DNB FIRST Wealth Management

Investment Commentary Q1 2018

The global equity markets fell during the first quarter of 2018 as investors sold shares in response to higher short-term interest rates, trade war fears, and geopolitical concerns. Large, Mid, and Small Cap stocks fell 0.8%, 0.5%, and 0.1% respectively during the first quarter due to potential higher borrowing rates for U.S. consumers and worries of a trade war with China. The Information Technology and Consumer Discretionary sectors rose 3% while the Energy and Telecommunications sectors fell 6% and 7% respectively during the quarter. Real estate stocks fell over 7% as investors moved away from interest-rate sensitive sectors. International-Developed Market equities fell 2% during the quarter due to Brexit concerns and foreign currency fluctuations. Emerging Market stocks grew 1% during the quarter, leading all global equity categories due to stronger economic and market growth in Latin America. Latin American equities grew over 8% during the first quarter. U.S. bonds fell 2% during the quarter as the Federal Reserve raised its fed funds benchmark rate by 0.25% to 1.75% in March. Based on the Federal Reserve's interest rate and economic projections, we continue to anticipate a total of three to four fed funds interest rate hikes in 2018.

The U.S. economy grew 2.3% during the first quarter due to higher private investments, exports, and federal and local government spending. The U.S. labor markets continued its growth in the first quarter with the overall unemployment rate holding steady at 4.1%. According to the U.S. Department of Labor, U.S. wages increased 2.9% when compared to the first quarter of 2017 and the employment cost index, a measure of salaries and benefits, rose 0.8% in the first quarter of 2018. The Consumer Price Index ("CPI") rose 2.4% over the 12 months as medical care, transportation, and energy costs continued to rise in March. Medical care costs have grown at an average of almost 3% per year over the past decade. Corporate earnings continued to expand in the first quarter with over 75% of U.S. firms that have already reported results exceeding analysts' revenue and profit estimates. The potential trade war between China and the U.S. could have grave consequences for future U.S. economic growth due to higher import prices for consumers and tariffs on U.S. exports. Seventeen U.S. states claim aircraft and aircraft parts as the highest valued export while the Midwest regional (Iowa, Michigan, etc.) economy is highly dependent on exporting agricultural products to countries across the globe.

Eurozone economic growth slowed in the first quarter as regions such as the United Kingdom and France were impacted by weather, rising commodity prices, and global trade concerns. Another factor in the economic slowdown in Europe is the continued uncertainty surrounding Brexit. U.K. Prime Minister Theresa May and her cabinet have been at odds on future trade policy with the European Union, causing delays in the Brexit planning process. Consumer confidence in the U.K. fell in April as Brexit concerns continued to prompt businesses to reconsider labor and headquarter planning in Europe. The European Central Bank may also reconsider plans to raise its short-term rates if the economic "cool-off" continues throughout 2018. The European Union economy grew at an annualized rate of 2.4% in 2017, led by Romania and Slovenia's economies growing at an annualized rate of 7% during 2017.

We maintained our Long-Short equity positions due to our belief that higher stock and bond market volatility will prevail throughout 2018 due to global trade concerns, a higher interest rate bias by central banks, and political concerns. Studies have shown that U.S. stock market volatility increases during the first nine months of a mid-term election year cycle. We also maintained our International and Emerging Market equity positions as we also believe that European and Asian economies remain in the expansionary stage of their respective business cycles. We will continue to provide our clients with a disciplined, transparent investment process using low-cost traditional and alternative investment solutions.

As always, we welcome your thoughts and concerns. Please contact your DNB First Wealth Management Advisor to discuss your portfolio in further detail.