Market & Economic Commentary: Going nowhere fast.

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Jim Scheinberg CIMA® AIFA ®
Managing Partner
jim.scheinberg@npier.com

(800) 403-7065
www.npier.com
www.northpiersearch.com

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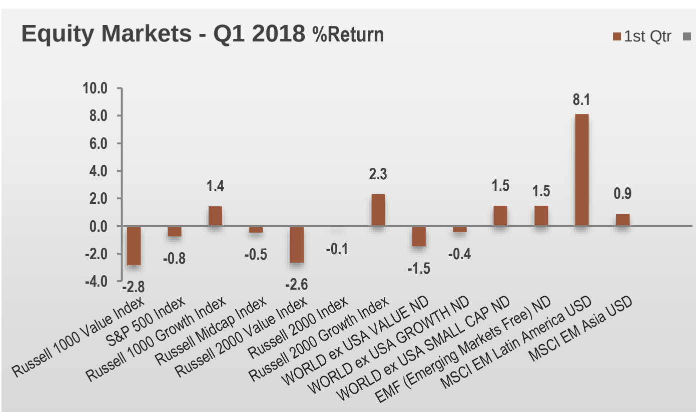
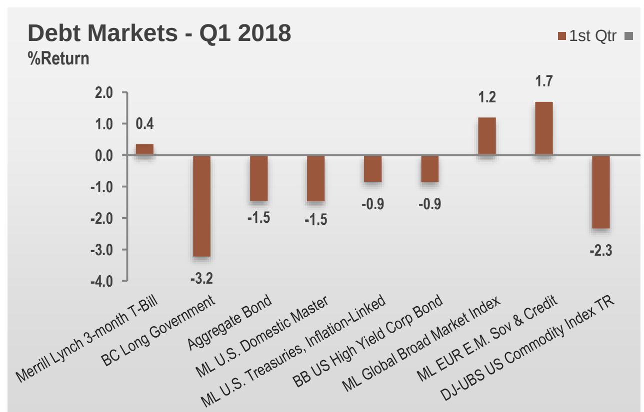
The first quarter marked a changing of the guard from the low (or practically no) volatility days of 2017 to a period of erratic swings within a trade-range bound market. The unprecedented steady advance of the U.S. stock market that began the morning after the election of Donald Trump came to an abrupt halt in early February, when the S&P 500 quickly corrected 10%. Though that drop was due predominately to an unwinding of volatility index derivatives (and not market fundamentals) the result was a new phase of hyper sensitivity to the news cycle, and dramatic daily swings in the indexes. The largest contributor to the mania has been President Trump's rhetoric and actions relating to massive trade tariffs, especially those with China. Each announcement stoked fears and speculation of trade wars, which could derail an otherwise rosy outlook on U.S. and global economic conditions. Rising interest rates and the specter of inflation also contributed to worries. However, strong earning and a steady stream of positive economic data countermanded trade and interest rate fears and kept the markets moving in a sideways range.

How the Markets Fared

Broader U.S. stock indexes were virtually unchanged during the first quarter of 2018. Growth indexes, (fueled by advances in technology stocks) outpaced value indexes again, as they did throughout 2017. Growth indexes saw gains of 2-3% during the quarter, while value stocks experienced similar declines. International developed market equities also saw fractional losses during the quarter, however, with little distinction between growth and value sectors. The one shining area of global equities was emerging markets, specifically those in Latin America. With strong global economic conditions and largely unmentioned in the trade war rhetoric, South American markets surged with the Latin EM index up over 8% for the quarter.





The Fed raised its short-term lending rate again in March, its sixth rate hike in a little over two years. This increase was largely expected and was seemingly well digested by the market. However, what was not as universally embraced was the increase in the yield of the bellwether 10-Year Treasury, which rose from 2.40% to nearly 2.75% at quarter's close. At times, during the quarter, the 10-Year challenged the 3% mark, a level last seen in 2013. Increases in yields at the long end of the curve caused moderate losses in intermediate fixed income portfolios, and even more dramatic declines in long paper. Declines in the U.S. Dollar led to small gains in international fixed income indexes both in the developed and emerging markets. Commodities declined slightly during the quarter as well. Generally, there were few places in the global capital markets to achieve positive returns.

PIER*ing* Ahead

Like nuclear war, there are seldom winners in a true all out trade war. After all, most historians agree that the trade wars of the early 1930s deepened and extended the great depression. However, unlike nuclear war, which wreaks its damage in moments, trade wars often take years to play out, and the effects are not always instantly negative. In fact, the initial trade tariffs enacted in the 1920s had positive economic implications initially. To speculate on whether all-out war will break out (economically) is likely shooting in the dark. What is clear and present is that global economic conditions continue to be highly favorable. With S&P 500 companies expected to grow earning double digits again this year, it is far more likely that investors will regain their focus on what is true and measurable instead of what is unknown and sensationalized. The question is, how long will the drums of war drown out the steady march of economic advancement? To us, that is the most PIERvailing question at hand.