PATHSTONE

MARKET FLASH REPORT

March 2018

KEY TAKEAWAYS

- After January's impressive gains, equity returns reversed course in February and March to end the quarter slightly negative as inflation, trade policy discussions, and a selloff in the technology sector spooked investors. Fundamentally speaking, equities remain on solid footing and earnings expectations for S&P 500 companies have been revised higher, thanks largely in part to a growing global economy and tax reform.
- The Fed hiked rates by 0.25% in March, stating that the economic outlook has strengthened. The labor market has continued to improve and economic activity has been rising at a moderate rate. The median dot plot[1] projection signals two additional rate hikes in 2018. Fiscal stimulus from tax reform and increased budget spending expanded the Fed's real GDP growth outlook to 2.7% for calendar year 2018.
- President Trump announced tariffs on steel (25%) and aluminum (10%), and engaged in trade rhetoric sparking fears of a potential trade war. Trump signaled an intent to level tariffs on $50 billion worth of Chinese imports as a means to reduce the trade deficit and combat the treatment of U.S. firms' intellectual property.
- Amidst this backdrop, the 10-year Treasury yield declined while short term rates increased, causing further flattening of the yield curve.

[1] The dot plot shows projections for the Fed Funds Rate for each of the members of the FOMC

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INDEX PERFORMANCE (as of 3/31/18)

Equity	Quarter	One-Year	Three-Year
U.S. Large Cap	-0.8%	14.0%	10.8%
U.S. Small Cap	-0.1%	11.8%	8.4%
Developed Non-U.S.	-1.6%	14.8%	5.6%
Emerging Market	1.4%	24.9%	8.8%
Real Assets			
Real Estate	-3.5%	8.1%	4.0%
Commodities	-0.4%	3.7%	-3.2%
Natural Resource Equities	-6.0%	-0.7%	-1.5%
Fixed Income			
Core Plus			
U.S. High Yield Debt	-0.9%	3.8%	5.2%
Emerging Market Debt	4.5%	13.0%	5.4%
Core Bonds			
U.S. Aggregate Bonds	-1.5%	1.2%	1.2%
U.S. Treasuries	-1.2%	0.4%	0.4%
U.S. Municipal Bonds	-0.7%	1.2%	1.4%

Month-End Values/Yields	Current	Prior Month	One-Year Ago
CBOE Volatility Index	20.0	19.9	12.4
10-Year Treasury Yield	2.7%	2.9%	2.4%

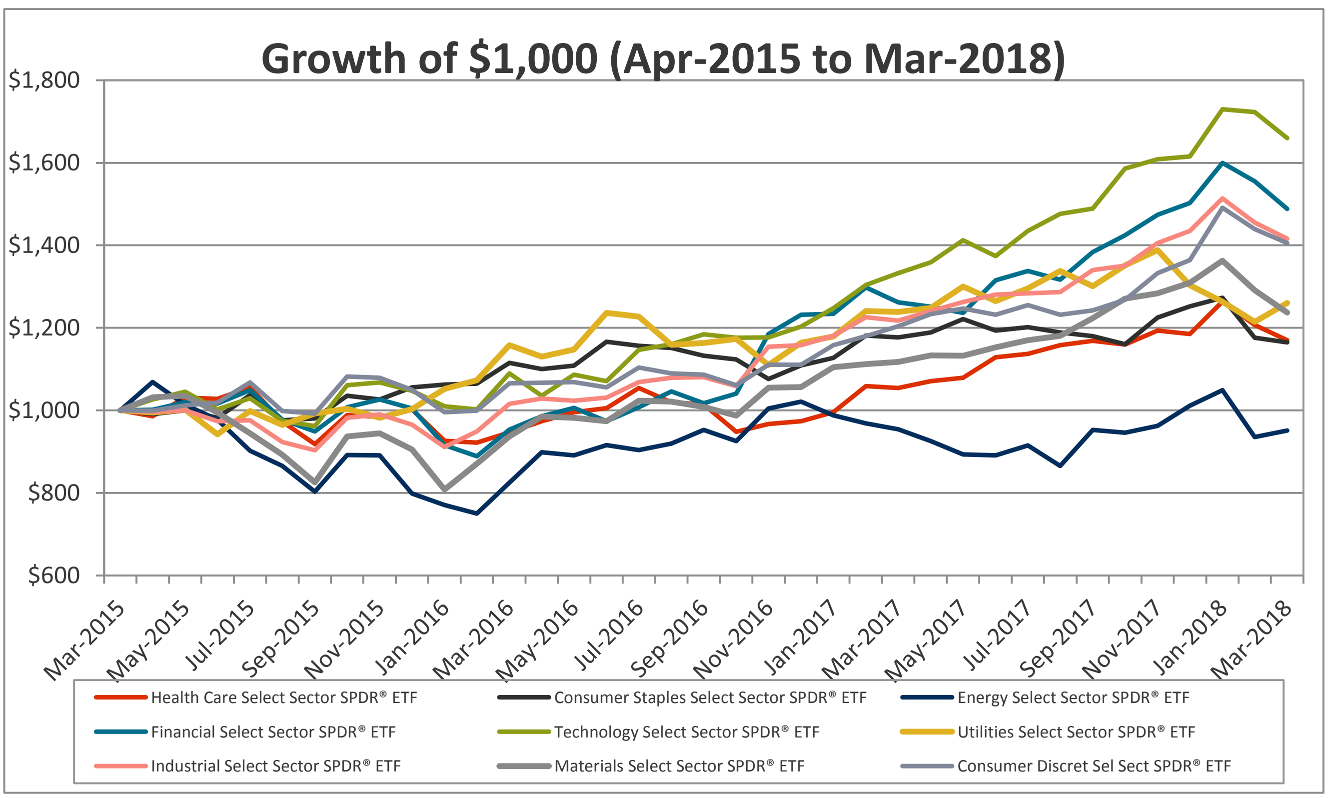
Sources: Bloomberg, Morningstar, treasury.gov.

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.

REGIONAL COMMENTARY

- Volatility has returned to equity markets in 2018 as caution has peaked amongst investors. Investors are questioning whether this bull market still has legs as it stares down tighter monetary policy by the U.S. central bank. Investor skepticism is further aggravated by the growing turnover in the President's staff and fears of global trade wars being stoked by recent tariff announcements. Economic fundamentals remain firm and investors are expecting solid earnings results in 2018 in large part thanks to the tax cuts enacted late last year, which should be supportive of U.S. equity markets.
- Both the European and Japanese Central Banks continue to maintain their accommodative policies with both still purchasing bonds and keeping short-term borrowing rates at or below zero. European economic activity has slowed in Q1 after demonstrating significant momentum in Q4 2017. Perhaps this slowdown is a result of further strength in the Euro, questions around the direction of the EU with BREXIT on the horizon, Spanish discord between Catalonia and Madrid, and recent populist leanings in the Italian elections. Japan continues to plod along in its massive monetary experiment without any real disruption to consumer and investor sentiment.
- Despite concerns over the future of global trade, the Emerging Markets have posted the best returns so far in 2018 relative to developed markets. They managed to post positive returns in Q1 while developed markets were negative. Some of the better performing Emerging Market countries to start 2018 include Brazil, Russia, Taiwan and China. Frontier Emerging Market countries are also starting the year off well.

Sector Winners and Losers (U.S.) - Does Energy have a Future?
Technology and Financials have lead the way the last three years. Will that Continue?



Sources: Pertrac, SPDR Select

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U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.