WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Monthly Market Comment

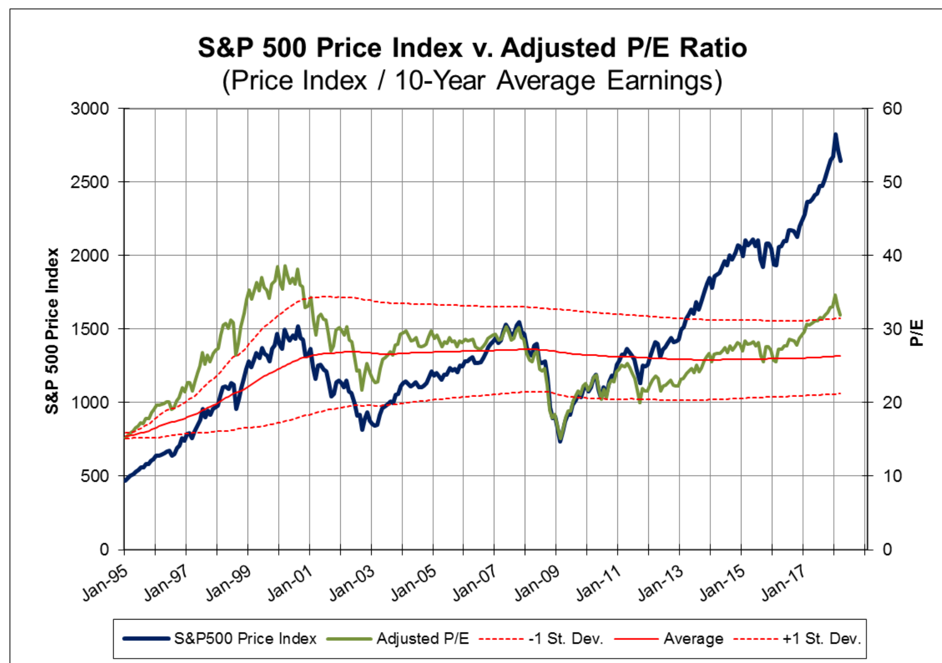
April 1, 2018

In March, U.S. financial markets remained volatile, but mostly because of concern about policy mistakes rather than the fear of inflation and higher interest rates that drove markets down earlier in the year. By the end of the month, stocks had fallen significantly, while bonds and alternatives had risen.

Stocks

Going into March, stocks had recovered almost half their inflation-induced decline in February. Then, the selling intensified again when President Trump's imposition of protectionist import tariffs raised concerns about a trade war. The selling intensified further after embarrassing operational stumbles at several key technology firms sparked worries about increased regulation in that industry. The S&P 500 stock price index ended the month down 2.7% from the end of February, although it was still up 11.8% from the end of March 2017. Taking into account dividends, the total return on the S&P 500 was a negative 2.5% in March but a positive 14.0% over the last year.

Looking forward, we think stocks will continue to receive support from the on-going economic expansion around the world and the impact of new tax cuts and government spending hikes in the United States. While inflation pressures are indeed increasing, we don't think they're worsening fast enough to prompt the Federal Reserve to hike interest rates much faster than currently planned. Corporate profits should therefore be able to keep rising. The problem is that investors have started to focus not on these positive economic trends, but on the worsening policy risks in international trade and national security. The bull market has pushed stock valuations very high, so we believe stocks are now especially susceptible to those worries. We still think current economic fundamentals could eventually lift stocks to new record highs, but policy mistakes could potentially short-circuit the economic expansion and spark a new, more serious downturn in the stock market.



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Technical indicators also reflect the increase in risk. Because of its declines in February and March, the S&P 500 price index is now well below its key short-term moving averages. It currently rests right on top of its 200-day simple moving average (SMA), which many investors consider a significant indicator by itself. The index is also sitting right at its lowest closes in March and its lowest closing level during the February correction, which we identified as a key support level in our Comment last month. If the index drops significantly below the current level, it could therefore prompt many investors to lose confidence and sell. That's especially the case given that the momentum in the market has become narrower. Only about 55% of the stocks in the S&P 500 are now trading above their 200-day SMAs. Fortunately, other indicators point to continued momentum and a potential buying opportunity. For example, a string of month-end record highs like the S&P 500 posted through January 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. Also, 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 deeply oversold, which could prompt new buying from investors looking for a bargain. All the same, there is now a technical risk that stocks could move below their current support level and enter a free fall of sorts. If that happens, we suspect the next significant support level for the S&P 500 would come at around 2,490. If the market starts to recover, we think the next significant resistance level would be at approximately 2,650, with a secondary resistance level at about 2,780.

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

Source: BigCharts.com

Bonds

As investors began to focus on the risk in stocks during March, many shifted to buying bonds. As a result, bond prices rose, pushing down yields. The yield on the benchmark 10-Year Treasury Note ended the month at 2.741%, compared with 2.868% at the end of February. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was a positive 0.5% in March, and a positive 1.2% since the end of March 2017.

Looking forward, we think investors could continue to increase their bond buying. As we noted last month, one reason for that is simply that the renewed volatility in riskier assets has started to remind

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investors of the relative stability and safe-haven characteristics of fixed-income investments. In addition, the run-up in yields since mid-2016 has made the potential income available from bonds much more attractive, prompting renewed interest in fixed-income investments. Finally, the risk of policy mistakes has removed some of the concern earlier this year that the economy would grow too fast, inflation would accelerate too much, and the Federal Reserve would start hiking interest rates more aggressively. If the policy environment stabilizes, some of those concerns could well return. However, we still think the more likely scenario is that the policymakers will keep raising rates only gradually. We believe current yields offer the potential for decent returns from bonds. They could also help offset the volatility in risker assets, so we think bond prices can hold up well in the near term.

Real Estate and Commodities

Higher bond prices and lower yields on fixed income drove some investors to buy publicly-traded real estate investment trusts (REITs) during March, helping boost their prices. The FTSE NAREIT Price Index rose a healthy 3.1% during the month, although that reversed only a portion of the prior three straight monthly declines. Publicly-traded REIT prices at the end of March were still down 4.9% from one year earlier. Because of their relatively high dividends, the total return on publicly-traded REITs was a positive 3.7% in March and a negative 1.1% over the last year. Looking ahead, we believe the outlook for these REITs depends heavily on the direction of the bond market. If bond prices and yields stabilize as we suspect, these REITs are likely to stabilize as well and provide decent near-term returns. If bond prices start to fall again and yields move higher, we would expect to see renewed REIT selling and weaker returns.

For commodities, the S&P GSCI Total Return Index rose 2.2% during March, erasing much of its decline in February and bringing its gain over the last year to a strong 13.8%. Energy commodities are a big part of the commodity markets, and the recent rise in this index has come mostly from higher prices for crude oil and related products. In contrast, the risk of a trade war and slower economic growth in the future drove prices down for industrial metals and most agricultural goods, while precious metals rose a bit on safe-haven buying. Going forward, we think fundamentals in the energy market are looking better than they did a couple of years ago, but we fear 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 also agree that a trade war would likely be bad for commodities. 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	2,640.87	-2.7%	-1.2%	11.8%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	299.84	-2.3%	-1.9%	13.5%
REITs	FTSE NAREIT All-Equity Price Index	631.20	3.1%	-7.6%	-4.9%
Commodities	S&P GSCI Total Return Index	2,612.60	2.2%	2.2%	13.8%
Bonds	S&P U.S. Aggregate Bond Index	191.09	0.5%	-1.3%	1.2%