PATHSTONE

MARKET FLASH REPORT

February 2018

KEY TAKEAWAYS

- The month of February started with a changing of the guard as markets sold off and volatility made its way back into the conversation. The S&P 500's run of consecutive positive monthly total returns came to an end, though markets still remain in positive territory for the year.
- U.S. government bond yields increased across the curve. Congress passed a two year budget deal that will raise government spending following the passing of the $1.5 trillion tax cut. Financing a larger deficit will be worth keeping an eye on amidst the backdrop of a tightening Fed.
- Fears of inflation pressures picked up with strong wage growth reported and unemployment remaining low. Investors have linked increased inflation fears as one of the triggers causing the market sell off earlier in the month.
- A more hawkish tone from the Fed's new leader, Jerome Powell, is causing some forecasters to now expect four rate hikes in 2018 compared to three previously assumed. Stimulative fiscal policy continues to lead Fed officials to report that the economic outlook remains strong. Further rate hikes could cause additional market volatility as the Fed works to deter the economy from overheating. A 25 basis point rate increase is expected in March.

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INDEX PERFORMANCE (as of 2/28/18)

Equity	February	Three-Month	One-Year
U.S. Large Cap	-3.7%	3.0%	17.1%
U.S. Small Cap	-3.9%	-1.8%	10.5%
Developed Non-U.S.	-4.5%	1.9%	20.1%
Emerging Market	-4.6%	7.1%	30.5%
Real Assets			
Real Estate	-6.7%	-3.9%	4.9%
Commodities	-1.7%	3.2%	1.6%
Natural Resource Equities	-9.8%	-2.5%	-3.0%
Fixed Income			
Core Plus			
U.S. High Yield Debt	-0.9%	0.0%	4.2%
Emerging Market Debt	-1.0%	5.5%	14.4%
Core Bonds			
U.S. Aggregate Bonds	-1.0%	-1.6%	0.5%
U.S. Treasuries	-0.8%	-1.8%	-0.6%
U.S. Municipal Bonds	-0.2%	-0.2%	1.2%

Month-End Values/Yield	Current	Prior Month	One-Year Ago
CBOE Volatility Index	19.9	13.5	12.9
10-Year Treasury Yield	2.9%	2.7%	2.4%

Sources: Bloomberg, Morningstar, Bureau of Economic Analysis. Treasury.gov.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

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