

Economic & Market Commentary

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Market Update – February 2018

Global stocks (-4.2%) recorded their first month of losses in over a year. U.S. and international stocks were down across the board with U.S. large value stocks (-5.0%) the worst performing of the group. February also saw Jerome Powell sworn in as Chairman of the Federal Reserve replacing outgoing Chairwoman Janet Yellen. Solid economic data and a slight uptick in inflation measures keeps the Fed on pace for 3 to 4 rate increases in 2018.

Economy

- The fourth quarter estimate of real GDP was revised down slightly to 2.5%.
- Wage growth was modest yet again, up 0.1% for the month which brings year-over-year wage growth to 2.6%.
- Headline inflation remained steady at 2.1%.
- Nonfarm payrolls rose by 313,000 in February, beating analyst estimates, while the unemployment rate remained at 4.1%.

Stocks

- The S&P 500 Index returned -3.7% in February.
- International developed market stocks lost 4.5% while emerging markets were down 4.6% for the month.
- Chinese stocks were down 6.4% during February but still remain up more than 5% year-to-date.

Bonds

- Bond asset classes were essentially flat or slightly down for the month of February.
- Intermediate-term bonds (-0.5%) and TIPS (-1.0%) fell slightly as the 10-year U.S. Treasury yield continued to rise.
- International bonds (+0.4%) were the only bond asset class to post a positive month.
- Short-term bonds were unchanged (0.0%).

Alternatives

- Managed futures (-8.1%), commodities (-1.7%), and global REITs (-6.6%) posted negative returns in February.
- Reinsurance (+0.2%) posted a slight gain for the month.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, JP Morgan

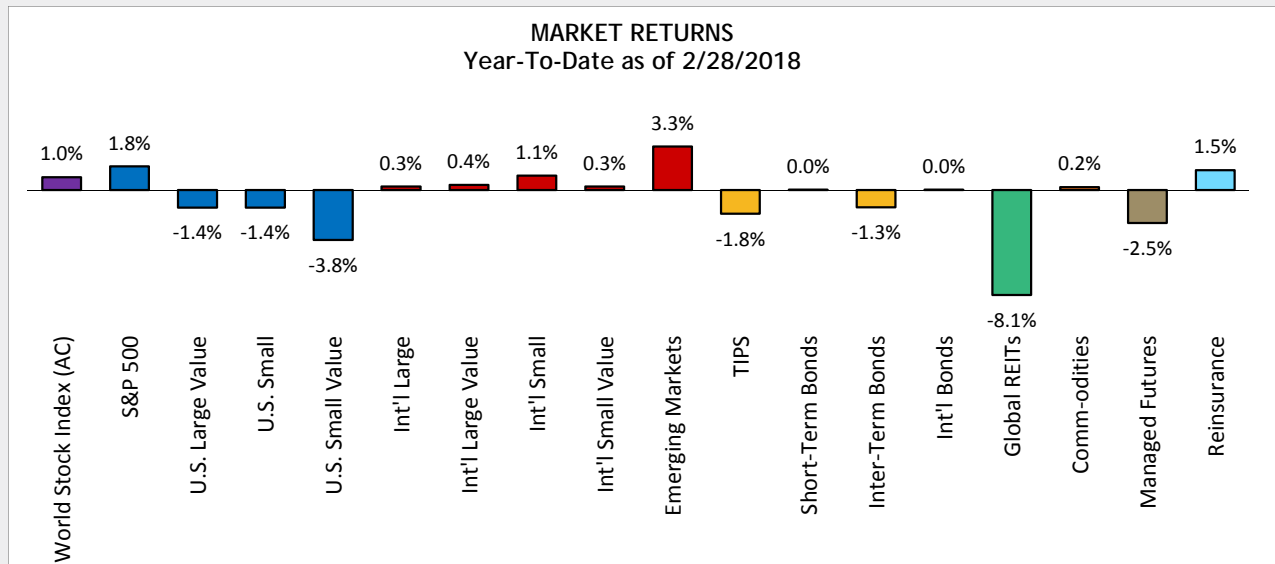
The Return of Volatility

February saw the return of volatility in stocks after an unusually calm 2017. Global stocks had their worst month since January 2016, the S&P 500 experienced its worst single trading day since 2011, and the VIX hit its highest levels since August 2015. Although these events made plenty of headlines, what they actually mean for the portfolios of long-term investors did not get as much attention.

Much of the media focus has been on the CBOE Volatility Index, the VIX, which is a popular measure of expected volatility based on prices for S&P 500 options. During February, the VIX hit a two and a half year high and the S&P 500 had more days with moves of greater than 1% than all of 2017. Although this bout of volatility coincided with a broader market selloff, this relationship is not causal. In fact, since 2004, three of the five years with the highest average VIX level corresponded with S&P 500 returns greater than 15%. So although increased volatility can be unnerving, it is important to remember that it does not inherently mean lower returns.

As mentioned before, February's spike in volatility initially coincided with stocks experiencing significant drawdowns for the first time in over a year. The S&P 500 dropped more than 10% in two weeks and the selloff spread to markets around the world. However, this pullback was not unprecedented or even uncommon as markets average a drawdown of at least 10% once every year. Additionally, it is easy not to notice that markets recovered most of these losses just as quickly despite volatility remaining elevated relative to a historically quiet 2017. Most of the public attention focuses on the downside, which makes it even more important to view these short-term trends within their historical context. This can help prevent common mistakes such as attempting to time the market.

At Savant, we focus on maintaining globally diversified portfolios. This allows our fundamental investment philosophy to remain unchanged during times of increased volatility or market pullbacks. However, if the recent market volatility has you worrying about your portfolio, now may be a good time to meet with your financial advisor to revisit your personal risk tolerance. Ensuring that your asset allocation is aligned with your goals and risk tolerance can help provide peace of mind and ensure you are on the best path to building your ideal future.



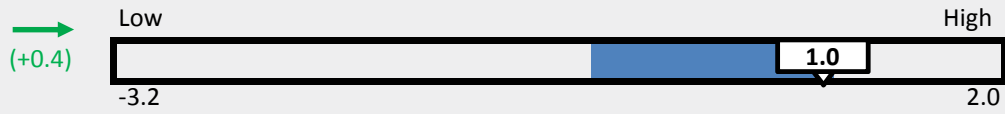
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	-3.7%	1.8%	17.1%	11.1%	14.7%	9.7%	10.4%
U.S. Large Value	-5.0%	-1.4%	9.4%	9.3%	12.6%	8.1%	10.0%
U.S. Small	-3.9%	-1.4%	10.5%	8.5%	12.2%	9.7%	11.5%
U.S. Small Value	-4.9%	-3.8%	2.6%	7.7%	11.0%	9.5%	11.6%
Int'l Large	-4.5%	0.3%	20.1%	5.7%	7.1%	2.8%	8.6%
Int'l Large Value	-4.8%	0.4%	18.2%	4.5%	6.3%	2.2%	8.5%
Int'l Small	-3.9%	1.1%	28.1%	12.1%	12.0%	6.4%	12.7%
Int'l Small Value	-4.3%	0.3%	24.8%	11.6%	12.0%	6.4%	13.2%
Emerging Mkts	-4.6%	3.3%	30.5%	9.0%	5.0%	2.7%	12.8%
World Stock Index (AC)	-4.2%	1.0%	18.6%	8.5%	10.2%	5.9%	9.8%
FIXED INCOME							
TIPS	-1.0%	-1.8%	-0.2%	0.8%	-0.1%	2.8%	4.0%
Short-Term Bonds	0.0%	0.0%	0.2%	0.2%	0.2%	0.5%	1.4%
Interm-Term Bonds	-0.5%	-1.3%	0.0%	1.0%	1.2%	2.9%	3.4%
International Bonds	0.4%	0.0%	2.3%	2.6%	4.0%	4.1%	4.2%
ALTERNATIVES							
Global REITs	-6.6%	-8.1%	-3.3%	1.1%	5.4%	4.9%	9.5%
Commodities	-1.7%	0.2%	1.6%	-4.7%	-8.1%	-8.3%	-1.0%
Managed Futures	-8.1%	-2.5%	-2.6%	-1.3%	4.6%	2.6%	6.0%
Reinsurance	0.2%	1.5%	1.3%	4.1%	5.4%	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.

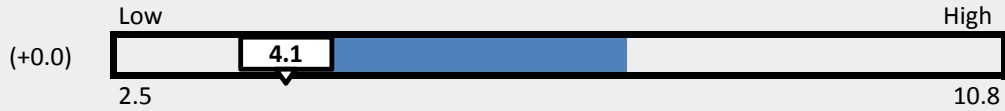
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Economic Indicators

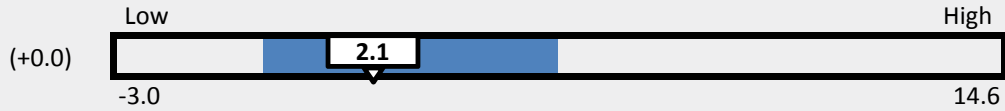
Leading Economic Index (%)



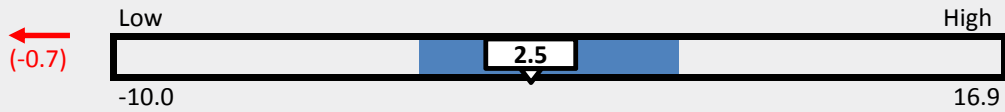
Unemployment (%)



Inflation CPI (YOY %)



Real GDP Growth (%)



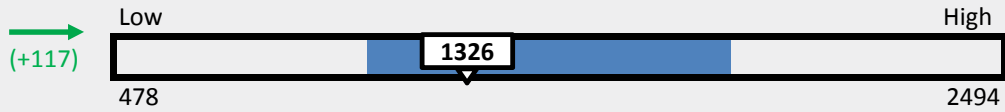
Consumer Confidence



VIX - Market Volatility








Housing Starts (thousands)



10-year Treasury



-  Typical range (within 1 standard deviation of the median)
-  Current Value
-  Historical Range
-  Change in value since last month
- 

*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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