March 2018 Monthly Market Update

After a volatile month of trading, which witnessed the first 10% market correction since February 2016, larger-cap U.S. stocks (Vanguard 500 Index) wrapped up February with a 3.7% loss, while small caps fell 3.8% (iShares Russell 2000 ETF). Despite a sharp bounce from the early February lows, only the technology sector was able to eke out a positive return, with a 0.1% gain at that. Energy was the worst-performing sector, losing more than 10%.

Overseas markets also fell in February, largely triggered by the U.S. market turbulence. Developed international stocks dropped 5.1% (Vanguard FTSE Developed Markets ETF), European stocks fell 6.1% (Vanguard FTSE Europe ETF), and emerging-market stocks lost 5.4% (Vanguard FTSE Emerging Markets ETF). Broadly speaking, the U.S. dollar strengthened against most currencies in February, resulting in better returns for dollar-hedged investors.

February Benchmark Returns (Preliminary)		
	Feb	**YTD**
Larger-Cap Benchmarks		
Vanguard 500 Index	-3.7%	1.8%
iShares Russell 1000 ETF	-3.7%	1.5%
iShares Russell 1000 Growth ETF	-2.6%	4.2%
iShares Russell 1000 Value ETF	-4.8%	-1.2%
Smaller-Cap Benchmarks		
iShares Russell 2000 ETF	-3.8%	-1.4%
iShares Russell 2000 Growth ETF	-2.8%	0.9%
iShares Russell 2000 Value ETF	-5.0%	-3.8%
Other Benchmarks		
Vanguard FTSE Developed Markets ETF	-5.1%	-0.6%
Vanguard FTSE Europe ETF	-6.1%	-0.9%
Vanguard FTSE Emerging Markets ETF	-5.4%	2.7%
Vanguard REIT Index	-7.7%	-11.5%
Vanguard Total Bond Market Index	-1.0%	-2.1%
Vanguard Intermediate-Term Tax-Exempt	-0.3%	-1.3%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	-0.9%	-0.3%
S&P/LSTA Leveraged Loan Index	0.2%	1.2%

As we pointed it out in meetings throughout the month, the declines witnessed in early February served as a good reminder that markets do not exclusively go up. Until the market's recent drop, the S&P 500 had rallied for more than 400 days without registering even a 3% decline from its high. That was the longest streak in 90 years of market history.

The volatility index (VIX) also moved sharply higher in February: after never closing above 20 in 2017, the VIX jumped to 37 in early February and averaged a closing price above 20 for the month. This sharp spike in volatility resulted in severe losses for a few investment products that were shorting volatility, which has been a popular trade in recent years. Those products also played a major part in increasing volatility as well. The following chart reinforces the fact that double-digit drawdowns in a calendar year are normal and not the exception, which many investors had become conditioned to expect more recently.

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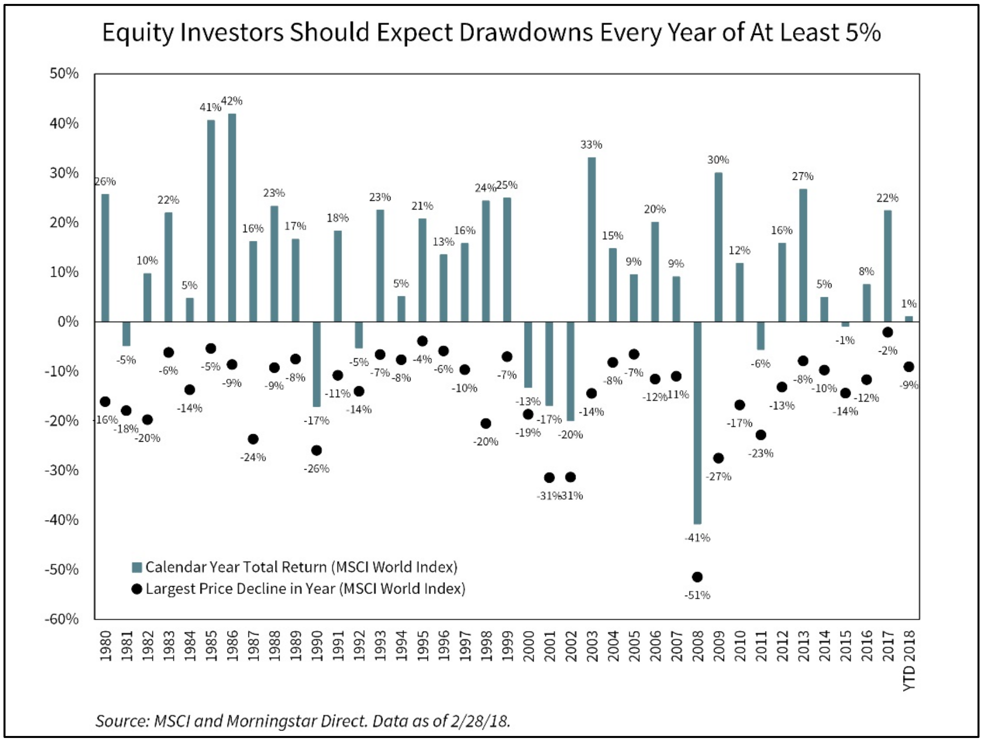

Interest rates continued to move higher last month, but did so at a slower pace than in January. The move up in the U.S. Treasury yield curve was consistent across the different maturities: The short and long ends of the curve were up roughly 20 basis points, with the three-month Treasury yield ending the month at 1.65%, the 10-year yield at 2.87%, and the 30-year rate at 3.13%. As such, the U.S. core bond index fell 1.0% in February and is now down over 2% year to date (Vanguard Total Bond Market Index). The U.S. high-yield market was also negative with a 0.9% loss (ICE BofA Merrill Lynch U.S. High-Yield Cash Pay Index), while floating-rate loans were up slightly (0.2%) in February (S&P/LSTA Leveraged Loan Index).

— *ClearPath Capital Investment Team (3/6/18)*

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