

# DeMarche Dashboard

Commentary for Periods Ended 02/8/18, Data through 01/31/18

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## Global Overview

- **Subsequent** to the end of January, global equity markets saw a major selloff, with the MSCI ACWI falling -4.8% and the S&P 500 dropping -6.2% during the first 3 trading days of February. The sudden decline was driven in large part by fears of increasing inflation.
- **Markets** began 2018 with a strong rally, as solid economic data combined with investor optimism drove markets to new highs. The dollar weakened against most major currencies, as growth outside of the United States increased. Oil prices rallied as signs pointed to continued OPEC and non OPEC output cuts remaining in place over the near term. By the end of January, signs increased that volatility, long absent from the equity markets, may be returning as investors began to focus on expectations of higher inflation and Fed rate hikes.
- **Developed markets** – January saw some long awaited growth in wages in the United States, which combined with strong sales, pointed to higher inflation than many had expected in 2018. Minutes from the ECB’s latest meeting indicated that the euro area had moved into an expansion, as opposed to previous language referring to a recovery, leading to the possibility that monetary policy could tighten sooner than expected. Despite nominal reductions in the Bank of Japan’s (BOJ) bond purchasing program, all indications are that the BOJ plans no significant change in policy.
- **Emerging Markets** – Emerging countries outpaced developed countries in January. Emerging Asia was particularly strong, as the increase in global economic activity and commodity prices helped sustain the rally in their equity markets. Russia was boosted by higher oil prices, while Brazilian markets were helped by political events relating to the trial of a former president.

## U.S. Economy and Markets

- The S&P 500 Index gained 5.7% in January. Nine out of 11 sectors were positive for the month.
  - Consumer Discretionary, Information Technology, and Health Care were the strongest performing sectors. Utilities and Real Estate were the weakest performing sectors.
- Small cap stocks trailed large cap stocks. Growth stocks led value across all market capitalizations.
- The Russell 2000 Index gained 2.6%. Nine out of 11 sectors were positive.
  - Biotech, Health Care, and Technology were the strongest performing sectors. Utilities, Consumer Staples, and Energy were the weakest performing sectors on a relative basis.
- Payrolls increased by 200,000 in January, outpacing consensus expectations. The unemployment rate remained steady at 4.1%. Most significantly, wage growth showed a modest improvement, rising to 2.9% year over year. Employment increased in construction, food services. Labor force participation remained at 62.7%, little changed since the start of 2017.

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- The Consumer Confidence Index increased in January. The Index stands at 125.4 vs. 123.1 in December. Consumers remained confident that the solid pace of growth seen in 2017 will continue over the coming year.
- The 10-year Treasury yield rose in January. Opening the month at 2.40%, yields moved consistently upwards, ending at 2.72%. Investment grade corporate spreads tightened, ending at 0.91% from their 0.98% start. High-yield spreads tightened significantly, dropping to 3.29%, a more than 30 basis point difference from the prior month.
- The Bloomberg Barclays Aggregate Index lost -1.2% for the month, while the Investment Grade Corporate Index lost -1.0%, and the Bloomberg Barclays U.S. High Yield Index gained 0.6%.

## International Markets

- The MSCI EAFE Index posted a return of 5.0% in dollar terms in January. The euro area was the strongest performer on a regional basis, as the single currency zone's GDP recorded its fastest growth since 2007. Japan began the month strong, then gave up some gains as January ended, while still finishing the month with positive returns. Small cap stocks very slightly outperformed large cap EAFE stocks, with the MSCI EAFE Small Cap gaining 5.1% in dollar terms.
- By style, international developed market value stocks did better than growth. The MSCI EAFE Value Index gained 5.4%, while the MSCI EAFE Growth Index rose 4.6%.
- The MSCI Japan Index gained 4.6%, while Asia, excluding Japan, rose 7.6%. The Europe-wide index gained 5.4%, and the United Kingdom rose 3.0%. Italy and Austria were the strongest performing European countries, returning 7.6% and 6.9% in local currency terms.
- The MSCI Emerging Markets Index gained 8.3% as emerging markets outpaced developed countries. China, Brazil, and Russia were the strongest performing countries, all gaining more than 10% in local currency terms. Egypt, South Africa, and the Philippines were the weakest performing countries.
- MSCI's China Index advanced 12.5%. Mainland Chinese equities (A Shares) lagged somewhat, gaining 9.7% in local currency terms. Peru, Pakistan, and Greece were all positive to begin the year.
- The MSCI Frontier Markets Index gained 5.7%. Nigeria, Kazakhstan, and Vietnam were the strongest performing countries. Estonia, Oman, and Croatia were the weakest performing countries.
- Government bond yields moved higher. The JP Morgan Global Government Bond Index dropped -0.9% in local currency terms. The Bloomberg Barclays Euro Universal Index gained 3.3% in dollar terms, while the Bloomberg Barclays Global Treasury Ex-US Index rose 3.0%. Emerging Markets hard currency debt gained 0.3%.

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## Looking Ahead

- While January saw an extension of a rally that pushed markets to record highs in some cases, concerns about inflation and the path of future interest rate increases reintroduced significant volatility to the global markets, leading to large losses in the MSCI AC World Index during the first three trading days in February. Investors will continue to closely watch for signs that higher volatility will be more prevalent in 2018, a condition that has been largely absent from the market for the past several years.
- The Korean nuclear standoff continues to show little sign of resolution, and the world's focus will be on the region as South Korea hosts the winter Olympic Games. Russian presidential elections are scheduled for March, and while a Putin victory is a forgone conclusion with several opposition figures barred from the polls, signs of rural unrest could cause unrest in the market. Italy will also hold elections in March, though parties pushing for a nationwide referendum on euro membership have appeared to lose ground recently.
- Central banks will play a prominent role in 2018, as widespread signs of sustained global growth and increasing inflation clear the way for potential changes to central bank policy in the coming months. Jerome Powell takes over as the new Fed chairman on February, and will be almost immediately confronted with a decision on rising a key short term interest rate in March. The Bank of Japan has signaled its monetary support will remain in place, although some longer dated bond purchases have been reduced. Investors will be watching how a higher yen impacts BOJ policy, given its prominent role in depressing global yields.

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates	
	Latest	2017 <sup>A</sup>	2018 <sup>A</sup>	(Most recently available)	Sovereign Bonds, 10 Year <sup>B</sup>	per US \$	
						Current	1 Year Ago
<b>United States</b>	2.50	2.30	2.60	4.10	2.73	-	-
<b>China</b>	6.80	6.80	6.50	3.93	3.92	6.32	6.88
<b>Japan</b>	2.10	1.70	1.50	2.80	0.09	108.38	114.70
<b>United Kingdom</b>	1.50	1.60	1.40	4.30	1.51	1.42	1.26
<b>Euro Area</b>	2.70	2.30	2.30	8.70	1.03	1.24	1.07
<b>Germany</b>	2.80	2.50	2.50	3.60	0.70	1.24	1.07
<b>France</b>	2.40	1.80	2.00	9.20	0.99	1.24	1.07
<b>Italy</b>	1.70	1.50	1.50	10.80	2.03	1.24	1.07
<b>Canada</b>	3.00	3.10	2.20	5.70	2.29	1.23	1.31
<b>India</b>	6.30	6.60	7.30	4.90	7.43	63.65	68.05
<b>Mexico</b>	1.80	2.00	2.10	3.40	7.68	18.51	21.30
<b>Brazil</b>	1.40	0.90	2.60	11.80	9.70	3.15	3.19

A. The Economist or The Economist Intelligence Unit estimate/forecast

B. Most recently available data

Sources: Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and The Economist

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	5.28	9.02	5.28	25.83	11.83	11.68	6.42
	BBgBarc US Agg Bond TR USD	-1.15	-0.83	-1.15	2.15	1.14	2.01	3.71
	Russell 3000 TR USD	5.27	9.55	5.27	25.16	14.11	15.53	9.85
	DJ Industrial Average TR USD	5.88	12.49	5.88	34.80	17.98	16.36	10.41
	NASDAQ Composite PR USD	7.36	10.16	7.36	32.00	16.93	18.72	11.98
	MSCI EAFE NR USD	5.02	7.82	5.02	27.60	9.39	7.85	3.44
	Citi Treasury Bill 3 Mon USD	0.11	0.30	0.11	0.91	0.42	0.27	0.33
	Bloomberg Commodity TR USD	1.99	4.55	1.99	3.58	-3.32	-8.52	-7.03
Domestic Equities	S&P 500 TR USD	5.73	10.18	5.73	26.41	14.66	15.91	9.78
	S&P MidCap 400 TR	2.87	6.89	2.87	17.61	12.62	14.06	10.98
	S&P SmallCap 600 TR USD	2.53	5.59	2.53	16.56	14.28	15.27	11.26
	Russell 1000 TR USD	5.49	9.92	5.49	25.84	14.28	15.72	9.85
	Russell 1000 Growth TR USD	7.08	11.19	7.08	34.89	17.01	17.95	11.65
	Russell 1000 Value TR USD	3.87	8.61	3.87	17.22	11.54	13.47	7.95
	Russell Mid Cap TR USD	3.76	8.25	3.76	20.08	11.52	14.29	10.26
	Russell Mid Cap Growth TR USD	5.66	9.78	5.66	28.09	12.98	15.19	10.62
	Russell Mid Cap Value TR USD	2.30	7.06	2.30	14.03	10.36	13.56	9.86
	Russell 2000 TR USD	2.61	5.14	2.61	17.18	12.12	13.33	9.76
	Russell 2000 Growth TR USD	3.90	7.00	3.90	24.90	12.56	14.62	10.67
	Russell 2000 Value TR USD	1.23	3.17	1.23	9.95	11.56	11.98	8.76
International Equities	MSCI ACWI Ex USA NR USD	5.57	8.81	5.57	29.68	9.85	7.11	3.44
	MSCI EAFE NR USD	5.02	7.82	5.02	27.60	9.39	7.85	3.44
	MSCI EAFE Growth NR USD	4.64	7.67	4.64	30.44	10.36	8.77	4.14
	MSCI EAFE Value NR USD	5.40	7.97	5.40	24.92	8.33	6.85	2.67
	MSCI Japan NR USD	4.58	8.46	4.58	25.02	12.43	11.36	4.12
	MSCI AC Asia Ex Japan NR USD	7.56	11.17	7.56	43.54	12.51	9.18	6.15
	MSCI Europe NR USD	5.40	7.23	5.40	29.60	8.58	7.28	3.01
	MSCI United Kingdom NR USD	3.04	8.28	3.04	24.41	5.54	5.05	2.81
	MSCI EAFE Small Cap NR USD	5.11	9.62	5.11	35.04	16.05	12.83	7.40
	MSCI EM NR USD	8.33	12.45	8.33	41.01	11.83	5.74	3.88
Fixed Income	BBgBarc US Govt/Credit TR USD	-1.15	-0.75	-1.15	2.51	1.11	2.06	3.76
	BBgBarc US Govt/Credit Interm TR USD	-0.88	-1.07	-0.88	0.97	0.91	1.40	3.01
	BBgBarc US Govt/Credit Long TR USD	-2.05	0.32	-2.05	8.10	1.68	4.57	6.92
	ICE BofAML US HY Master II TR USD	0.64	0.66	0.64	6.74	6.37	5.65	8.10
	Credit Suisse HY USD	0.60	0.71	0.60	6.27	6.42	5.53	7.82
	S&P/LSTA Leveraged Loan TR	0.96	1.48	0.96	4.54	4.65	4.01	5.30
	Citi WGBI NonUSD USD	3.21	5.62	3.21	12.27	3.61	0.64	2.36
	BBgBarc Gbl Agg Ex USD TR USD	3.03	5.50	3.03	11.77	3.43	0.62	2.36
REITs	FTSE NAREIT All REITs TR	-3.24	-0.80	-3.24	5.47	3.83	8.26	7.41
	Wilshire US REIT TR USD	-3.83	-1.30	-3.83	0.89	1.69	7.74	6.91

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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