WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Monthly Market Comment

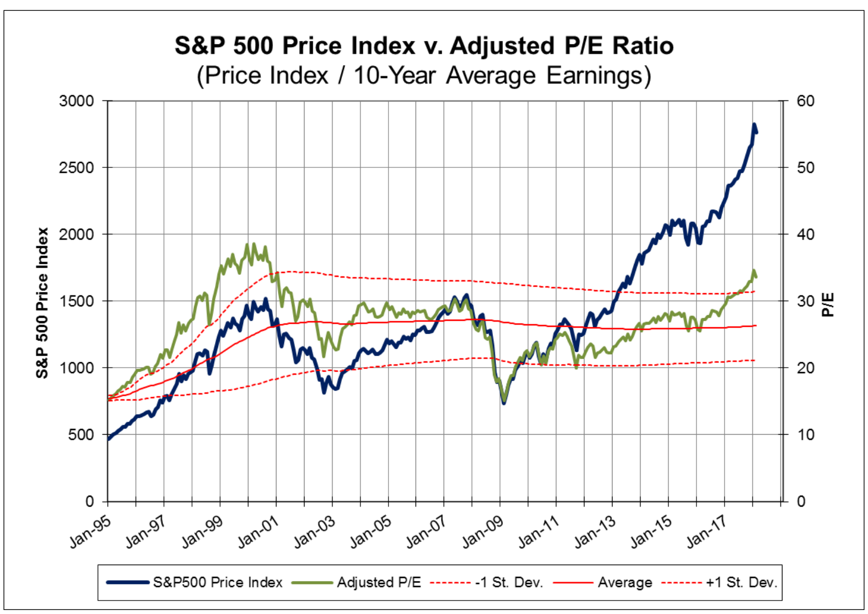
March 1, 2018

During February, the big story in the financial markets was the return of volatility and significant price declines across all major asset classes. Prices fell most dramatically for riskier assets such as stocks and some alternatives, but prices also declined for bonds.

Stocks

The S&P 500 stock price index had already fallen a bit from its record high in late January, but the decline accelerated dramatically in early February, after economic reports pointed to accelerating wage inflation and the potential for faster interest-rate hikes. The selling ultimately subsided, but only after the index had fallen more than 10% from its record high (which qualifies the drop as the first "correction" since early 2016). The index then began recovering through the end of February, ending the month down just 3.9% from the end of January and up 14.8% from the end of February 2017. Taking into account dividends, the total return on the S&P 500 was a negative 3.7% in February but a positive 17.1% over the last year.

Looking forward, we believe current economic trends remain positive for stocks. Not only is the economy growing at a good pace, but it is likely to get a further boost in the near term from recently approved tax cuts and government spending hikes. Corporate profits should therefore be able to keep rising. The most discernable risk is that intensifying inflation pressure could prompt the Federal Reserve to tighten monetary policy more aggressively, although we still think the inflation outlook is benign enough to allow the policymakers to keep tightening monetary policy only gradually. Recent White House policy announcements and personnel changes have also raised the risk of a trade war across the globe, or, potentially, an actual shooting war on the Korean peninsula. Nevertheless, now that stocks have gone through a correction and valuations are somewhat more attractive again, we think investors will focus less on the uncertain risks and more on the actual economic trends. If so, we think stocks will start rising again and could eventually reach new record highs.



Technical indicators also seem to suggest stocks could keep rising. In spite of its February correction, the S&P 500 price index remains well above its 200-day simple moving average (SMA), and more than 60% of the individual stocks in the index remain above their 200-day SMA as well. That's important because many investors won't consider buying an index fund or individual stock if it is trading below its 200-day SMA. In addition, the S&P 500 index has posted month-end record highs in 15 of the last 16 months, and such a string of record highs has historically been followed not by an abrupt, sustained downtrend, but by a continued uptrend where the record highs simply start to come less frequently. Another important sign is that the Dow Jones Transportation Index has recently been moving in line with the overall market, which has traditionally been a positive indicator for stocks. Finally, the main short-term momentum indicators (such as the "moving average convergence/divergence," or MACD) suggest stocks are now somewhat oversold, which could prompt new buying from investors looking for a bargain. If the market does continue to recover, we think the S&P 500's next significant resistance level would be at approximately 2,780, with a secondary resistance level at about 2,830. If stocks start to fall again, the next significant support levels would come around 2,640 and 2,580.

S&P 500 Stock Price Index + "MACD" Momentum Indicator

Source: BigCharts.com

Bonds

Bond prices fell throughout February, as investors continued to worry about accelerating economic growth, firming inflation, and the risk of higher interest rates. With the fall in prices, yields rose. The yield on the benchmark 10-Year Treasury Note ended the month at 2.868%, up from 2.720% at the end of January. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was negative 0.8% in February and a positive 0.7% since the end of February 2017.

Looking forward, we believe the recent selling pressure in bonds could soon dissipate. One reason for that is simply that the renewed volatility in riskier assets has already started to remind investors of the relative stability and safe-haven characteristics of fixed-income investments. As the 10-Year Treasury yield began to approach its late-2013 high of about 3.0%, more and more investors also seemed to find bond yields attractive again, and net selling activity slowed. Of course, there is a risk that bond selling could accelerate again if the monetary policymakers panic and start to signal that they will raise interest rates more rapidly in the face of strengthening economic growth and inflation. However, as discussed above, we still think the more likely scenario is that the policymakers will keep raising rates only gradually. We still don't look for total returns on bonds to be particularly juicy for the foreseeable future, but against a backdrop of only slowly increasing yields, we do think potential returns are starting to look attractive enough to prompt stronger buying.

Real Estate and Commodities

Throughout the period of ultra-low interest rates over the last several years, publicly-traded real estate investment trusts (REITs) were a favored asset class for investors seeking higher income, but the recent rebound in bond yields has enticed many of those investors away from the asset class. As a result, the FTSE NAREIT Price Index plunged 7.5% in February alone, and it was down 9.7% from the end of February 2017. Because of their relatively high dividends, the total return on these REITs was somewhat better. The total return on publicly-traded REITs was a negative 7.3% in February and a negative 6.1% over the last year. These REITs have historically provided very good returns over longer periods, and we expect that to remain the case in the future. Looking out over the coming near term, however, we believe the outlook for these REITs depends heavily on the direction of the bond market. If bond prices and yields stabilize, these REITs are likely to stabilize as well. If bond prices continue to fall and yields move higher, we suspect REIT selling would begin in earnest again and produce somewhat more losses for a while yet.

For commodities, the S&P GSCI Total Return Index ended February down 3.3% for the month, but it was still up 7.0% from the end of February 2017. The decline in February came mostly from falling energy prices, as investors began to worry more about rising oil production and inventories in the United States. Rising interest rates and a modest rebound in the dollar also helped drive down prices for industrial and precious metals. In agriculture, a tightening outlook for this year's crops helped produce a big rebound in grain prices, but prices for cattle and hogs fell. Going forward, we think fundamentals in the energy market are looking better than they did a couple of years ago, but we agree that rising crude production in the United States could swamp some of the recent increase in demand and offset much of the output cuts that the Organization of Petroleum Exporting Countries (OPEC) and its partners agreed in late 2016 and extended further in May and November 2017. We are therefore neutral regarding the near-term outlook for the broad commodity sector. We still believe that excess supplies in many commodity categories will gradually be brought under control in the coming months and quarters, ultimately allowing prices to rise again, but we think prices will remain volatile and could post meaningful retreats in the near term.

Patrick Fearon, CFA
Chief Investment Officer

Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,713.83	-3.9%	2.5%	14.8%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	306.81	-4.9%	2.5%	18.6%
REITs	FTSE NAREIT All-Equity Price Index	612.49	-7.5%	-11.1%	-9.7%
Commodities	S&P GSCI Total Return Index	2,555.82	-3.3%	4.4%	7.0%
Bonds	S&P U.S. Aggregate Bond Index	190.11	-0.8%	-1.4%	0.7%