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MARKET *minute*

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Hartland is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

Notwithstanding the weather, the "melt-up" continued in earnest to begin the New Year. Investors spurred the markets higher in what many are calling a "FOMO" (Fear of Missing Out) rally. Tax reform and strengthening synchronous global growth both fed investors' optimism which was unfazed by a brief U.S. government shutdown, only the fourth one over the past 25 years.

Fourth quarter U.S. GDP slightly disappointed with initial growth reported at 2.6%[1], which marks the first time in three quarters that growth was below 3%. For those hockey fans out there, there was no such "hat trick" to be had, though 3% growth may not be out of the realm of possibility with two GDP revisions to come. Strong consumer spending resulted in a surge of imports which detracted from GDP. The U.S. economy continues to be led by personal consumption followed by business investment which could be a harbinger of future productivity.

The IMF raised its global growth forecast for both 2018 and 2019 by 0.2% to 3.9%[2] reflecting increased global growth momentum and the expected impact of U.S. tax policy changes. Purchasing Managers' surveys remain supportive of a broad-based pickup in global economic activity. The IHS Markit's Eurozone Manufacturing Purchasing Managers' Index (PMI) remained near December's record high at 59.6 but was down from December's 60.6[3] reading. The data show a broad-based expansion led by a solid core of the Netherlands, Austria, and Germany.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	5.9	5.9	34.8	18.0
S&P 500	5.7	5.7	26.4	14.7
Russell 2000	2.6	2.6	17.2	12.1
Russell 1000 Growth	7.1	7.1	34.9	17.0
Russell 1000 Value	3.9	3.9	17.2	11.5
FTSE NAREIT U.S.	-3.2	-3.2	5.5	3.8
Bloomberg Commodity	2.0	2.0	3.6	-3.3

U.S. equities galloped out of the gate to start 2018. Equity inflows continued with investors being perhaps partially driven by fear of missing out on the extended rally. Upbeat earnings sentiment continued, fueled by higher reported revenues amidst a favorable global growth backdrop, tax reform, strong commodity prices, and a weaker dollar.

The S&P 500 returned 5.7% for the month, while small caps as measured by the Russell 2000 returned 2.6%. Consumer Discretionary, Technology and Healthcare sectors led the way. Laggards included more interest rate sensitive sectors: REITs, Utilities, Telecommunications and Consumer Staples. With the aforementioned sector leadership, growth styles again trumped value.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	5.6	5.6	29.7	9.9
MSCI EAFE	5.0	5.0	27.6	9.4
MSCI Emerging Markets	8.3	8.3	41.0	11.8
MSCI EAFE Small Cap	5.1	5.1	35.5	16.5

Emerging markets ended 2017 as the best returning asset class for the year and that trend continued into January. The MSCI Emerging Markets Index returned 8.3% for the month. Foreign developed equity markets, as represented by the MSCI EAFE Index, also continued their advance, gaining 5.0%. International returns in US$ have been aided by currency movements based on the weakening dollar.

The Bank of Japan and European Central Bank both left their interest rate policies unchanged during their January meetings. Accommodative monetary policies are aiding economic recovery in these regions. Another important development to monitor on the trade front is during January, the U.S. imposed tariffs on washing machines and solar panels, which could escalate trade tensions in the coming months. This move by the White House suggests that trade may be next on the agenda after successful passage of the tax reform.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	-1.2	-1.2	2.1	1.1
BarCap Global Aggregate	1.2	1.2	7.5	2.5
BarCap US High Yield	0.6	0.6	6.6	6.3
JPM Emerging Market Bond +	-0.5	-0.5	6.2	6.1
BarCap Muni	-1.2	-1.2	3.5	2.0

As widely anticipated, the Federal Reserve held interest rates steady in January. The Fed is forecasting three rate hikes in 2018 with the market pricing in a quarter-point hike in March[4]. The Fed will need to consider the tax cut impact on economic growth and the inflation outlook in determining future actions.

The U.S. Treasury yield curve jumped higher in January which led to losses on portions of the fixed income markets, particularly those with less yield cushion and greater interest rate sensitivity. The Bloomberg Barclay's Aggregate Index total return for January was -1.2% whereas the longer duration Bloomberg Barclay's Long Gov't/Credit Index lost 2.1%.

The 2-year U.S. Treasury yield rose 25 basis points to 2.14% while the 30-year U.S. Treasury yield rose 20 basis points to 2.94%[5]. The 10-year U.S. Treasury yield closed the month at 2.71%, up from 2.41% at year-end .

Healthy fundamentals and the economic environment supported corporate bond spreads which tightened through the month. High yield's total return for January was +0.6%. The JPM Emerging Market Bond+ Index returned -0.5% in January. Bank Loans gathered renewed interest given the interest rate changes and returned 1.1% for January.

Sources:

1 Bureau of Economic Analysis – U.S. Department of Commerce, 1/26/18
2 www.imf.org, January 2018 World Economic Outlook
3 IHS Markit, 2/1/18
4,5,6 Bloomberg

Definitions:
Markit Eurozone Manufacturing Purchasing Managers' Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

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