MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2018 Update

Volatility picked up dramatically, and equity markets mostly posted negative returns during the 1st quarter of 2018. The S&P 500 was down a modest (-.76%) for the quarter, but it felt worse since it pulled back after a significant positive return in early January. The technology sector was the best performer during the quarter (up 3.53%) but came under pressure in March as some of the its leaders sold off over privacy concerns and the potential of an increased regulatory environment. The broad international market was down (-1.53%) for the quarter, but emerging markets produced a positive 1.47% return.

In March, the U.S. Federal Reserve raised interest rates .25% to a range of 1.50% - 1.75% with the expectation for 2 additional rate increases this year. As interest rates rose during the quarter, the fixed income space was under pressure and generally produced negative returns (Barclays Aggregate was down -1.46%). Bonds have historically provided a buffer or cushion when equity markets sell off, but that was not the case during the first quarter, and cash was one of the few places that produced positive returns. <u>With both equities and fixed income generally producing negative returns, it was a challenging quarter to start the year.</u>

The U.S. economy is poised for continued growth in 2018, which should produce very <u>strong corporate earnings</u>. But the strength in the economy is causing some <u>concern regarding rising inflation</u> and the Fed responding with faster rate increases. Rising rates have the potential of increasing business and consumer costs and could impact company earnings and ultimately the stock market.

In addition, the <u>potential of a trade war with China</u> has injected a great deal of uncertainty in the markets and increased volatility. The tariff discussion seems to be more about politics than economics and should be resolved without an all-out trade war that damages the U.S. and global economies. A resolution will take some time, so in the short term, expect higher volatility (large market swings) as the tariff situation is worked out. In addition, how regulators respond to privacy concerns and the potential for increased regulations in the technology space should also be watched closely for its potential to move markets.

As equity markets have fallen and earnings have improved, market valuations look better but are still not cheap, and with interest rates low and rising, the fixed income space is still generally unattractive. However, if global growth can produce strong earnings without too much inflation, <u>equity markets could grind higher</u> throughout the year, but it will likely be a <u>volatile, bumpy ride</u>.

Please give me a call with any questions.

Source: Morningstar, federalreserve.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2018. Index returns are total returns except for MSCI EAFE which is a net return.