Economic & Market Commentary

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Market Update – January 2018

Global stocks (+5.4%) continued to push forward to start off the new year. All U.S. and international equity asset classes increased in the month of January – largely attributed to higher than expected corporate earnings and positive economic data. On Feb. 5, Federal Reserve Chairwoman Janet Yellen will be replaced by Jerome Powell. Analysts expect a smooth transition of monetary policy – continuing with modest increases in interest rates.

Economy

- The fourth quarter estimate of real GDP growth came in at 2.6%. This follows back-to-back quarters where growth rose at a 3.0% annualized rate.
- Average hourly wages increased 2.9% on an annualized basis, the best gain since the early days of the recovery in 2009 and a signal that could point to higher inflation.
- Consumers continue to feel good about the economy as consumer confidence levels hover near all-time highs.
- Nonfarm payrolls rose by 200,000 in January, beating analyst estimates, while the unemployment rate remained at 4.1%.

Stocks

- The S&P 500 Index posted a healthy 5.7% return in January, besting U.S. large value, small, and small value stocks.
- International stocks performed favorably once again with large value gaining 5.4% and small caps up 5.3%.
- Emerging markets stocks jumped 8.3% due to strong gains from China and Brazil.

Bonds

- Bond asset classes were essentially flat or slightly down for the month of January.
- Intermediate-term bonds (-0.9%) and international bonds (-0.4%) fell slightly as the 10-year U.S. Treasury yield continued to rise.
- Short-term bonds were left unchanged (0.0%).

Alternatives

- Managed futures (+6.1%), commodities (+2.0%), and reinsurance (+1.3%) posted positive returns in January.
- Global REITs began the year with a slow start, down 1.6%.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, Standard and Poor's

Inflation Rising: Will Your Portfolio Keep Up?

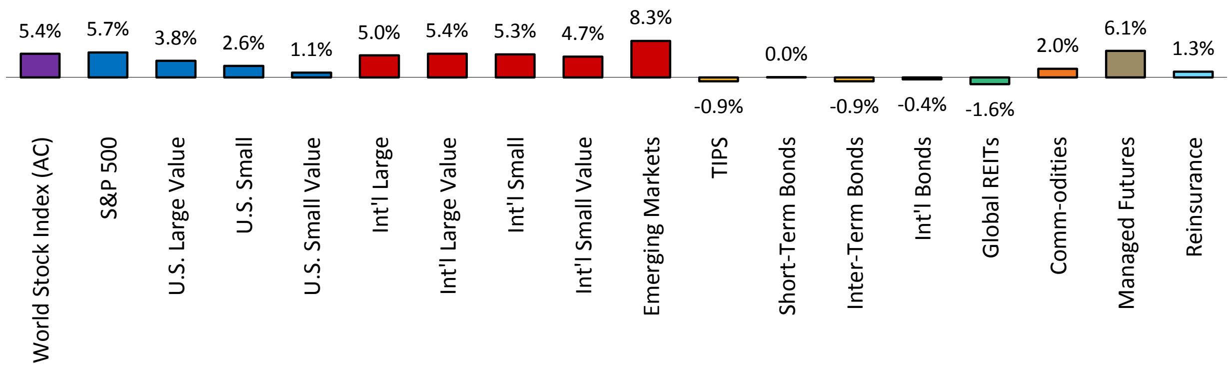
A moderate pickup in U.S. inflation is beginning to resonate with markets in 2018. As underlying inflation data has begun to pick up, market-based inflation expectations have approached 2%, nearing levels not seen since mid-2014. Recent year-over-year inflation measures such as core CPI (consumer price index) and core PCE (personal consumption expenditure) have nudged modestly upwards to 1.8% and 1.5%, respectively. Although these indicators fall below the Fed’s stated 2% inflation goal, these small moves represent a shift in momentum. Here we highlight two key factors facilitating this push.

A tightening U.S. labor market has contributed to stronger inflation expectations. Over the course of 2017, the U.S. unemployment rate fell from 4.8% to 4.1% – well below the 5% rate that is often considered to be full employment. Declines in job vacancies tend to push wages higher as firms find it more difficult to recruit workers. Higher wages, a main input price of producing goods, result in higher costs for firms. The first indication of meaningful wage growth was seen this past month. In order to offset growing costs, businesses have to decide whether to increase prices in order to maintain current profit levels or implement cost reduction strategies (generally lay off workers). Given the strength of the current domestic economy, low unemployment, and solid GDP growth, economic indicators tend to signal potential for higher prices going forward.

In addition to the tight labor market, a weaker dollar and signs of improving global economic growth have boosted commodity prices. Over the past eight months, the Bloomberg Commodity Index has risen 9.8% and the underlying pace of U.S. inflation continues to accelerate. While inflation has held below the Fed’s target, increasing commodity prices are one factor showing why policy makers are expected to continue raising rates in an effort to offset inflationary pressures.

In order to combat rising inflation, Savant allocates a portion of its portfolio to inflation-adjusted bonds and commodities. Although stocks can provide the best hedge against inflation long-term due to higher expected returns, inflation-adjusted bonds and commodities can help protect against it in the short term. We believe it is imperative to incorporate as many different return streams as possible for your portfolio. Diversifying globally across assets that act differently across business cycles can help lead to a lower risk profile and the potential for higher returns.

MARKET RETURNS
Year-To-Date as of 1/31/2018



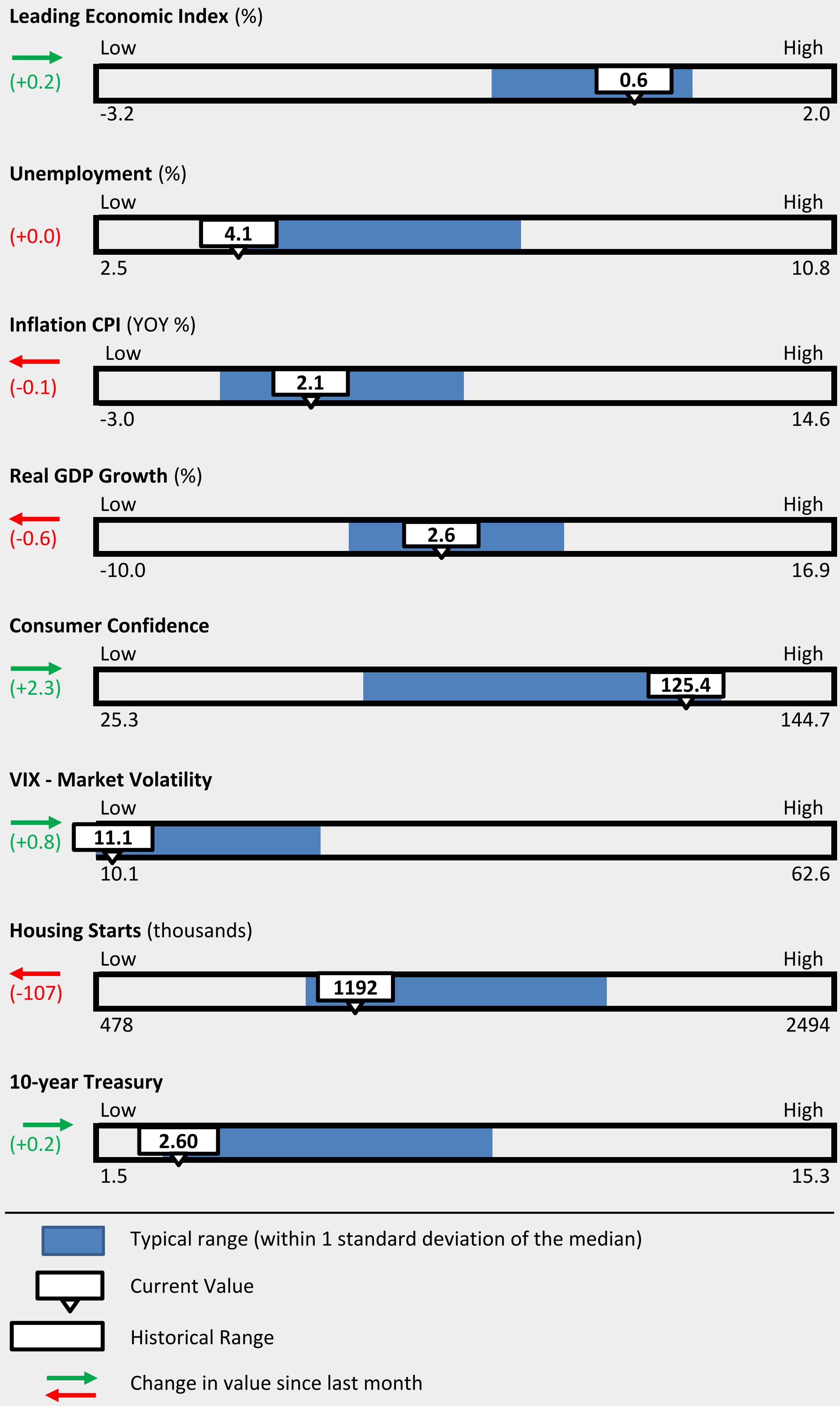
MARKET RETURNS - Longer Term Annualized as of 1/31/2018

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	5.7%	5.7%	26.4%	9.2%	13.4%	8.1%	9.5%
U.S. Large Value	3.8%	3.8%	19.3%	10.0%	12.8%	7.0%	9.5%
U.S. Small	2.6%	2.6%	17.2%	9.7%	12.4%	9.0%	11.2%
U.S. Small Value	1.1%	1.1%	9.7%	12.0%	13.2%	9.6%	11.9%
Int'l Large	5.0%	5.0%	27.6%	1.3%	3.4%	1.1%	7.5%
Int'l Large Value	5.4%	5.4%	24.9%	0.9%	2.8%	0.5%	7.6%
Int'l Small	5.3%	5.3%	36.4%	6.8%	7.9%	4.4%	11.4%
Int'l Small Value	4.7%	4.7%	33.0%	7.8%	8.7%	4.8%	12.1%
Emerging Mkts	8.3%	8.3%	41.0%	-0.4%	-1.6%	0.4%	11.2%
World Stock Index (AC)	5.4%	5.4%	27.2%	5.2%	7.5%	4.4%	8.8%
FIXED INCOME							
TIPS	-0.9%	-0.9%	1.3%	0.4%	-0.2%	3.2%	4.5%
Short-Term Bonds	0.0%	0.0%	0.3%	0.2%	0.1%	0.6%	1.5%
Interm-Term Bonds	-0.9%	-0.9%	1.0%	0.9%	1.5%	3.2%	3.7%
International Bonds	-0.4%	-0.4%	3.0%	1.9%	4.3%	4.3%	4.3%
ALTERNATIVES							
Global REITs	-1.6%	-1.6%	6.8%	1.0%	7.1%	5.4%	10.4%
Commodities	2.0%	2.0%	3.6%	-6.6%	-11.3%	-8.1%	-0.9%
Managed Futures	6.1%	6.1%	6.9%	-1.7%	6.2%	3.8%	6.7%
Reinsurance	1.3%	1.3%	1.4%	5.4%	6.7%	7.5%	7.9%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.

Economic Indicators



**See appendix for sources and data ranges*

Appendix

Leading Economic Index

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure