Investor Intelligence
Newsletter©
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From the Executive Desk

Myrna Rivera, CIMA®
Founder & Chief Executive Officer

The U.S. markets were pressured in March by the confluence of political uncertainty, weakness in the Technology sector, and Federal Reserve news. Sharp declines during the month culminated in the Dow Jones and the S&P 500 posting their first quarterly loss since 2015. The "March Madness" particularly weighed on the Technology sector, as a string of negative news concerning several of America's largest public companies weighed on the Nasdaq Composite. March saw volatile trading throughout as the S&P 500 experienced 23 sessions in the first quarter in which it moved 1% in either direction, compared to just seven such moves in all of 2017. The first quarter showed symptoms of what is turning out to be a lively year; markets are transitioning from lower volatility and lower interest rates to higher volatility and higher interest rates; the U.S. economy is moving from low inflation to moderate inflation; the Federal Reserve has a new Fed Chair (Jerome Powell), and is implementing an unprecedented program to reduce its balance sheet by not reinvesting the treasuries and mortgage securities that it owns; and finally, and maybe most importantly, the global economy is trying to digest news of an imminent trade war. Given President Trump's proposals on aluminum and steel, and his discussion on taxing solar panels, washing machines and other imports, markets worry that his policy could lead to retaliation from other countries and ultimately, higher prices for consumers. After a non-volatile 2017, investors will have to be prepared for more normal movements in 2018 and the following years, because we will most likely continue to see unnerving geopolitical events, and stressful headlines. The successful investor understands that markets have highs and lows, but that a longer investing timeframe leads to a higher probability of positive returns.

Economic Perspectives

Edmundo J. Garza
President

The U.S. macroeconomic environment remained relatively healthy during the first quarter as 4th quarter GDP was revised upward from 2.5% to 2.9%. The U.S. unemployment rate of 4.1% is the lowest since 2000 while inflation pressures remain modest given the length of the economic expansion and tight labor markets. Several geopolitical issues continue to drive uncertainty about future global economic growth, including President Trump's actions relating to trade negotiations and potential conflict with Russia and North Korea given recent sanctions over their threatening behavior. The federal reserve raised its target Fed Fund rate by 25bps in March, to 1.50 % – 1.75% and announced it is projecting another two hikes this year, and three to four more in 2019. Inflation moved higher in March; Headline CPI was +2.4% and Core CPI was +2.1% (year-over-year). Outside the U.S., economic activity across the Euro zone remained solid with GDP growth continuing to hover above 2%, and unemployment trending lower to 8.6% as of the end of the quarter. However political risks remain, as shown by uncertainty around Italy's ability to manage coalition talks and ongoing Brexit-related negotiations. Japan appears to be on a solid footing, while China's growth is being tempered by calls for economic and trade reforms.

Indicators (As of April 10, 2018)

United States:
CPI: 2.4% Chg. from yr. ago
Unemployment Rate: 4.1%
GDP: 2.9% Comp. Annual rate of Chg. on 2017:Q4
Ind.Prod.Index: 0.5% change from previous month
Source: *St. Louis Fed. Res.*

Japan:
CPI: 0.8% Chg. from yr. ago
Unemployment Rate: 2.5%
GDP: 0.4%, Comp. Annual rate of Chg. on 2017:Q4
Ind.Prod.Index: 4.1% change from previous month
Source: *Moody's Analytics*

Eurozone:
CPI: 1.3% Chg. from yr. ago
Unemployment Rate: 8.5%
GDP: 0.6%, Comp. Annual rate of Chg. on 2017:Q4
Ind.Prod.Index: -0.8% change from previous month
Source: *Moody's Analytics*

Puerto Rico (3/25/2018):
CPI: 0.9% Chg. from yr. ago
Unemployment Rate: 9.9%
Payroll Employment: -3.4% Chg. from yr. ago
GDB Econ. Act. Index: -9.4% Chg. from yr. ago
Source: *P.R. GDB*

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Evangeline Dávila, CIMA®
Chief Research & Investment Officer

Market Recap

Stocks: U.S. equity markets rallied in the first half of March and ended the month with heightened volatility. The S&P 500 and DJIA returned -2.5% and-3.6%, respectively. Small cap stocks outperformed large cap equities by 3.6%, as the Russell 2000 Index posted a gain of 1.3% compared with a loss of 2.3% for the Russell 1000 Index. Mid cap stocks trailed small cap as well, with the Russell Mid Cap Index gaining only 0.1%. Value stocks outperformed growth stocks, which is a break in trend from growth's dominance over value in the past few quarters, with the Russell 3000 Value Index returning −1.5% compared with -2.4% for the Russell 3000 Growth Index.

Bonds: U.S. fixed income markets posted mostly positive returns for the month, as longer-term yields trended lower. The first rate increases for 2018 were implemented in March, as the Federal Open Market Committee (FOMC) voted to hike the Fed Funds rate 25 basis points to a range of 1.50% to 1.75%. Despite this increase, the yield on the 10-Year Treasury Note decreased, ending the month at 2.74%.

Alternatives: The Bloomberg Commodity Index was down for both the month and quarter, returning -0.6% and -0.4%, respectively, but has outpaced many of the more traditional equity and fixed income asset classes. The U.S. REIT market outperformed the S&P 500 Index by 635 basis points in March, with the FTSE NAREIT Equity REITs Index returning 3.8%.

Returns (%) for Various Periods

	Year 2017	Jan-18	Feb-18	Mar-18	YTD 2018
Global Markets					
MSCI:ACWI	24.0	5.6	(4.2)	(2.1)	(1.0)
MSCI:ACWI Hedged USD	20.1	4.2	(3.5)	(2.2)	(1.7)
Blmbg:Global Aggregate	7.4	1.2	(0.9)	1.1	1.4
Blmbg:Glob Agg Hedged	3.0	(0.7)	(0.2)	0.8	(0.1)
US Equity					
DJ:30 Industrials	*28.1*	*5.9*	*(4.0)*	*(3.6)*	*(2.0)*
NASDAQ	*29.6*	*7.4*	*(1.7)*	*(2.8)*	*2.6*
S&P:500	*21.8*	*5.7*	*(3.7)*	*(2.5)*	*(0.8)*
Russell:3000 Index	21.1	5.3	(3.7)	(2.0)	(0.6)
Russell:3000 Growth Index	29.6	6.8	(2.6)	(2.4)	1.5
Russell:3000 Value Index	13.2	3.7	(4.8)	(1.5)	(2.8)
Russell:1000 Index	21.7	5.5	(3.7)	(2.3)	(0.7)
Russell:Midcap Index	18.5	3.8	(4.1)	0.1	(0.5)
Russell:2000 Index	14.6	2.6	(3.9)	1.3	(0.1)
Russell:Microcap	13.2	2.5	(3.2)	1.5	0.7
Non-US Equity					
MSCI:ACWI ex US	27.2	5.6	(4.7)	(1.8)	(1.2)
MSCI:ACWI ex US LC	18.2	2.4	(3.4)	(2.0)	(3.1)
MSCI:ACWI ex US Growth	32.0	5.2	(4.5)	(1.4)	(0.9)
MSCI:ACWI ex US Value	22.7	5.9	(5.0)	(2.2)	(1.5)
MSCI:EAFE	25.0	5.0	(4.5)	(1.8)	(1.5)
MSCI:EAFE LC	15.2	1.2	(3.3)	(2.2)	(4.3)
MSCI:EM	37.3	8.3	(4.6)	(1.9)	1.4
MSCI:EM LC	30.6	6.8	(3.9)	(1.9)	0.7
US Fixed Income					
Blmbg:Aggregate	3.5	(1.2)	(0.9)	0.6	(1.5)
Blmbg:Treasury	2.3	(1.4)	(0.8)	0.9	(1.2)
Blmbg:Agency	2.1	(0.7)	(0.4)	0.6	(0.5)
Blmbg:US Securitized	2.5	(1.2)	(0.6)	0.6	(1.2)
Blmbg:Credit	6.2	(0.9)	(1.5)	0.3	(2.1)
Blmbg:Int Gov/Cred	2.1	(0.9)	(0.5)	0.4	(1.0)
Blmbg:Long Gov/Credit	10.7	(2.1)	(3.2)	1.7	(3.6)
Blmbg:Municipal Bond	5.4	(1.2)	(0.3)	0.4	(1.1)
Blmbg:High Yield Cash Pay	7.5	0.6	(0.8)	(0.6)	(0.9)
Blmbg:US TIPS	3.0	(0.9)	(1.0)	1.1	(0.8)
Non-US Fixed Income					
Blmbg:Glob Agg ex USD	10.5	3.0	(0.8)	1.4	3.6
Blmbg:Glob Agg ex USD H	2.5	(0.4)	0.3	1.0	0.9
Citi:Non-USD WGBI	10.3	3.2	(0.7)	1.8	4.4
Citi:Non-USD WGBI (Hdg)	2.1	(0.3)	0.5	1.4	1.5
JPM:EMBI Global Dvsfd	10.3	0.0	(2.0)	0.3	(1.7)
JPM:GBI-EM Global Dvsfd	15.2	4.5	(1.0)	1.0	4.4
Other Investments					
Alerian:MLP Index	(6.5)	5.8	(9.7)	(6.9)	(11.1)
CS:Leveraged Loan	4.2	1.1	0.2	0.3	1.6
ML:US Pref Stock Fixed Rt	10.6	(1.9)	0.6	0.3	(1.0)
FTSE:NAREIT Equity Index	5.2	(4.2)	(7.7)	3.8	(8.2)
FTSE:EP/NA Dev ex US	20.8	4.6	(6.0)	1.1	(0.5)
FTSE:EP/NA Emerging	52.4	11.4	(7.8)	1.5	4.1
Blmbg:Commodity TR Idx	1.7	2.0	(1.7)	(0.6)	(0.4)
GS Commodity Index	5.8	3.4	(3.3)	2.2	2.2
HFRI Fund Wtd Comp	8.6	2.4	(1.7)	(0.2)	0.3
HFRX Global Hedge Fd Idx	6.0	2.4	(2.4)	(1.0)	(1.0)
PR Stock Index	*(17.0)*	*13.4*	*2.5*	*0.4*	*16.7*

Sources: Callan Associates, Bloomberg, S&P-DJ, MSCI, FTSE-Russell, Citigroup, Credit Suisse, Hedge Fund Research

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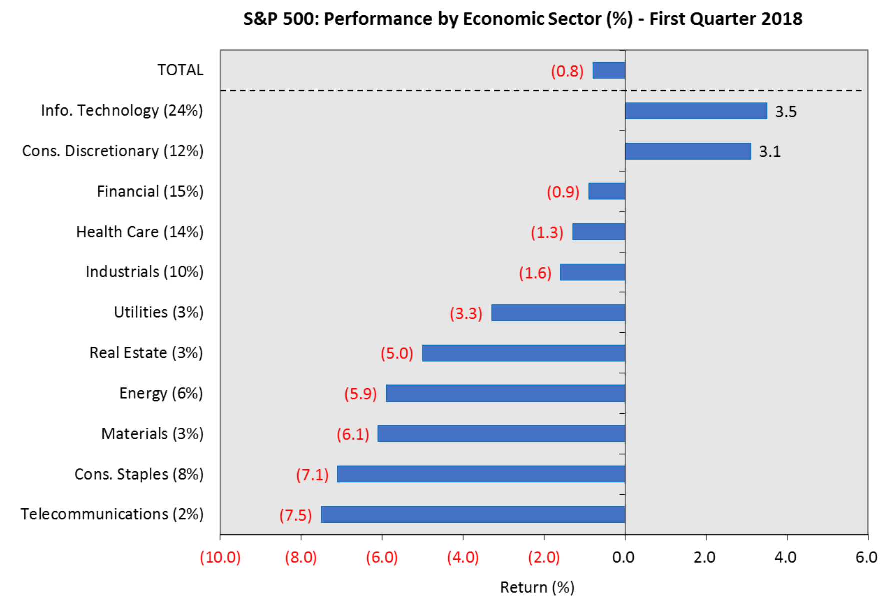
The Advisor's Corner

Ernesto Villarini Baquero, MBA
Advisor & Managing Director

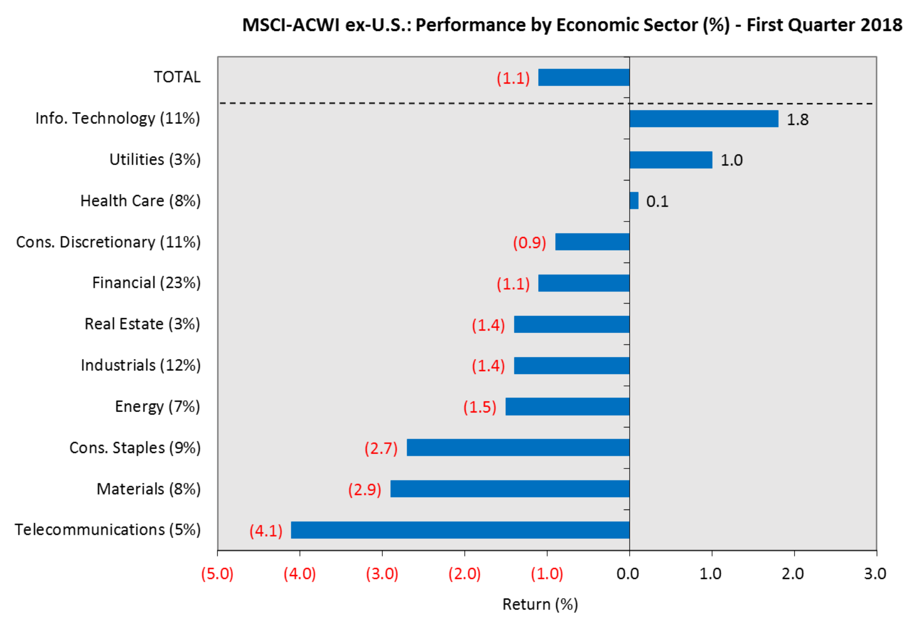
How closely do international stocks correlate with domestic stocks? We tend to think that investing in companies in developed and developing markets outside the U.S. diversifies our equities portfolio, and indeed it can, but geography is only one of various factors to consider. The following graphs showing the performance of stocks by economic sector for the first quarter of 2018 speaks to the interconnectedness of the global economy. Most U.S. Large Cap stocks were down in the first quarter, with only information technology and consumer discretionary stocks in positive territory. The MSCI-ACWI Ex U.S shows a similar overall result (-1.1% vs. -0.8% total performance in the U.S.). However, consumer discretionary had a negative performance abroad, while the utilities sector showed a positive result. As shared with clients during our 2018 annual conference, Consultiva expects a 0.84 correlation between U.S. and Developed Markets Large Cap stocks. The correlation with emerging market equities is similar at 0.86. Hence, investors should look to other market caps and investment styles to further diversify their stock portfolio. Bonds and alternative investments will provide additional diversification, but in the end, the entire portfolio design should follow the investor's tolerance for risk, investment horizon and investment preferences closely.

Graph I



Source: Callan Associates

Graph II



Source: Callan Associates

What to Do?

The “March Madness” particularly weighed on the Technology sector, as a string of negative headlines concerning several of America’s largest public companies weighed on the Nasdaq Composite. Overseas, most international markets shared in the decline experienced by their U.S. counterparts. Foreign policy challenges continue to cause concerns, as does the impact of new trade policies being set domestically and abroad. Much uncertainty remains with respect to the scope, implementation and timing of these policies. ***Amid an uncertain scenario we continue to recommend prudent asset allocation and risk assessment, based on future capital needs, for plan sponsors, institutions and individual investors. Due diligence reviews and an adherence to a well-developed investment policy remain the most prudent course for long-term investors. Continued fiduciary education is paramount.***

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