2.4	6.9	7.4

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

RIDICULOUS? SILLY? STRANGE? SOME IDEAS MAY SEEM THAT WAY. Albert Einstein is famous for having said, "If at first the idea is not absurd, then there is no hope for it." In recent weeks, *Fast Company* has reported on some "world-changing ideas," including:

- **Teaching happiness in school.** The mandate of a school being built in India will be teaching children how to be happy. One of the co-founders said, "It's our view that happiness – or emotional intelligence, or balance, or confidence, or self-esteem, or any other word for feeling good about ourselves and our place in the world – is the foundation on which great lives and great achievements are built."

- **Cancelling student debt.** "Collectively, [Americans] owe nearly $1.4 trillion on outstanding student loan debt. Research shows that this level of debt hurts the U.S. economy in a variety of ways, holding back everything from small business formation to new home buying, and even marriage and reproduction," according to a February report from the *Levy Economics Institute at Bard College*.

  The research estimates if the U.S. government purchased and cancelled student loan debt the U.S. economy would increase real gross domestic product – the value of all goods and services produced – by $861 billion to $1,083 billion over 10 years. Also, the step could lead to the creation of more than a million new jobs every year.

- **Revitalizing Haiti with blockchain.** The details are still being hammered out, but the Blockchain Cotton Project hopes to use distributed digital ledgers (blockchain) to manage supply chains, making it easier and less expensive to source organic cotton. One member of the project said, "We're still figuring out how the farmers do the live reporting. But we hope it will replace the normal organic or fair trade certification through a radical transparency approach."

What do you think? Do they pass the absurdity test? Or are these ideas too tame?

Weekly Focus – Think About It

"The function of education is to teach one to think intensively and to think critically. Intelligence plus character – that is the goal of true education."

--Martin Luther King, Jr., American Baptist minister and activist

Best regards,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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* You cannot invest directly in an index.

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* Consult your financial professional before making any investment decision.

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