WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Monthly Market Comment

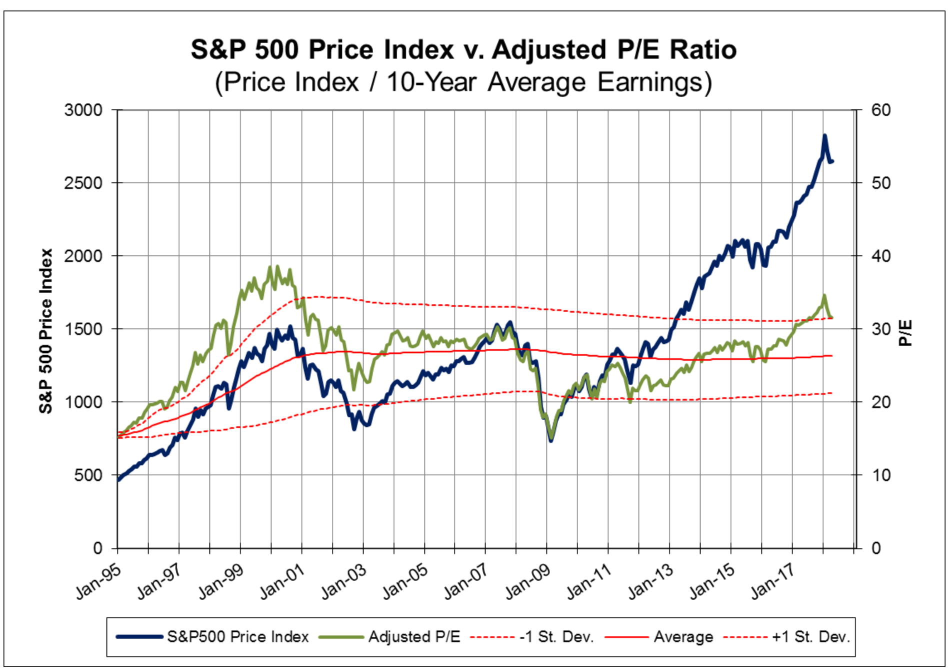
May 1, 2018

U.S. financial markets were a bit less volatile in April than they were earlier in the year, but results were mixed. Riskier assets like stocks, real estate, and commodities appreciated in value, but bond prices retreated.

Stocks

After the topsy-turvy trading in February and March, stocks were much calmer in April. Investors seemed to get over some of their fears about inflation and trade policy that had taken hold of them earlier in the year. At the same time, continued economic growth and rising profits helped reassure investors. Stock prices generally rose in early April, but they retraced almost all their gains by the end of the month. The S&P 500 stock price index ended the month up a slight 0.3% from the end of March, although it was still up a healthy 11.1% from the end of April 2017. Taking into account dividends, the total return on the S&P 500 was 0.4% in April and a strong 13.3% over the last year.

Looking forward, we think stocks may have settled into a temporary trading range, as investors sort through their conflicting expectations. 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. On the other hand, we also see worsening policy risks in international trade and national security. Since the bull market has pushed stock valuations very high, 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 or resource constraints could short-circuit the economic expansion and spark a new downturn in the stock market.



Technical indicators are tilted to the positive side, but they are mixed. Among the positive indicators, the S&P 500 price index is still slightly above its key 200-day simple moving average (SMA), suggesting the longer-term uptrend remains in place. In addition, the Dow Jones Transportation Index has recently been out-performing the overall market, which has traditionally been a positive indicator for stocks. Finally, 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. Despite those positives, however, other indicators are less inspiring. For example, market momentum is not nearly as broad as it had been. Only about 50% of the stocks in the S&P 500 are now trading above their 200-day SMAs. In addition, the main short-term momentum indicators (such as the "moving average convergence/divergence," or MACD) suggest stocks are now neither over-bought nor over-sold. Our reading of the charts suggests the next significant support level for the S&P 500 would come at around 2,580. If the market starts to rise again, we think the next significant resistance level would be at approximately 2,710, with a secondary resistance level at about 2,785.

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

Source: BigCharts.com

Bonds

Among the most dramatic developments during April was the renewed selling pressure on bonds, which drove yields to their highest level in four years. Against a backdrop of continued good economic growth and additional evidence of inflation pressure, investors abandoned their safe-haven buying in March and started selling fixed income again. The yield on the benchmark 10-Year Treasury Note rose above the psychologically important 3.0% level on April 25, although it subsequently pulled back. The benchmark yield ended the month at 2.936%, compared with 2.741% at the end of March. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was a negative 0.6% in April, and a negative 0.1% over the last year.

Looking forward, we think solidifying inflation pressure and increased government borrowing will be a headwind for bonds in the near term, but we are not yet convinced that the selling will get too intense. As we noted last month, we think the renewed volatility in riskier assets has started to remind investors of the relative stability and safe-haven characteristics of fixed-income investments. In addition, the runup 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.

Real Estate and Commodities

The April rebound in bond yields weighed on publicly-traded real estate investment trusts (REITs), but only to a limited extent. Investors seemed to recognize that REITs have become a good bargain after their prolonged downtrend over the last several months. The resulting buying was enough to nudge the FTSE NAREIT Price Index up 0.3% during April, although the index was still down 4.9% from a year earlier. Because of their relatively high dividends, the total return on publicly-traded REITs was a positive 0.5% in April and a negative 1.0% over the last year. Looking ahead, we believe the outlook for these REITs is modestly positive, so long as economic growth continues and bond yields don't start rising too fast.

For commodities, the S&P GSCI Total Return Index jumped 5.0% in April, continuing its multi-month uptrend and bringing its gain over the last year to a strong 22.1%. Energy commodities have been the main source of the uptrend, with prices increasing for everything from crude oil and gasoline to heating oil and natural gas. That reflects the increased demand resulting from continued economic growth, continued supply restraint in some key producing countries, and geopolitical tensions in the Middle East and beyond. Increased demand also helped drive up prices for industrial metals during April, but a rebound in the dollar and reduced military risks around North Korea pushed prices lower for precious metals. Many agricultural commodities also saw price rises in April. Going forward, we remain optimistic about fundamentals in the energy market, although we still think rising U.S. crude production could at some point push supplies too high and drive prices lower again. We are therefore neutral regarding the near-term outlook for the broad commodity sector.

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Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,648.05	0.3%	-6.2%	11.1%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	304.17	1.4%	-5.7%	13.0%
REITs	FTSE NAREIT All-Equity Price Index	633.24	0.3%	-4.4%	-4.9%
Commodities	S&P GSCI Total Return Index	2,744.20	5.0%	3.8%	22.1%
Bonds	S&P U.S. Aggregate Bond Index	189.91	-0.6%	-0.9%	-0.1%

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