



# MARKET & ECONOMIC REVIEW

For Period Ending 3/31/2018

## Domestic Equity

- S&P 500 posted a loss of 0.76% for the quarter
- Small Cap (Russell 2000) outperformed Large Cap (Russell 1000)
- Growth (Russell 1000 Growth) outperformed Value (Russell 1000 Value)
- For the first time in three years, the S&P 500 posted a negative return for the quarter.
- The Information Technology and Consumer Discretionary sectors were the only positive sectors in the quarter while Telecom, Consumer Staples, Energy and Materials posted the largest losses.
- While January started out strong for the markets, the markets began to sell off in February due to concerns over rising inflation followed by increasing threats of a trade war with China and other major trading partners.

## International Equity

- MSCI World ex. US posted a loss of 2.04% for the quarter.
- Domestic equities outperformed international equities
- Emerging market equities outperformed developed market equities.
- Concerns over a peaked economy in Europe coupled with uncertainty surrounding political leadership, monetary policy and trade tariffs sent developed markets lower during the quarter.
- Japanese equities posted a 4.7% loss for the quarter driven by indicators of falling production and consumption numbers and fears over potential trade disruption.
- Emerging Market equities posted a positive return for the quarter led by Brazil, Russia, and China while India fell 7% over the quarter due to fraud concerns at a state-owned bank and weakening investor sentiment.

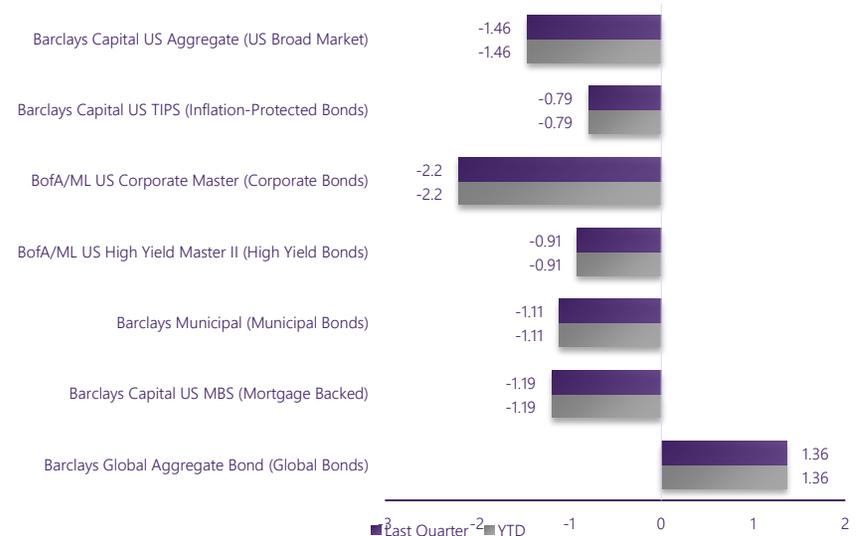


Source: Index Factsheets as of 3/31/2018 from the following index providers: MSCI Indices ([www.msci.com](http://www.msci.com)), S&P Dow Jones Indices ([www.us.spindices.com](http://www.us.spindices.com)), FTSE Russell Indices ([www.ftse.com](http://www.ftse.com)).

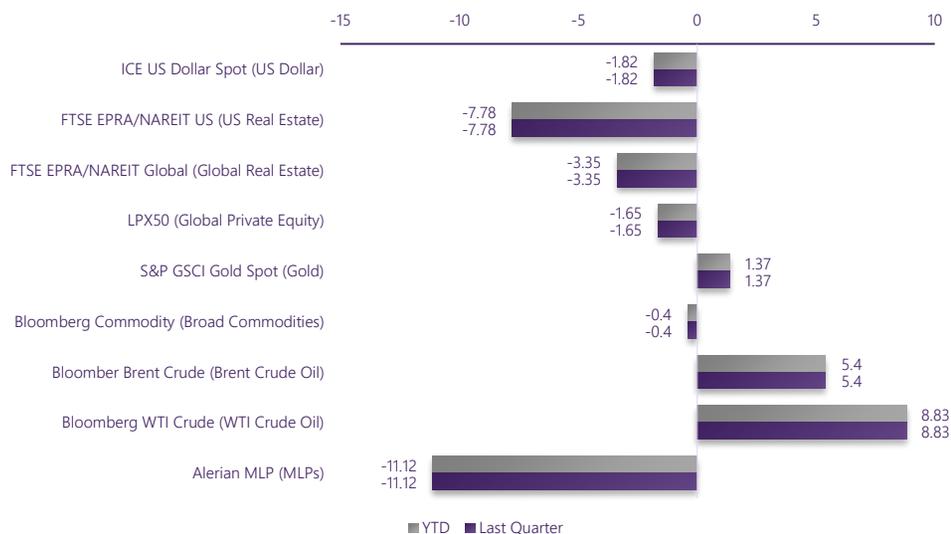
## Fixed Income

- The yield on the 10-Year Treasury ended the quarter at 2.77%
- Treasury yields rose across the curve during the quarter following a shift higher in growth, inflation, and interest rate expectations.
- In it's first meeting with the new Fed Chairman, Jerome Powell, the Fed raised interest rates 25 basis points in March to a fed funds target of between 1.50% and 1.75%.
- Global bonds had a strong quarter driven by Japan with the reappointment of the current BoJ Governor Kuroda and improving conditions in emerging markets.
- While German Bund yield rose slightly over the quarter, Italian, French, and Spanish yields fell modestly.

Fixed Income Index Returns



Alternative Investment Index Returns



## Alternative Investments

- Commodities posted a 0.40% loss during the quarter.
- The US Dollar lost 1.82% this quarter continuing the trend we saw from last year.
- Brent Crude Oil gained 5.4% for the quarter while West Texas Intermediate (WTI) Crude Oil gained 8.8%.
- Global REITs outperformed US REITS posting a 3.4% loss for the quarter compared to a 7.8% loss in the US.
- Global Private Equity lost 1.65% while MLPs fell 11.1% for the quarter.

Source: Index Factsheets as of 3/31/2018 from the following index providers: Bloomberg Barclays Indices ([www.bloomberg.com](http://www.bloomberg.com)), BofA Merrill Lynch ([www.bofaml.com](http://www.bofaml.com)), Intercontinental Exchange ([www.theice.com](http://www.theice.com)), LPX Group ([www.lpx-group.com](http://www.lpx-group.com)), Credit Suisse ([lab.credit-suisse.com](http://lab.credit-suisse.com)), FTSE Russell Indices ([www.ftse.com](http://www.ftse.com)). All other data was sourced from Morningstar.

Macroeconomic Variable	Latest Data	Previous Quarter	Change
Real U.S. GDP (% Q/Q Annualized)	<b>2.9%</b> <i>(Q4 2017)</i>	<b>3.2%</b> <i>(Q3 2017)</i>	 0.3%
Headline Inflation (% Y/Y)	<b>2.4%</b> <i>(March 2018)</i>	<b>2.1%</b> <i>(December 2017)</i>	 0.3%
Core Inflation (% Y/Y)	<b>2.1%</b> <i>(March 2018)</i>	<b>1.8%</b> <i>(December 2017)</i>	 0.3%
Unemployment (%)	<b>4.1%</b> <i>(March 2018)</i>	<b>4.1%</b> <i>(December 2017)</i>	 0.3%
Hours Worked (Average/Week)	<b>34.5</b> <i>(March 2018)</i>	<b>34.5</b> <i>(December 2017)</i>	 00.0
Average Hourly Wages (\$)	<b>\$26.82</b> <i>(March 2018)</i>	<b>\$26.63</b> <i>(December 2017)</i>	 \$0.19
Average Price of Gas (\$/Gallon - Regular)	<b>\$2.591</b> <i>(March 2018)</i>	<b>\$2.477</b> <i>(December 2017)</i>	 \$0.114
Dollar/Euro (\$/€)	<b>1.2320</b> <i>(March 2018)</i>	<b>1.2022</b> <i>(December 2017)</i>	 0.0298
Yen/Dollar (¥/\$)	<b>106.20</b> <i>(March 2018)</i>	<b>112.69</b> <i>(December 2017)</i>	 6.49
Yuan/Dollar (¥/\$)	<b>6.2726</b> <i>(March 2018)</i>	<b>6.5063</b> <i>(December 2017)</i>	 0.2337
Fed Funds Rate (% Range)	<b>1.50 - 1.75%</b> <i>(March 2018)</i>	<b>1.25 - 1.50%</b> <i>(December 2017)</i>	 0.25%
S&P 500 (Price Level)	<b>2,640.87</b> <i>(March 2018)</i>	<b>2,673.61</b> <i>(December 2017)</i>	 32.74
Ten Year Treasury Yield (%)	<b>2.77%</b> <i>(March 2018)</i>	<b>2.40%</b> <i>(December 2017)</i>	 0.37%

## Macroeconomic Review

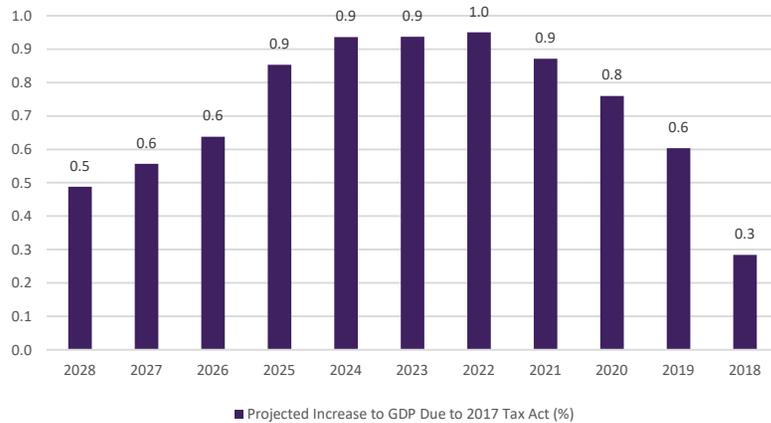
- GDP increased at an annual rate of 2.9% in Q4 compared to a 3.2% increase in Q3.
- Headline inflation rose to 2.4% at the end of March while core inflation rose to 2.1% to end the quarter.
- The unemployment rate remained unchanged at 4.1% in March, adding 103,000 jobs over the month.
- The Euro (1.57%) and the Yuan (2.01%) both appreciated against the Dollar in the quarter while the Yen remained relatively flat, down 0.08%.
- The Federal Reserve raised the Fed Funds Rates to a target range of 1.50% to 1.75% in it's first rate hike this year. The Fed forecasted 2 additional rate hikes for the year despite economists predicting 3.

## Political Review

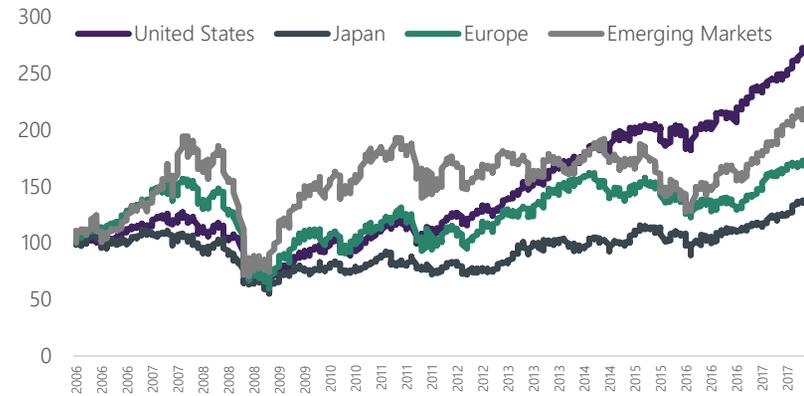
- Washington passed a 2,200 page spending bill totaling \$1.3 trillion to keep the government funded through the end of September.
- After a year following the UK initiating Article 50 to exit the EU, the two parties came to a conditional agreement surrounding details of the UK's transition period.
- Following over 4 months of negotiations, Angela Merkel's CDU party managed to finalize a coalition government deal with the SPD, FDP, and Green parties.
- In March, Italy held elections for their Chamber of Deputies and Senate of the Republic seats. The anti-establishment Five Star Movement party won the most seats for a single party, but no coalition achieved a majority of seats. Negotiations are underway to form a coalition in order to avoid a new election.
- President Trump and Kim-Jong Un have agreed to hold direct talks to discuss the possible denuclearization of the Korean Peninsula. It would be first talks between a sitting US President and North Korean leader.

Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)), Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)), U.S. Energy Information Administration ([www.eia.gov](http://www.eia.gov)), FRED Economic Data ([fred.stlouisfed.gov](http://fred.stlouisfed.gov)). Arrows depict the upwards, lateral, or downward change in direction for a given macroeconomic variable. The color of the arrow denotes the positive, neutral, or negative signal Pensionmark perceives for the change in macroeconomic variable. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction. This data does not contain sufficient information for any investment decision and should not be relied upon when considering an investment strategy.

Economic Effects of the 2017 Tax Act on Real GDP



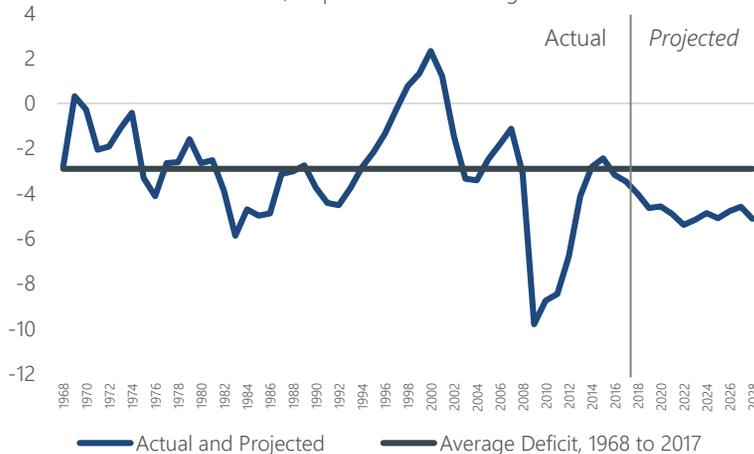
Cumulative Market Performance Since 2006



## Tax Reform

The Tax Reform bill passed at the end of 2017 is projected to be additive to GDP, but the effects diminish over time as certain tax provisions in the bill expire.

Total Deficits/Surpluses as a Percentage of GDP



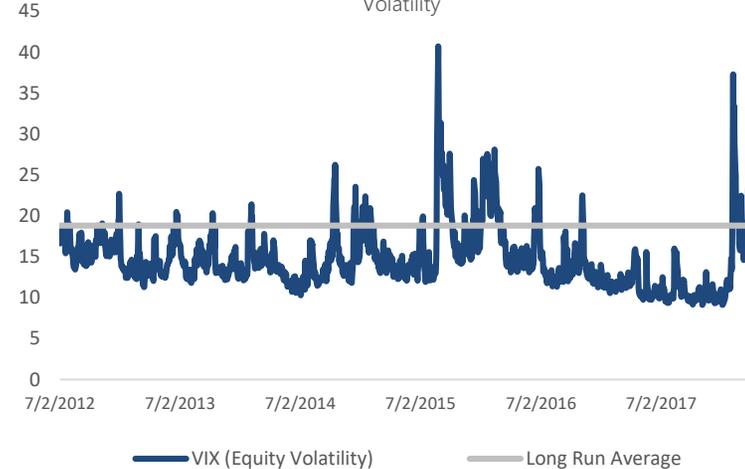
## Government Spending

The Tax bill passed at the end of 2017 coupled with the spending bill passed in the first quarter of 2018 are projected to increase government deficits significantly over the next ten years.

## International Markets

While international markets have performed well over the last year, there may still be room to run looking at valuations relative to the United States

Volatility



## Market Euphoria/Tension

We began to see volatility creep back in the market in the first quarter of 2018. After a prolonged calm in the markets, the increased volatility may seem shocking, when in reality it is returning to historically average levels.

Source: Tax Policy Center (<http://www.taxpolicycenter.org/>), Congressional Budget Office ([www.cbo.gov](http://www.cbo.gov/)), MSCI Indices ([www.msci.com](http://www.msci.com/)), S&P Dow Jones Indices ([www.us.spindices.com](http://www.us.spindices.com/)), Chicago Board of Options Exchange ([www.cboe.com](http://www.cboe.com/)). This data does not contain sufficient information for any investment decision and should not be relied upon when considering an investment strategy.

# THE IMPORTANCE OF DIVERSIFICATION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD
Best	EM Equity 79.0	REIT 27.6	Fixed Income 7.8	REIT 19.7	Small Cap 38.8	REIT 27.2	REIT 2.1	Small Cap 21.3	EM Equity 37.8	EM Equity 1.5
	High Yield 59.4	Small Cap 26.9	REIT 7.3	High Yield 19.6	Large Cap 32.4	Large Cap 13.7	Large Cap 1.4	High Yield 14.3	DM Equity 25.6	Cash 0.3
	DM Equity 32.5	EM Equity 19.2	High Yield 3.1	EM Equity 18.6	DM Equity 23.3	Fixed Income 6.0	Fixed Income 0.5	Large Cap 12.0	Large Cap 21.8	Small Cap -0.1
	REIT 27.8	Commodities 16.8	Large Cap 2.1	DM Equity 17.9	Asset Allocation 13.9 ★	Asset Allocation 5.0 ★	Cash 0.0	Commodities 11.8	Small Cap 14.6	High Yield -0.4
	Small Cap 27.2	Large Cap 15.1	Cash 0.1	Small Cap 16.3	High Yield 7.3	Small Cap 4.9	DM Equity -0.4	EM Equity 11.6	Asset Allocation 14.3 ★	Commodities -0.4
	Large Cap 26.5	High Yield 14.8	Asset Allocation -0.6 ★	Large Cap 16.0	REIT 2.3	Cash 0.0	Asset Allocation -1.9 ★	REIT 9.4	High Yield 10.4	Large Cap -0.8
	Asset Allocation 24.9 ★	Asset Allocation 13.7 ★	Small Cap -4.2	Asset Allocation 12.3 ★	Cash 0.0	High Yield 0.0	High Yield -2.7	Asset Allocation 8.6 ★	REIT 9.3	Asset Allocation -1.0 ★
	Commodities 18.9	DM Equity 8.2	DM Equity -11.7	Fixed Income 4.2	Fixed Income -2.0	EM Equity -1.8	Small Cap -4.4	Fixed Income 2.6	Fixed Income 3.5	DM Equity -1.4
	Fixed Income 5.9	Fixed Income 6.5	Commodities -13.3	Cash 0.1	EM Equity -2.3	DM Equity -4.5	EM Equity -14.6	DM Equity 1.5	Commodities 1.7	Fixed Income -1.5
Worst	Cash 0.1	Cash 0.1	EM Equity -18.2	Commodities -1.1	Commodities -9.5	Commodities -17.0	Commodities -24.7	Cash 0.3	Cash 0.8	REIT -6.5

Large Cap: S&P 500; Small Cap: Russell 2000; EM: MSCI EM; Commodities: Bloomberg Commodity; High Yield: Barclays Global High Yield; Fixed Income: Barclays US Agg Bond; DM: MSCI EAFE; Cash: Barclays US Treasury Bill 1-3 Month; REIT: FTSE NAREIT; "Asset Allocation" portfolio assumes 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays US Agg Bond, 5% Barclays Global High Yield, 5% US Treasury Bill 1-3 Month, 5% Bloomberg Commodity, and 5% FTSE NAREIT.

Source: Morningstar Direct. This information is not intended as a solicitation or an offer to buy or sell any security or investment product. Past performance is not indicative of future returns. Information is solely intended for recipients in jurisdictions where the named advisor(s) are licensed to engage the investing public. Investments and strategies mentioned may not be suitable for all investors. The S&P 500 and other such indices are unmanaged, do not incur fees or expense, cannot be invested into directly and individual investor's results will vary. As with all investments, various risks may exist and Pensionmark Financial Group, LLC recommends you consult with your financial advisor prior to making any investment decisions.

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

## Equity Indexes:

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The **MSCI World Index** is a market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI World ex USA Index** is a market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **Russell 1000 Index**<sup>®</sup> measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index**<sup>®</sup> measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index**<sup>®</sup> measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index**<sup>®</sup> measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell 3000 Index**<sup>®</sup> measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The **S&P 400 Index** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500<sup>®</sup>, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The **S&P 600 Index** measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

## Fixed income:

The **Barclays US Agg Bond Index** measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. It rolls up into other Barclays flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The **Barclays US TIPS Index** measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Global Inflation-Linked Index (Series-L).

The **BofAML US Corporate Index** tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings). In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$250 million.

The **BofAML High Yield Index** measures the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. It is capitalization-weighted.

This **Barclays Municipal Bond Index** measures the performance of the Bloomberg Barclays U.S. Municipal bond, which covers the USD-denominated Long-Term tax exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

The **Barclays MBS Index** measures the performance of the agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The **Barclays Global Agg Bond Index** measures the performance of global investment grade fixed-rate debt markets, including the U.S. Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, Global Treasury, Eurodollar, Euro-Yen, Canadian, and Investment Grade 144A index-eligible securities.

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

## Other Asset Classes:

The **U.S. Dollar Index** is a measure of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

The **FTSE NAREIT US REITs Index** is a market capitalization-weighted index that includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List.

The **FTSE NAREIT Global Real Estate Index** is designed to represent general trends in eligible real estate equities worldwide. Relevant activities are defined as the ownership, disposal and development of income-producing real estate. The index series now covers Global, Developed and Emerging indices, as well as the UK's AIM market.

The **LPX50 Index** is a global index that consists of the 50 largest liquid listed private equity companies covered by LPX.

The **Credit Suisse Hedge Fund Index** is compiled by Credit Suisse Hedge Index LLC and CME Group Index Services LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index is calculated and rebalanced on a monthly basis, and reflects performance net of all hedge fund component performance fees and expenses.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index is calculated using a float-adjusted, capitalization-weighted methodology.

## Definitions:

Investing in alternative assets involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Investments in emerging markets can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of equity securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of long and short positions will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Small-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.