

MARKET COMMENTARY

April 9, 2018

U.S. stocks ended a tumultuous quarter on high note with the S&P 500 finishing the last trading day in March with its third-highest gain of the month, up 1.38%, trimming its monthly loss. The late-day rally on March 29 also trimmed its pullback from its January 26 all-time high to 7.73%. Stocks began the quarter in euphoria amid optimism over President Trump's tax cut plan, pushing the S&P 500 up the most in 22 months, only to fall into correction weeks later, on fears of accelerating rate hikes expected later this year. Despite a notable rebound in late February, investor sentiment eroded in March, as the Federal Reserve raised interest rates as expected and President Trump reshuffled White House personnel. Uncertainty intensified after the U.S. imposed new tariffs on steel and aluminum imports, followed by further tariffs on up to \$60B worth of Chinese goods. While these challenges may appear daunting, Wall Street still enjoys strong fundamentals, including robust and accelerating corporate earnings, expanding business investment, a healthy labor market, and the highest level of consumer confidence since 2004.

Overall, the Dow Industrials fell 3.59% in March and 1.96% in the first quarter, snapping its longest winning streak since an 11-month rally ended in the third quarter of 1997. Among the three major U.S. indices, the Nasdaq Composite performed best, but steep selling in mega cap technology stocks caused a 2.79% March loss on the tech-heavy index. The Russell 2000, a leading measure of small cap performance, outperformed large and mid cap stocks last month and posted a slight gain during the first quarter.

Sector performance was widely divergent in the first three months of the year. Defensive-oriented sectors were the top two performers in March, while cyclical, economically-sensitive sectors performed best for the quarter. Value-oriented equities outpaced growth stocks in March, while growth outperformed value in the first quarter. The following chart illustrates the magnitude of heightened market volatility from relative periods of calm during preceding quarters. During this year's first quarter, there were 23 days in which the S&P 500 rose or fell by 1% or more. This

stands in stark contrast to the eight such moves during all of 2017.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, fell less than U.S. equities in March, but their losses outpaced domestic stocks for the quarter. Emerging markets stocks, as measured by the MSCI Emerging Markets Index, outperformed relative to the U.S. equities in both periods.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rose 0.93% in March, trimming a February loss to end the first quarter down 1.15%. Reflecting increased borrowing rates, the yield on benchmark 10-year Treasury notes ended the first quarter at 2.74%, up 0.33% quarter-over-quarter. Investment-grade bonds of all types, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, trailed safer-haven government debt.

Municipal bonds outperformed government and other investment-grade bonds in both periods. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, the leading measurement of non-investment grade corporate bonds, underperformed its investment-grade counterparts in March, but outperformed on a quarterly basis.

Source: Cetera Investment Management ®



SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q4 2017	2.9%	↑	The final estimate for Q4 GDP was revised higher due to stronger consumer spending and inventory accumulation. The recent pace of economic growth has been near its long-term average of 3.0%.
Global Real GDP Growth (ann. rate; Source: IMF)	Q4 2017	3.7%	n/a	The IMF increased its global growth forecast for 2018 to 3.9%, mainly to due to potentially faster U.S. growth as a result of the tax legislation passed in December 2017.
Non-Farm Employment Growth	Mar 2018	103,000	↓	Job growth disappointed as hiring decelerated to its slowest pace in six months. Part of the slowdown can be attributed to the harsher winter weather in March, particularly on the East coast.
Unemployment Rate	Mar 2018	4.1%	↔	The unemployment rate remained at 4.1% for the sixth consecutive month, which remains the low for the current economic cycle. The participation rate declined by 0.1%.
ISM Manufacturing Index	Mar 2018	59.3	↑	The manufacturing index declined in March as the underlying composition (new orders, employment, inventories) weakened. The Index remained in expansion for the 25 th consecutive month.
ISM Non-Manufacturing Index	Mar 2018	58.8	↑	Activity in service-related sectors slowed slightly, due to a pullback in new order and current production. The index remained consistent with an expanding economy.
Capacity Utilization	Feb 2018	77.7	↔	Capacity utilization for the industrial sector rose slightly. The utilization improvement in this cycle has come primarily from the mining sector.
Consumer Price Index (CPI, SA)	Feb 2018	0.2%	↑	Consumer prices rose, mostly due to increases in energy services prices as utility gas prices rose. The annual change in the CPI Index rose to 2.2%.
Producer Price Index (Finished Goods, SA)	Feb 2018	0.2%	↓	Producer prices rose slightly but the annual rate of price increases slowed over the past several months. The increase was attributable to a rise in input costs and prices for services.
Leading Economic Indicators Index (LEI)	Feb 2018	0.6%	↑	LEI continued its recent trend and moved higher in February mostly due to the continued improvement in labor market indicators. The index has not posted a decline in over a year.
10-year Treasury Yield	Mar 2018	2.74%	↑	The 10-year Treasury yield decreased by 13 basis points as volatility in the equity markets continued. The Federal Reserve continued its steady pace of interest rate increases.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	March Close	March	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	24,103	-3.59%	-1.96%	19.39%	13.48%	13.32%
S&P 500	2,640	-2.54%	-0.76%	13.99%	10.78%	13.31%
Nasdaq	7,063	-2.79%	2.59%	20.76%	14.27%	18.07%
Russell 2000	1,529	1.29%	-0.08%	11.79%	8.39%	11.47%
International Indices						
MSCI EAFE (Developed)	8,019	-1.70%	-1.41%	15.32%	6.05%	6.98%
MSCI EM (Emerging)	2,558	-1.83%	1.47%	25.37%	9.21%	5.37%
US Fixed Income						
Bloomberg Barclays US Aggregate	--	0.64%	-1.46%	1.20%	1.20%	1.82%
Bloomberg Barclays US TIPS	--	1.05%	-0.79%	0.92%	1.30%	0.05%
Commodities and Real Estate						
Bloomberg Commodity Index	179	-0.62%	-0.40%	3.71%	-3.21%	-8.32%
Crude Oil (\$/bbl)		\$64.94	\$64.73	\$50.60	\$47.60	\$97.23
DJ US Select REIT	9,020	3.88%	-7.43%	-3.68%	0.74%	5.97%



Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly. The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several sub-indices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.



The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USD_X or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

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