2018: 1st Quarter Summary

"The answer, my friend, is blowin' in the wind " Bob Dylan, *Blowin' in the Wind*

The smooth sailing investors experienced in 2017 ran afoul of stormy winds and high seas during the first quarter. Equities started off as a continuation of last year's bullish markets, and bonds were tempered by the Fed's continuing rate hikes. Concerns about market volatility, policy missteps and rumblings of global trade tensions caused equities to veer off course, reminiscent of the trials of Odysseus when his crew released the Aeolian winds in sight of their Greek home. This allowed bonds to enjoy a small course correction. Here's a summary table of market results:

Index Returns
as of 3/31/2018

Index	Q1 2018	Q4 2017	YEAR 2017	SINCE ELECTION
FIXED INCOME				
BbgBarclays US HY 2% Issuer Cap	<0.86%>	0.47%	7.50%	8.45%
BbgBarclays Municipal	<1.11%>	0.75%	5.45%	1.37%
BbgBarclays Global Aggregate	<0.12%>	0.80%	3.04%	1.56%
BbgBarclays US Agg Bond	<1.46%>	0.39%	3.54%	<0.12%>
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	<0.69%>	6.59%	21.69%	27.10%
Russell 2000 [Small-cap Stocks]	<0.08%>	3.34%	14.65%	30.42%
S&P 500	<0.76%>	6.64%	21.83%	26.93%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	<1.18%>	5.00%	27.19%	26.66%
MSCI EAFE NR [Developed Markets]	<1.53%>	4.23%	25.03%	25.72%
MSCI EM NR [Emerging Markets]	1.42%	7.44%	37.28%	33.48%
REAL ASSETS				
U.S. Dollar	<2.14%>	<1.02%>	<9.87%>	<7.88%>
Morningstar US Real Asset Index	<1.96%>	3.25%	3.41%	2.23%
Bloomberg Commodity	<0.40%>	4.71%	1.70%	5.89%
S&P GSCI Crude Oil Spot	7.48%	16.93%	12.47%	43.57%
S&P United States REIT	<8.15%>	1.36%	4.33%	0.19%
S&P Global Ex US REIT	<1.03%>	6.68%	16.72%	13.38%

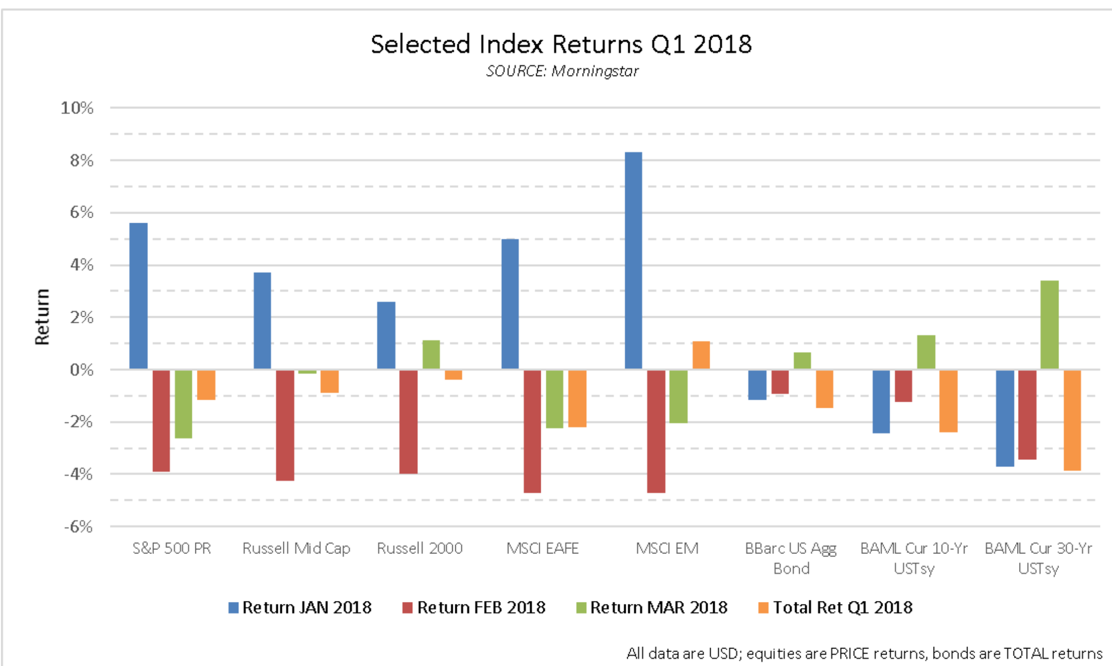
Source: Morningstar, Inc. USD data with dividends and interest
Since Election' data from 11/09/16 through 3/31/18

"If one does not know to which port one is sailing, no wind is favorable." Lucius Annaeus Seneca

Many Wall Street pundits were dismayed by the equity markets' Q1 performance given these strong U.S. economic data, which broadly signal continued growth for the near term:

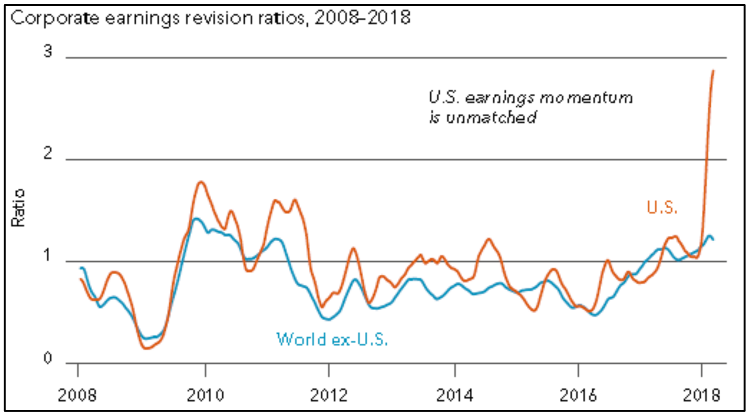
1. **The Conference Board Leading Economic Index** – was up 0.6 percent in February and is in an uptrend.
2. **The PMI Composite Index** – flash reading for March was 54.3. A level greater than 50 is considered expansionary.
3. **Stock earnings** –for the just-completed Q4 2017 reporting cycle were excellent, with ~75% of companies in the S&P 500 beating both earnings and revenue estimates. Margins improved as well. Estimates for 2018, partly due to the recent tax legislation passed by Congress, are also quite strong.
4. **The slope of the yield curve** – is still positive, meaning that longer-term bonds have higher yields than shorter-term bonds despite the Fed's interest-rate hike regime. When yields are 'flat' or the curve inverts (i.e. short-term bonds yield more than long-term bonds), economic warning lights begin flashing.
5. **Inflation** – is still hovering around the Fed's target of 2%. Wages are showing some long-awaited signs of growth as well.
6. **The unemployment rate** – is hovering at 4.0% - 4.1%, and the labor participation rate is increasing.

Fears surrounding interest-rate hikes and an unwinding of trades betting on continued low market volatility pushed markets into the red in late January and early February. Further White House policy concerns and angst over the pace of rate increases caused turmoil later in the quarter, leading to a light rebound for bonds and U.S. SMID-cap stocks at the expense of large-cap U.S. and foreign equities:



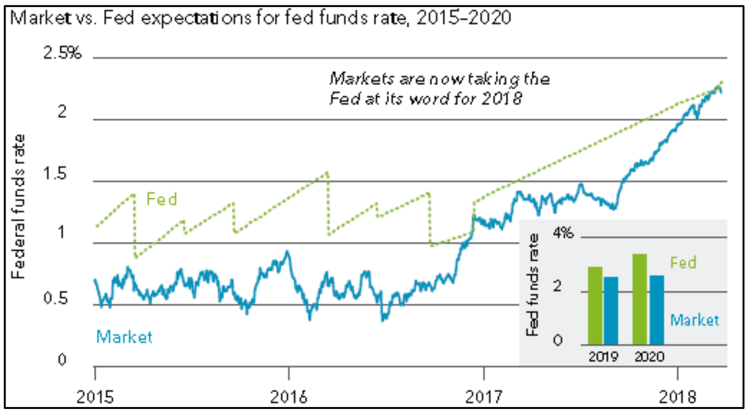
"No wind serves him who addresses his voyage to no certain port." Michel de Montaigne

We remain bullish on the economy and stocks generally for a number of reasons: Global and U.S. growth is still expected to be positive; earnings-growth estimates — particularly those in the U.S. — are strong (see below); unemployment is improving in a number of regions; and inflation, while rising, is still not a threat. Investors may also have overlooked the fact that the recent pullbacks have 'reset' valuations in equity markets; some segments of the market now look more attractive than just a few months ago.



SOURCE: BlackRock, Inc.

We're also pleased to see the markets catching up to the Fed with respect to the level of short-term rates and the number of policy increases for 2018:



SOURCE: BlackRock, Inc.

"We cannot direct the wind, but we can adjust the sails." Dolly Parton

Given the data we see, our major concerns are in the following areas:

1. **Global trade** – The Trump Administration is focusing on the U.S. trade deficit and is proceeding with a tariff-increase program that is roiling markets. President Trump is seemingly bypassing conventional protocols for resolving trade disputes with tariffs. There is concern that these new tariffs may harm American industries more than their foreign targets.
2. **U.S. federal debt and deficits** – are expected to increase following the passage of the Tax Cuts and Jobs Act of 2017 and the engorged spending bill agreed to in Congress in early 2018. The effects of the legislation are expected to take some time to work themselves through the U.S. economy.
3. **Geopolitical concerns –** are increasingly worrying. Consolidations of power by Russia's Putin and China's Xi are troubling, as is the perpetually unsettled situation in the Middle East. America seems ill-equipped to meet some of the challenges of these situations, as White House policy seems unsettled and we move to our second Secretary of State in just over one year.

Our expectations are that, if the Fed moves to continue *normalizing* rates (rather than *tightening* to slow the economy) and some policy clarity in regard to the issues above emerges, the markets will return to the paths that investors expect in a mid-to-late cycle global expansion. Removing some uncertainties from what promise to be strong earnings this year will definitely get bulls snorting again.

As always, we welcome your comments and questions.

-Your Wealth Management Team at JJ Burns & Company

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Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.