

# Economic & Market Commentary

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## Market Update – April 2018

Global stocks finished the month up 0.9% with international large value stocks leading markets, up 3.1%. One market segment that experienced weakness last month was emerging markets, down 0.4%. Global bonds generally produced slightly negative returns, as yields rose. Increased market volatility in 2018 has resulted in low or negative returns for most stock and bond markets year-to-date.

### Economy

- The first estimate of first quarter real GDP growth came in at an annualized rate of 2.3% - down from the fourth quarter growth rate of 2.9%. Consumer spending and housing were weak, while capital expenditures were solid.
- Inflation, measured by the Consumer Price Index for all goods, rose to 2.4% year-over-year – a positive sign for a strengthening U.S. economy.
- Unemployment fell to a 17-year low from 4.1% to 3.9%.

### Stocks

- U.S. stock returns were marginally positive in April, up 0.4%. Small cap value stocks had the best U.S. return of 1.1%.
- International developed countries posted the strongest returns for stocks, especially the large cap value segment, up 3.1%. Strength came from countries such as Italy, France, and the UK. Emerging markets fell as stocks in Russia, Brazil, and Indonesia drove overall returns down.

### Bonds

- As U.S. yields rose, intermediate-term bonds and TIPS fell in April by 0.5% and 0.1%, respectively. Short-term bonds remained flat.
- The 10-year U.S. Treasury yield touched 3.0% just before month-end – the first time in four years.
- International bonds also fell for the month, down 0.2%.

### Alternatives

- Global REITs (1.6%), commodities (2.6%), and reinsurance (0.7%) each posted gains in April, while managed futures (-3.0%) was held back by trendless markets.

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

## A Home Run for Corporate Earnings

Market returns during the first quarter of 2018 certainly didn't reflect what has been happening with first-quarter corporate earnings in the U.S. which were out of the park!

Out of the 279 (of 505) companies that have reported earnings, 78% beat earnings estimates, and 73% beat sales estimates (source: S&P Dow Jones website as of 4/30/18). Strength in earnings has been most pronounced in the healthcare, technology, and consumer staples sectors thus far.

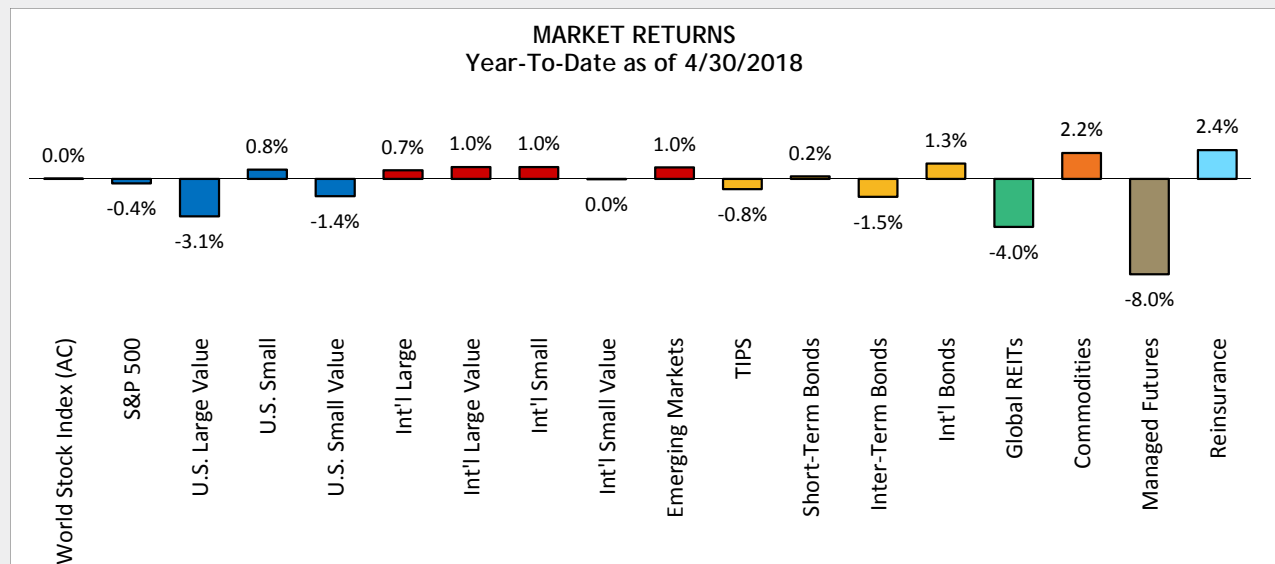
What's driving these strong earnings? According to JP Morgan, only about 8% is due to tax reform, while the rest is estimated to be organically driven by strong global growth, higher oil prices, a weaker dollar, and expense containment.

When fully reported, earnings per share are estimated by S&P to be up 10% from year-end with an operating margin increase of nearly 12% (a record high compared to the 20-year average of 8%).

While this appears to be an unsustainable quarter for growth in corporate earnings, it doesn't mean earnings can't continue to grow at a normal rate going forward. However, the market might have already priced in much of the strong first-quarter earnings in 2017. So, recent market volatility and range bound markets may be in part the result of that. Also, as markets anticipate future earnings, the prospect of headwinds such as higher interest rates and wages may also be holding back markets.

Corporate earnings growth is ultimately one of the key drivers of long-term stock market returns. Furthermore, the prices we pay for those stock earnings can vary over time. Savant utilizes these fundamental inputs for our long-term expected return estimates for markets, as our research (as well as other academic research) shows a strong relationship between current valuations (such as price/earnings ratio) and long-term stock returns.

In the near term, however, it's impossible to predict quarterly market outcomes, given that many factors influence short-term returns, both good and bad.



<b>MARKET RETURNS - Longer Term Annualized as of 4/30/2018</b>							
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>STOCKS</b>							
S&P 500	0.4%	-0.4%	13.3%	10.6%	13.0%	9.0%	9.5%
U.S. Large Value	0.2%	-3.1%	8.3%	8.8%	10.8%	7.6%	9.2%
U.S. Small	0.9%	0.8%	11.5%	9.6%	11.7%	9.5%	10.9%
U.S. Small Value	1.1%	-1.4%	5.6%	8.8%	10.6%	9.2%	11.0%
Int'l Large	2.3%	0.7%	14.5%	4.9%	5.9%	2.4%	8.1%
Int'l Large Value	3.1%	1.0%	13.3%	3.8%	5.1%	1.7%	8.0%
Int'l Small	1.2%	1.0%	20.3%	10.5%	10.8%	6.2%	12.1%
Int'l Small Value	1.6%	0.0%	17.7%	9.9%	10.9%	6.1%	12.5%
Emerging Mkts	-0.4%	1.0%	21.7%	6.0%	4.7%	2.2%	12.2%
World Stock Index (AC)	0.9%	0.0%	14.3%	7.6%	9.0%	5.4%	9.1%
<b>BONDS</b>							
TIPS	-0.1%	-0.8%	0.3%	1.0%	-0.1%	3.1%	4.2%
Short-Term Bonds	0.0%	0.2%	0.4%	0.3%	0.2%	0.5%	1.4%
Interm-Term Bonds	-0.5%	-1.5%	-0.8%	0.8%	1.0%	2.9%	3.3%
International Bonds	-0.2%	1.3%	3.0%	3.0%	3.8%	4.4%	4.3%
<b>ALTERNATIVES</b>							
Global REITs	1.6%	-4.0%	1.8%	3.6%	4.3%	4.7%	9.3%
Commodities	2.6%	2.2%	8.0%	-4.2%	-7.3%	-7.8%	-0.3%
Managed Futures	-3.0%	-8.0%	-5.0%	-3.2%	2.7%	2.6%	5.8%
Reinsurance	0.7%	2.4%	1.8%	4.3%	5.2%	6.9%	7.4%

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 Mtg 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

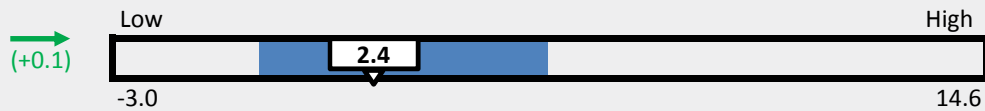
**Leading Economic Index**



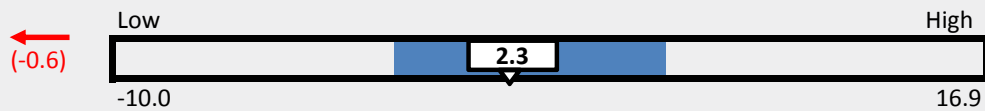
**Unemployment (%)**



**Inflation CPI (YOY %)**



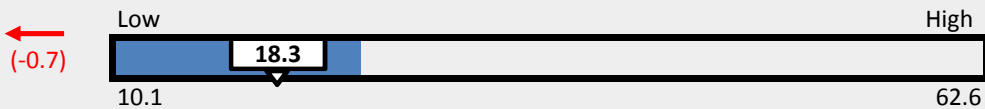
**Real GDP Growth (%)**



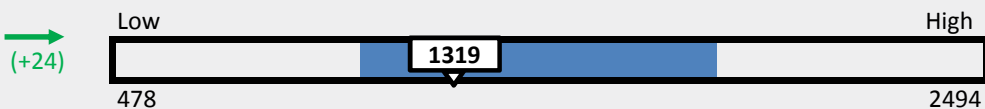
**Consumer Confidence**



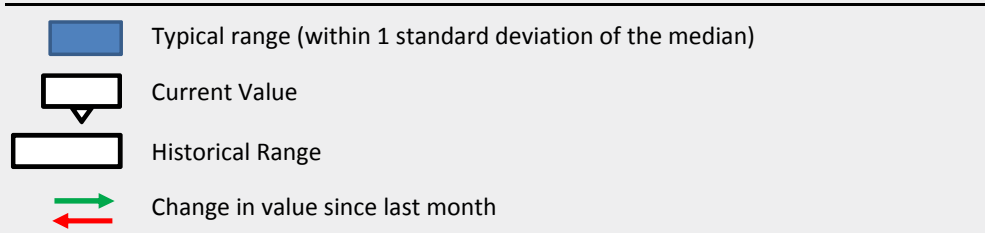
**VIX - Market Volatility**



**Housing Starts (000s)**



**10-year Treasury Yield (%)**



\*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

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