CLEAR CREEK ADVISORS

MARKET VOLATILITY'S COME BACK

Market Review **MARCH 2018**

US stock market uncertainty spiked last month after being mostly dormant for almost a year. At the open of February, large bellwether stocks were sent into negative territory on the year and spent much of last month swooning between gains and losses. The market became more yield-centric as improved economic data was reported around the world. That yield-focus is forcing investors to reevaluate their value estimates of stocks and bonds.

Stock and bond prices fell further as US Treasury yields rose and rising inflation fears spread across markets. Speculation of 3% annual inflation became a new market consensus. That consensus is important, because that is the level that general price inflation is believed to start impacting wage inflation, which could force the Federal Reserve (Fed) to become more aggressive. The market still expects the Fed to raise key interest-rates three times this year. However, if inflation data exceeds expectations, four rate hikes could be on the table. Stock and bond prices are a bit more uneasy with four increases.

US stock and bond market volatility was further impacted by a temporary government shutdown and fears of a weak auction as the US Treasury rushed to roll-over short-term bills and notes. Fortunately, the US Government was reopened, US Congress was able to pass a short-term spending bill, and enough demand for US debt remained present. US stocks and bonds were able to escape these distractions.

By mid-month, the US stock market had recovered some of its losses and received a bit of relief from a slowing December report on job openings and labor turnover (JOLTS). The JOLTS report allowed markets to cast away some inflation worries. Still, the jobs market is healthy. US employee job quits are above average, which indicates employees are confident enough to switch jobs; and, weekly jobless claims remain below their four-week moving average.

The most anticipated data of the month, however, were the inflation indexes. Specifically, the consumer price index (CPI) and the producer price index (PPI) both rose in January. The PPI came in above expectations. US stocks and bonds barely budged on the news release.

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Although stocks and bonds experienced significant volatility, the US dollar was one of the most beaten up assets this year. By mid-February, the US dollar had annual losses of 3.4% against other major trading currencies. This has some analysts perplexed, because US Treasury yields appear far more favorable relative to government yields of other developed countries. Further, the Fed affirms interest-rate hikes while other global banking policy such as Europe and Japan diverge even further from the Fed's policy. So, analysts are now blaming increased government spending and the large corporate tax cuts as reasons for the faltering US dollar. In actuality, a weaker US dollar could help to strengthen US annual output (GDP). Recent trade data shows US imports are rising at a faster rate versus US exports. The trade-gap is a drag on GDP. Still, a second estimate of fourth-quarter GDP revealed a solid reading of 2.5% annually, which was fueled by strong consumer and business demand.

Normally, a weak US dollar improves returns for US investors that own unhedged international investments, but the weak global stock market hasn't provided any support. For instance, European stock markets are down in the high-single digits this year. Asian and Pacific stock markets are mixed. Some of the best performing global stock markets are found in Southeast Asia and in Hong-Kong. Global markets had a turbulent ride in February. If investors can be encouraged by anything, it is that global stock markets handled the market sell-off well. No major bank or counterparty problems were uncovered.

Market Movers

Most global stock markets sold-off in February and are now in negative territory for the year. Only a few markets stand out this year, such as US technology stocks and some emerging market stocks of Southeast Asia. The benchmark yield on the US Treasury came close to touching 3.0% in February but has since retreated below 2.9%. The next test for stock markets could be a US Treasury yield of 3.0%. The performance of our diversified Core Allocation portfolios slid in February. Our emphasis towards diversification, however, dampens the volatile effects from any one asset class. Ultimately, diversification helps to smooth out the ride for investors and is more likely to enhance overall performance in the long-run.

Asset Categories	*Monthly*	*YTD*
US STOCKS	-4.10%	-0.56%
FOREIGN STOCKS	-4.29%	1.05%
US BONDS	-0.80%	-1.02%
FOREIGN BONDS	-1.10%	-0.03%
HARD ASSETS	-5.49%	-4.08%
HYBRIDS	-0.78%	0.11%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING FEBRUARY 28, 2018.

US STOCKS dropped in February bringing this year's total returns into negative territory. Small Caps fell the most last month followed by Mid-Caps and then Large Caps. For the full-year, total returns of Large Caps have preserved a 1.2% gain while Small Cap total returns slid to almost minus 2.0%. Rising US Treasury yields are a risk, and the Fed and positive economic data may push yields higher.

FOREIGN STOCK total returns were also down last month. Foreign Large Caps led the losses ending last month with total returns of negative 4.8%. Total returns of Emerging Markets were down 4.1%. Still, Foreign Stocks remain in positive territory this year held up by Emerging Market performance. Year-to-date, total returns of Emerging Markets are 2.8%. Our allocation to Emerging Markets has been extremely beneficial for our equity allocations.

US BONDS were not immune to last month's sell-off. After extended periods of strong performance, US Corporates and US High-Yields were the hardest hit in February. They posted losses of 1.4% and 1.1%, respectively. Total returns of US Corporates are the weakest this year followed by US Treasuries. For the year, US Corporates and US Treasuries are down 2.2% and 1.7%, respectively. The diversification that we employed within the US Bond allocation helped mitigate some of these losses.

FOREIGN BOND total returns were down last month as well, but total losses are relatively immaterial on the year. Inside the category, Emerging Market Bonds suffered the greatest loss last month. The Emerging Market Bond category was down 1.4% in February but are generally flat since the beginning of the year. Total returns of Developed World Bonds remain slightly positive this year. Overall, our Foreign Bond allocation softened some of the volatility experienced in the global markets.

HARD ASSETS have struggled the most this year relative to the other asset categories. Last month's losses further deepened the year-to-date losses. Energy and Real-Estate shed roughly 6.0% and 6.5% last month, respectively. That brings Energy's annual losses to approximately 1.0% this year. Real-Estate has suffered total return losses in the high single digits despite mostly better housing data in the US.

HYBRIDS weakened in February, but still provided improved stability relative to other asset categories. Convertible Bonds outperformed for the year with total returns of 1.7%. Meanwhile, Preferred Stocks fell nearly 1.5%. Overall, Hybrids offered a much needed hedge during the global market volatility.