ASHDON
Investment Management

The first quarter delivered the first quarterly decline in US stocks in over 9 quarters. Bonds also lost value as volatility picked up after 2017 - a year with historically low volatility. The S&P 500 Index of stocks fell -0.76%. The EAFE International Index was down -1.18% (in USD terms). The Barclays Aggregate Bond Index fell -1.40%. While it was a tough quarter, it comes after a very strong quarter during which stock prices rose too high too quickly. Stocks simply needed a trigger to sell off. The first quarter provided several triggers, all coming from the political sector. Along with significant departures and new arrivals in the Administration's economic advisers, important new trade policy was announced in stages through the quarter. Global trade is complex and the impact of changes can take time to understand. The new policies caught market participants by surprise and many decided to lower their portfolio risk while the details evolve.

Leaving markets behind and looking at the fundamentals underneath, we see an encouraging outlook for the near term and are happy to maintain our exposure to stocks and bonds. The fundamentals have not provided any reason to react to the market price swings. US economic growth remains on track for a modest growth rate. The employment situation continues to support economic growth ahead. Finally, inflation remains near the levels targeted by the FOMC. This environment should give the FOMC the time it needs to continue their normalization process. The committee forecast three to four increases in overnight interest rates for the current year. They ordered one 0.25% rate increase in March. Their next meeting in June is the expected date for the second rate increase. The overnight rate is now set between 1.5% and 1.75%. The next rate increase will take rates to a level not seen since 2004. One rarely discussed point to make is that the FOMC now has the ability to cut rates, providing a traditional tool for them in the case that the economy encounters a rough spot.

US earnings have recovered from their brief downturn in 2015 and 2016. Companies broadly have indicated expectations for increasing earnings. Further, new tax policy is very favorable to American companies. This sets up a period of increasing market prices. There are many analysts who view the market as expensive; noting that the price paid per unit of earnings is well above historical norms. With earnings growth expected, P/E levels in the market today can be sustained. However, the two views will continue to be reconciled and more volatility is expected.

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