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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.

Investors were focused on the Federal Reserve and interest rates during February. Strong economic data early in the month heightened fears that U.S. interest rates would rise faster than previously expected which sparked Wall Street's largest equity decline in two years. Late in the month the new Fed Chair, Jerome Powell, testified to Congress and indicated that recent economic improvements will be considered at the Fed's March meeting. Some have inferred that the Fed may have opened the door to a fourth rate hike in 2018 in order to prevent the economy from overheating.

Fourth quarter U.S. GDP was revised down slightly to 2.5% from 2.6%[1], which was received positively by the market due to the recent fears of faster Fed Funds rate hikes. The downward revision was led by businesses tapping into their inventories rather than producing new goods.

Purchasing Managers' surveys remain supportive of strength in global economic activity. The IHS Markit's Eurozone Manufacturing Purchasing Managers' Index (PMI) eased slightly to a still very strong 58.6[2] in February. The data show a broad-based expansion led by a solid core of the Netherlands, Germany and Austria.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	-4.0	1.7	23.1	14.2
S&P 500	-3.7	1.8	17.1	11.1
Russell 2000	-3.9	-1.4	10.5	8.5
Russell 1000 Growth	-2.6	4.3	26.1	13.5
Russell 1000 Value	-4.8	-1.1	7.8	8.0
FTSE NAREIT U.S.	-7.0	-10.0	-5.8	2.2
Bloomberg Commodity	-1.7	0.2	1.6	-4.7

After January's rapid advance, February was a turbulent month for equity investors though the markets meaningfully recovered from the sell-off early in the month. The S&P 500 Index declined 3.7% for the month, while small caps as measured by the Russell 2000 Index fell 3.9%.

At one point during February the S&P 500 was down more than 10%. While corrections are normal and healthy, the speed at which this one occurred was unusual. This is also the first decline of any significance that disrupted a two-year period of unprecedentedly low volatility. Given above average equity valuations and gains that investors have experienced over the past several years, this sell-off tested investors' psyche with some moving to the sidelines.

The stock market appeared to stabilize later in the month as evidenced by the decline in volatility and fading technical dynamics. Investors refocused on the favorable global growth backdrop and strong corporate earnings. Earnings season continues to wind down with particularly strong fourth quarter results for the S&P 500, +14.8%[3], with analysts focusing on the potential tax reform tailwind to 2018 earnings.

Technology was the only sector that was positive, +0.1%, while Energy was the worst performing sector, -10.8%. Laggards also included more interest rate sensitive sectors: REITs and Telecommunications. While no areas of the market completely escaped the sell-off, growth styles again trumped value with the aforementioned sector leadership.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	-4.7	0.6	21.6	6.2
MSCI EAFE	-4.5	0.3	20.1	5.7
MSCI Emerging Markets	-4.6	3.3	30.5	9.0
MSCI EAFE Small Cap	-3.5	1.4	27.9	12.7

International equity markets declined in February with the MSCI EAFE Index -4.5% and the MSCI Emerging Markets Index -4.6%. Both indices remain in positive territory for 2018 with Emerging Markets +3.3%. International returns in US$ have been aided by currency movements based on the weakening U.S. dollar.

The Bank of England held its rate steady at 0.5% at its February meeting but signaled intentions to push rates higher at upcoming meetings. 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.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	-0.9	-2.1	0.5	1.1
BarCap Global Aggregate	-0.9	0.3	6.0	2.4
BarCap US High Yield	-0.8	-0.3	4.2	5.2
JPM Emerging Market Bond +	-2.2	-2.7	1.9	5.1
BarCap Muni	-0.3	-1.5	2.5	2.2

U.S. interest rates rose across the board which led to losses in most areas 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 February was -1.0% whereas the longer duration Bloomberg Barclay's Long Gov't/Credit Index lost 3.2%.

Embedded in the rising U.S. Treasury yields were concerns about rising inflation. These concerns had been surfacing, in the context of faster growth prospects of pro-business policies, especially with the passage of U.S. tax reform. The February jobs report contained a data point that seemed to confirm investor fears about rising inflation: the pace of wage growth, 2.9%[4], was the fastest pace in 8 years. Wage growth had been cited for years as a lagging factor in the labor market, the one stubborn data point in the jobs data, which kept the Fed questioning the economy's strength to withstand higher interest rates. With wage growth showing signs of accelerating and with 200,000 jobs added in January[5] , there may be cascading consequences of higher inflation, faster Fed rate hikes, and possibly lower equity valuations.

The 10-year US treasury yield rose from 2.71% to 2.86% during the month. The 2-year U.S. Treasury yield rose 11 basis points to 2.25% while the 30-year U.S. Treasury yield rose 19 basis points to 3.13%[6]. The markets are pricing in a strong probability of a 25 basis point rate increase at the Fed's March policy meeting.

Despite healthy underlying fundamentals, corporate bond spreads, both investment grade and below, widened for the month. High yield's total return for February was -0.9%. The JPM Emerging Market Bond+ Index returned -2.0% in February. Bank Loans gathered renewed interest given the interest rate changes and returned +0.2% for the month.

Sources:

1 Bureau of Economic Analysis – U.S. Department of Commerce, 2/28/18
2 IHS Markit, 3/1/18
3 Factset Insight, 2/23/18
4,5,6 Bureau of Labor Statistics, 2/2/18

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.