Market Intelligence

March 2018

As written in recent client communications, we believe the global economy has moved into a period of higher inflation, which is leading to higher interest rates. Rising rates typically cause interest rate sensitive sectors like real estate investment trusts (REIT's) and utilities to lag. These sectors, along with bond investments, have performed well over the past decade. With the potential of higher interest rates, we caution investors who have become comfortable with income investing to review their portfolio strategy.

The overall market has a lot to digest right now. It has been over 30 years since we have seen a sustained rise in interest rates, there is new tax legislation, plenty of geo-political risks, recently announced tariffs on steel and aluminum, and the resignation of Gary Cohn who was President Trump's economic advisor. Throw in high valuations, strong earnings and low unemployment into the mix, and one has a lot to navigate.

Even though interest rates are rising, they remain low by historical standards. We will probably see more volatility because of higher rates, but our balanced long-term investment strategy should be able to handle a pickup in volatility. It is also important to put recent volatility into perspective. As the stock indexes rise over time, a 300 point move is not what it used to be. We created the chart below for the Dow Jones Industrial Average to help illustrate the point.

Date	Level	300 Points
January 2, 1990	2,810.15	10.67%
January 3, 2000	11,357.51	2.64%
January 4, 2010	10,583.96	2.83%
January 2, 2018	24,824.01	1.20%

A key component to our strategy is risk management. We do so by incorporating hedging strategies, rebalancing portfolios, and making tactical adjustments.

Although US equities are in a strong position, we continue to increase exposure to international equities. From a valuation standpoint, most international markets look cheaper than the US based upon earnings and growth rates. In addition, we have been monitoring allocations and have been reducing portfolio risk by rebalancing where appropriate.

Although it may not feel like it, but through March 6 most broadly allocated balanced portfolios are close to break even for the year. The equity markets have moved into a trading pattern while it digests recent events, but if the economy and corporate earnings continue to improve, we expect markets to be higher at year end.