



QUARTERLY NEWSLETTER [1Q 2018]

Positives:

Emerging Markets and Technology Stocks Are Bright Spots. As they did in 2017, technology stocks and emerging markets led the investing pack in the first quarter of 2018. The technology-heavy NASDAQ index gave back -2.8% in March, with the broad market decline, but was still up +2.6% this quarter. Emerging markets, seen in the MSCI Emerging Markets index, were off -1.8% in March but ended the quarter +1.4%.

Economic Conditions Still Solid. Market fundamentals remain strong with the highest level of consumer confidence since 2004. This is driven by a healthy labor market, as the unemployment rate is testing record lows and new jobs are being created at a good clip. Corporate earnings remain robust and growing; annual earnings estimates for S&P 500 companies rose 7.1% during the first three months of the year, which is the fastest rise since this data started being tracked in 1996.

Negatives:

US Stock Market Winning Streak Ended. The S&P 500 broke a nine-quarter winning streak, slipping -0.8% in the first quarter as market turbulence accelerated in March. After starting the year on a strong note, the market had its first “correction” – defined as a decline of at least 10% from the recent high – in two years. Industry pundits have pointed to many possible reasons, from chaos in the White House to the possibility of a global trade war, to fears of inflation or higher interest rates, to the simple fact that US stocks have been priced much higher than their historical averages. As noted above, though, good market fundamentals lessen the chance that the bull market is finally over.

Global Trade War Brewing. Investors have certainly been shaken by the idea that strong global economic growth could be derailed by a trade war. Uncertainty now prevails after President Trump announced tariffs on steel and aluminum imports (then indicated they would not apply to all countries) and followed up with plans to put tariffs on up to \$60B worth of Chinese goods. Of course, China retaliated by announcing tariffs on US imports, creating more market turmoil. While investors hope the announcements are just posturing, and the two countries will sort out the issues, the drama will likely result in more market volatility this year.

Bonds Weaken On Interest Rate Hike Fears. Bond prices fell this quarter as the Federal Reserve hiked interest rates again and plans to continue the increases. Investment grade bonds, measured by the Barclays US Aggregate Bond index, slipped -1.5% in 1Q although they did rebound in March when stocks were falling. At the other end of the credit spectrum, Barclays US Corporate High Yield index dropped in March with lower stock prices but ended the quarter down just -0.9%.

What We Are Doing For You:

Remaining Calm. After 2017, when the S&P 500 posted gains in every month (the first time this happened since the index was created in the 1950s) we have been warning that volatility was likely to return. So, the up and down markets we saw this quarter were expected and no reason to panic. We are always closely watching the markets, and thinking carefully about whether adjustments to your accounts are needed, but are not making any radical moves at this time just because of an expected market pullback.

On a personal note

Welcome, Maria!



Maria Bautista is our new Research and Operations Analyst. She is responsible for executing investment trades, doing investment research, and helping with special operational projects. Prior to joining WCWM, Maria spent 15 years working in manager research and performance measurement at Callan Associates. Maria earned a BS from UC Berkeley and MS from St. Mary's College. She and her fiancé, Rich, live in Walnut Creek and enjoy golf, hiking and cooking.



Bernie Bernie and Jody, along with WCWM partner Debbie and her husband Dave spent several days hiking in the Grand Canyon. The total hike, down and back was 22 miles. Visible in the night sky was the entire Milky Way Galaxy in all its brilliant glory, a spectacle not visible at home due to Bay Area light pollution.

Damien The first quarter zoomed by for Damien and his family. His son Nicky completed another successful year of high school basketball and continued to play saxophone for the Jazz band. Daughter Natalie enjoyed her role acting, singing and dancing in the production of the musical "In the Heights." This musical was written by Lin-Manuel Maranda of "Hamilton" fame and was a blast for Natalie and her drama classmates to perform.

Debbie Deb and Dave had an exhilarating three day backpacking trip to the bottom and back out of the Grand Canyon (no mules!) with Bernie and Jody. If you have never peered over the edge to take in the splendor of this park I highly recommend it. Next up is a two week trip to walk the Camino Santiago in Spain. The entire path covers 400 miles but due to time restrictions, we will walk just the last 120 miles, ending at the glorious western coast of Spain.

Zack Zack is ready for spring and summer to begin! He is looking forward to doing some camping as well as more golfing as the weather starts to improve. He would like to do some camping up in the Sierra's as well as try a camping trip near the coast. He has only been to a few states, so doing some traveling in the US and seeing more of the country is top of mind for Zack.

We appreciate your continued trust and confidence. Do you have any questions or concerns?

Please feel free to contact us any time.



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Zachary Weirich, Financial Advisor

Opinions expressed are not intended as investment advice or to predict future performance. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability and differences in accounting standards all of which are magnified in emerging markets. Investing in the market entails the risk of market volatility. The value of all types of investments may increase or decrease over varying time periods. Investors cannot invest directly in an index.

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