



February 2018: Market Review

Global equity markets were down in February, as Wall Street experienced one of its most volatile months in recent memory. After peaking on January 26th, the S&P 500 Index endured a technical correction (greater than 10% decline) through February 8th and then recovered modestly. The Dow Jones Industrial Average was down (3.96%) in February, the S&P 500 Index lost (3.69%), and the NASDAQ Composite Index fell (1.74%). The Dow's YTD return is 1.69% while the S&P and NASDAQ are returning 1.83% and 5.54% YTD respectively.

In U.S. economic news, Jerome Powell was sworn in as the new Federal Reserve Chairman replacing Janet Yellen. Futures markets are pricing in an 86% probability of a rate increase at the Fed's March meeting. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.7% in December, while on a year-over-year basis, prices were 6.3% higher than a year ago. Among commodities, WTI crude oil ended February at \$62 a barrel, down from January's closing price of \$65. Gold closed the month at \$1,316 per troy ounce, down from \$1,339 at the end of January.

Growth-style equities continued their outperformance of value stocks in February, as did large cap equities relative to their small cap counterparts. Among large cap stocks, the Russell 1000 Growth Index fell (2.62%) in February, dragging the YTD performance to 4.27%. The Russell 1000 Value Index lost (4.78%), which brought its YTD performance negative to (1.09%). For small cap stocks, the Russell 2000 Growth Index fell (2.85%) for the month, now returning 0.94% on the year. The Russell 2000 Value Index declined by (5.00%), bringing its YTD performance negative to (3.83%). The Russell Midcap Index was down (4.13%) in February and is now negative on the year at (0.52%).

International equities were also down in February. The MSCI EAFE Index was down (4.51%) but is still slightly positive YTD at 0.28%. The MSCI Europe Index lost (5.88%) in February and is down this year to (0.79%). The MSCI Pacific Index fell (2.09%), but remained positive YTD at 2.16%. The MSCI Emerging Markets Index was down (4.61%) but also remains positive YTD at 3.34%. Major EM countries like Brazil (-2.75%), Mexico (-7.27%), and China (-6.42%) all had negative returns this month.

U.S. fixed income markets were also negative in February, as bond investors are still facing the prospect of higher inflation driven by the recent corporate tax rate cut and rising wages. The yield on the 10-Year Treasury closed February at 2.87%, up from January's close of 2.72%. The Bloomberg Barclays U.S. Aggregate Bond Index fell (0.95%) this month and is now down (2.09%) this year. The Bloomberg Barclays U.S. Treasury Index lost (0.75%) in February and has fallen (2.10%) YTD. The Bloomberg Barclays Treasury 20+ Year Index was down (3.12%) during the month and is now down (6.29%) this year. The Bloomberg Barclays Corporate High Yield Index fell (0.85%) and is down (0.26%) YTD.

After years of relatively low volatility, global equity markets experienced significant volatility in February. Investors will be watching new Fed Chairman, Jerome Powell, who is expected to raise rates 3-4 times this year. Rising yields, higher expected inflation, market valuations and the longer term effects of the Trump administration's tax changes will all be important factors in how investors view the market.