

# Market commentary

#### **ECONOMIC CLIMATE**

- Hiring slowed from its fast pace last month the U.S. added 103,000 jobs to nonfarm payrolls in March, below the consensus estimate of 185,000.
- The U-3 unemployment rate was unchanged at 4.1%, while the broader U-6 rate (includes part-time and underemployed workers) tightened from 8.2% to 8.0%, the lowest level in the current expansion.
- The core PCE inflation rate ticked up from 1.5% to 1.6% YoY in February. This measure likely accelerated in March (release on 4/30) due to a low base effect from the prior year. If the index is unchanged, the YoY rate will rise to 1.8%.
- Retail sales declined in February, and missed expectations for the second straight month. Sales dropped 0.1% from the previous month versus expectations of a 0.3% increase, mainly driven by lower auto sales.

#### **DOMESTIC EQUITIES**

- Volatility remained elevated in U.S. equities and the S&P 500 Index (-2.5%) posted its second consecutive month of negative performance.
- The drop in equities was led by the tech sector, driven by several company-specific risks, including a data breach at Facebook.
- Trade concerns may have also weighed on stocks after the White House implemented tariffs on steel and aluminum.

#### DOMESTIC FIXED INCOME

- The Fed raised its benchmark interest rate by 25 bps to a target range of 1.50% - 1.75%, as expected. In his first public comments since taking over as Fed chairman, Jerome Powell's views appeared to support a continuation of gradual monetary tightening.
- According to the updated Fed dot plot, officials are expecting two additional rate hikes this year, on par with market pricing.
- Short-term borrowing costs tied to Libor continued to rise during the month. The 3-month USD Libor rate moved steadily higher from 2.0% to 2.3%.

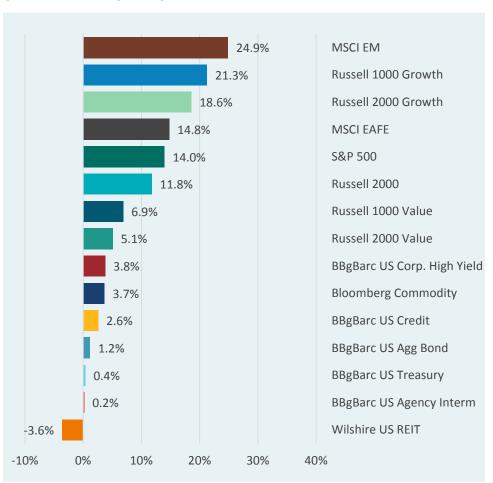
#### **INTERNATIONAL MARKETS**

- International equities also recorded negative performance (MSCI ACWI ex-U.S. -1.8%), but outperformed domestic markets on a relative basis.
- The White House announced tariffs on steel and aluminum imports of 25% and 10%, respectively, that went into effect in March. Several countries, including Mexico and Canada, were given exemptions to allow for ongoing trade negotiations.
- In an additional measure on trade, the White House announced that the U.S. will impose tariffs on \$50 billion worth of Chinese goods in response to intellectual property theft.
- The Eurozone composite PMI fell for the third straight month in March, down from 57.1 to 55.3.

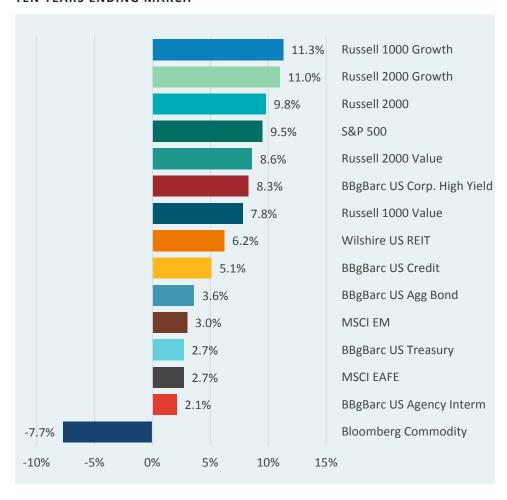


# Major asset class returns

#### ONE YEAR ENDING MARCH



#### TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/18

Source: Morningstar, as of 3/31/18

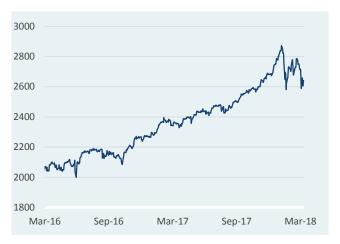


# U.S. large cap equities

- The S&P 500 Index (-2.5%) fell for the second straight month, influenced by concerns in the tech sector and tariff negotiations. The index had registered 15 months of positive returns prior to February.
- The tech sector was heavily influenced by negative idiosyncratic events in mega-cap companies such as Facebook, Apple, and Amazon. The overall S&P 500 tech sector fell 3.9%, while the NYSE FANG+ Index dropped 6.9%.
- Implied volatility remained high following a spike in the VIX Index in February. The VIX Index averaged 19.0 in March, compared to an average of 11.9 in the prior 12 months.
- Q1 earnings season will start next month, and expectations are high. According to FactSet, the expected Q1 YoY earnings and revenue growth rates are 17.1% and 7.3%, respectively. Earnings growth estimates were revised considerably higher over the first quarter, primarily due to corporate tax cuts.

Equity volatility remained high

#### **S&P 500 PRICE INDEX**

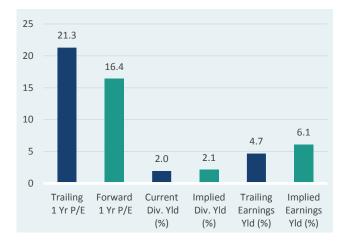


#### IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 3/31/18

#### **S&P 500 VALUATION SNAPSHOT**



Source: Bloomberg, as of 3/31/18



## Fixed income

- After jumping higher in the first two months of the year, long-term Treasury yields fell in March as inflation fears subsided. The 10-year Treasury yield dropped 12 bps to 2.74%.
- The short-end of the curve was little changed with the 2-year yield up 1 bp to 2.26%, resulting in a flatter yield curve (shorter-term rates are more sensitive to Fed policy). The spread between the 2- and 10-year yields was 46 bps at month-end, the lowest level since 2007.
- As expected, the Fed raised its benchmark interest rate by 25 bps to a range of 1.50% - 1.75%. Fed officials pointed to strong economic fundamentals, such as GDP growth, the unemployment rate, and firming inflation as reasons to continue gradual monetary tightening.
- Credit spreads widened slightly as equity prices fell, but are still at historically low levels. High yield spreads rose 30 bps to 3.5% and IG spreads increased 14 bps to 1.1%.

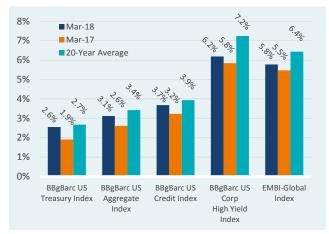
Treasury yields fell and the curve flattened

#### U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 3/31/18

#### **NOMINAL YIELDS**



Source: Morningstar, as of 3/31/18

#### **BREAKEVEN INFLATION RATES**



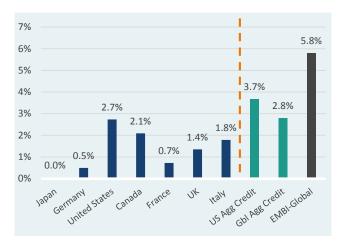


## Global markets

- The announcement of U.S. tariffs on steel and aluminum imports led to uneasiness in the markets and raised concerns about a potential global trade war.
   Steel and aluminum represent a small portion of U.S. imports, and these tariffs are unlikely to have a major impact on financial markets by themselves.
- International developed equities declined during the month, but outperformed U.S. markets. The MSCI EAFE Index returned -1.8%, compared to -2.5% for the S&P 500 Index. Currency depreciation was a slight detractor from returns (EAFE Hedged Index, -1.3%).
- International equity markets experienced a slight increase in volatility, but not as much relative to the U.S. The MSCI EAFE and EM Indices had an annualized standard deviation of 9.5% and 15.0%, respectively in March.
- Global sovereign long-term yields moved lower throughout the month. The 10-year German bund yield fell 16 bps to 0.50%, 26 bps below a two and half year high reached in early February.

Tariff discussions weighed on global markets

#### **GLOBAL SOVEREIGN 10-YEAR YIELDS**



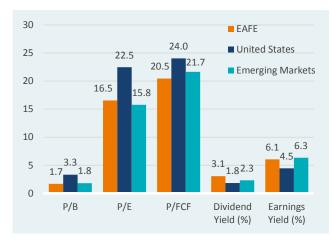
Source: Bloomberg, as of 3/31/18

#### U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/18

#### MSCI VALUATION METRICS (3-MONTH AVG)





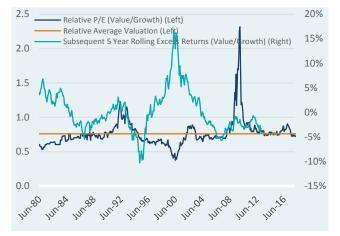
# Domestic equity size and style

- Small cap equities materially outperformed large cap equities in March the Russell 2000 Index and Russell 1000 Index returned 1.3% and -2.3%, respectively.
  Much of the weakness in large cap equities was driven by a small number of mega-cap firms. Additionally, small cap companies are likely more insulated from a deterioration in global trade relations.
- Large cap equities have still outperformed over the past year, beating small cap equities by 2.2% over the period.

- Value equities outperformed growth equities as the Russell 1000 Value Index and Russell 1000 Growth Index returned -1.8% and -2.7%, respectively.
- Value outperformance was driven by a larger relative position in the energy sector, which was supported by higher oil prices. The Russell 1000 Energy Index returned 2.0% in March.
- Growth equities have significantly outperformed value equities over the past year, however.

Small and value equities outperformed in March

#### VALUE VS. GROWTH RELATIVE VALUATIONS



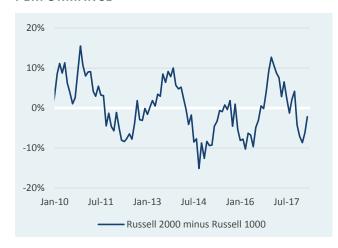
Source: Russell, Bloomberg, as of 3/31/18

## VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 3/31/18

### SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 3/31/18



## Commodities

- The Bloomberg Commodity Index returned -0.6% in March, led by positive returns in energy sector. The Bloomberg Energy sub-index posted a 4.9% return.
- WTI oil prices increased by 5.3% during the month to \$64.94 per barrel, near its year-to-date high. The price increase was influenced by strong OPEC production cut compliance in February.
- Steel prices rose in anticipation that the U.S. would enact a 25% tariff on imports. Hot-rolled coil steel futures contracts were up 6.7% during the month.
- Commodity futures strategies are still experiencing a drag from negative roll yields, but spot prices have gained momentum over the past year. The Bloomberg Commodity Spot Index is up 8.1% over the last 12 months, compared to 3.7% for the total return index.

Oil prices rose to near year-todate highs

#### INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.6)	(0.4)	(0.4)	3.7	(3.2)	(8.3)	(7.7)
Bloomberg Agriculture	(2.8)	3.1	3.1	(5.4)	(4.6)	(8.7)	(5.0)
Bloomberg Energy	4.9	1.8	1.8	9.9	(9.0)	(16.2)	(18.4)
Bloomberg Grains	(2.4)	7.1	7.1	(3.6)	(7.8)	(10.8)	(6.9)
Bloomberg Industrial Metals	(4.4)	(6.2)	(6.2)	12.7	4.0	(1.5)	(5.1)
Bloomberg Livestock	(7.1)	(10.0)	(10.0)	(4.4)	(6.7)	(3.4)	(5.3)
Bloomberg Petroleum	6.1	4.7	4.7	26.5	(3.8)	(14.0)	(12.2)
Bloomberg Precious Metals	0.2	(0.5)	(0.5)	0.5	1.8	(6.1)	2.0
Bloomberg Softs	(4.7)	(10.1)	(10.1)	(19.5)	(3.3)	(9.6)	(4.2)

Source: Morningstar, as of 3/31/18

#### **COMMODITY PERFORMANCE**



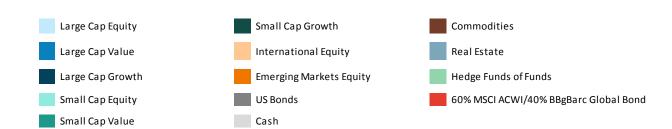


# Appendix



## Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year 10-Y	
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	2.3	15.5	11.3
Emerging Markets Equity	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.4	13.2	11.0
Large Cap Growth	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	1.4	12.9	9.8
Hedge Funds of Funds	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	0.9	11.5	9.6
Cash	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	0.4	10.8	8.6
60/40 Global Portfolio	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	0.0	10.2	7.8
Real Estate	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	0.0	10.0	6.1
Small Cap Equity	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-0.1	6.5	4.7
Commodities	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-0.4	6.2	3.6
Large Cap Equity	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-0.7	5.0	3.0
US Bonds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.5	3.5	2.7
International Equity	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-1.5	1.8	1.6
Small Cap Value	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-2.6	0.3	0.3
Large Cap Value	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-2.8	-8.3	-7.7

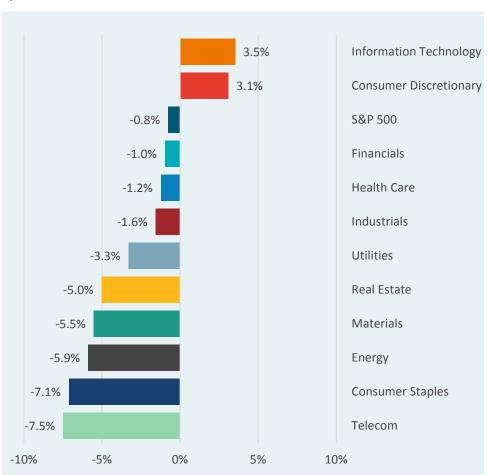


Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/17.

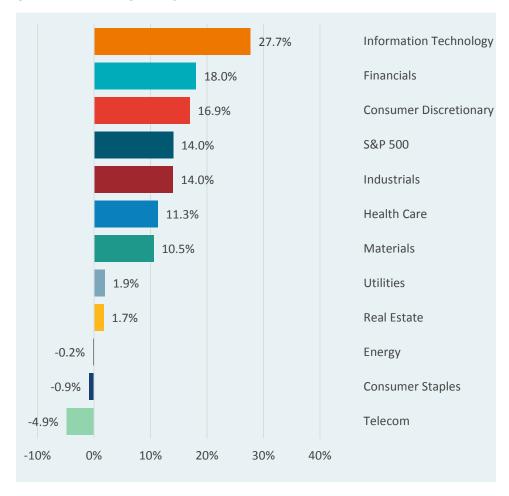


## S&P 500 sector returns

#### Q1



#### ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/18

Source: Morningstar, as of 3/31/18



# Detailed index returns

DOMESTIC EQUITY								FIXED INCOME							
	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year		Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index								Broad Index							
S&P 500	(2.5)	(8.0)	(0.8)	14.0	10.8	13.3	9.5	BBgBarc US TIPS	1.1	(8.0)	(0.8)	0.9	1.3	0.0	2.9
S&P 500 Equal Weighted	(0.9)	(1.0)	(1.0)	11.7	9.1	12.9	11.0	BBgBarc US Treasury Bills	0.1	0.3	0.3	1.0	0.5	0.3	0.4
DJ Industrial Average	(3.6)	(2.0)	(2.0)	19.4	13.5	13.3	9.9	BBgBarc US Agg Bond	0.6	(1.5)	(1.5)	1.2	1.2	1.8	3.6
Russell Top 200	(3.2)	(8.0)	(8.0)	14.7	11.4	13.6	9.4	Duration							
Russell 1000	(2.3)	(0.7)	(0.7)	14.0	10.4	13.2	9.6	BBgBarc US Treasury 1-3 Yr	0.2	(0.2)	(0.2)	(0.0)	0.4	0.5	1.1
Russell 2000	1.3	(0.1)	(0.1)	11.8	8.4	11.5	9.8	BBgBarc US Treasury Long	3.0	(3.3)	(3.3)	3.5	0.4	3.3	5.8
Russell 3000	(2.0)	(0.6)	(0.6)	13.8	10.2	13.0	9.6	BBgBarc US Treasury	0.9	(1.2)	(1.2)	0.4	0.4	1.1	2.7
Russell Mid Cap	0.1	(0.5)	(0.5)	12.2	8.0	12.1	10.2	Issuer							
Style Index								BBgBarc US MBS	0.6	(1.2)	(1.2)	0.8	1.1	1.8	3.5
Russell 1000 Growth	(2.7)	1.4	1.4	21.3	12.9	15.5	11.3	BBgBarc US Corp. High Yield	(0.6)	(0.9)	(0.9)	3.8	5.2	5.0	8.3
Russell 1000 Value	(1.8)	(2.8)	(2.8)	6.9	7.9	10.8	7.8	BBgBarc US Agency Interm	0.3	(0.4)	(0.4)	0.2	0.7	0.9	2.1
Russell 2000 Growth	1.3	2.3	2.3	18.6	8.8	12.9	11.0	BBgBarc US Credit	0.3	(2.1)	(2.1)	2.6	2.2	2.8	5.1
Russell 2000 Value	1.2	(2.6)	(2.6)	5.1	7.9	10.0	8.6								
INTERNATIONAL EQUITY	·							OTHER							
Broad Index								Index							
MSCI ACWI	(2.1)	(1.0)	(1.0)	14.8	8.1	9.2	5.6	Bloomberg Commodity	(0.6)	(0.4)	(0.4)	3.7	(3.2)	(8.3)	(7.7)
MSCI ACWI ex US	(1.8)	(1.2)	(1.2)	16.5	6.2	5.9	2.7	Wilshire US REIT	4.1	(7.5)	(7.5)	(3.6)	1.0	6.1	6.2
MSCI EAFE	(1.8)	(1.5)	(1.5)	14.8	5.6	6.5	2.7	CS Leveraged Loans	0.3	1.6	1.6	4.6	4.3	4.2	5.4
MSCI EM	(1.9)	1.4	1.4	24.9	8.8	5.0	3.0	Regional Index							
MSCI EAFE Small Cap	(1.1)	0.2	0.2	23.5	12.3	11.1	6.5	JPM EMBI Global Div	0.3	(1.7)	(1.7)	4.3	5.8	4.7	7.0
Style Index								JPM GBI-EM Global Div	1.0	4.4	4.4	13.0	5.4	(0.7)	3.8
MSCI EAFE Growth	(1.2)	(1.0)	(1.0)	17.5	6.7	7.1	3.4	Hedge Funds							
MSCI EAFE Value	(2.4)	(2.0)	(2.0)	12.2	4.3	5.8	2.0	HFRI Composite	(0.7)	0.1	0.1	4.6	2.0	3.9	3.6
Regional Index								HFRI FOF Composite	(0.0)	0.9	0.9	6.2	2.1	3.5	1.6
MSCI UK	(0.3)	(3.9)	(3.9)	11.9	3.1	3.9	2.3	Currency (Spot)							
MSCI Japan	(2.1)	0.8	0.8	19.6	8.4	8.9	4.1	Euro	0.8	2.4	2.4	15.0	4.6	(0.9)	(2.5)
MSCI Euro	(1.2)	(0.4)	(0.4)	16.1	5.7	8.1	0.7	Pound	1.8	3.7	3.7	12.2	(1.9)	(1.6)	(3.4)
MSCI EM Asia	(1.4)	0.8	0.8	27.0	9.4	8.4	5.2	Yen	0.3	5.9	5.9	4.8	4.1	(2.4)	(0.7)
MSCI EM Latin American	(1.0)	8.0	8.0	19.3	10.1	(1.9)	(0.8)								



Source: Morningstar, as of 3/31/18

## **Definitions**

Markit Euro Manufacturing Index – The Eurozone PMI (Purchasing Managers' Index ) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

NYSE FANG+ Index – an equally weighted index of Apple, Netflix, Tesla, Amazon, Alphabet, NVIDIA, Facebook, Alibaba, Baidu, and Twitter



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