MARCH VALIDATED FEBRUARY'S INITIATION OF A NEW, HIGHER VOLATILITY REGIME

- March capped off the S&P 500's first negative quarterly return since Q3 2015 and the first negative Q1 since 2009.
- After not experiencing a single daily move of more than 2% through all of 2017, the S&P 500 has now seen 6 such moves through February and March.
- If "taper tantrum" was a fitting moniker for the 2013 reaction to the prospect of ending the Fed's QE, the volatility in early 2018 might well be referred to as the "tightening, tech, trade-tariff tantrum," as markets reacted to tighter monetary policy, a data breach at Facebook and the prospect of a tariff-induced trade war.
- While not as high as it was in February, volatility in March was still above its five-year average and much higher than it was in 2017.
- Falling interest rates boosted the U.S. Aggregate bond market, reducing its correlation to equities and improving it as a diversifier, while the correlation between U.S. and foreign equities increased.

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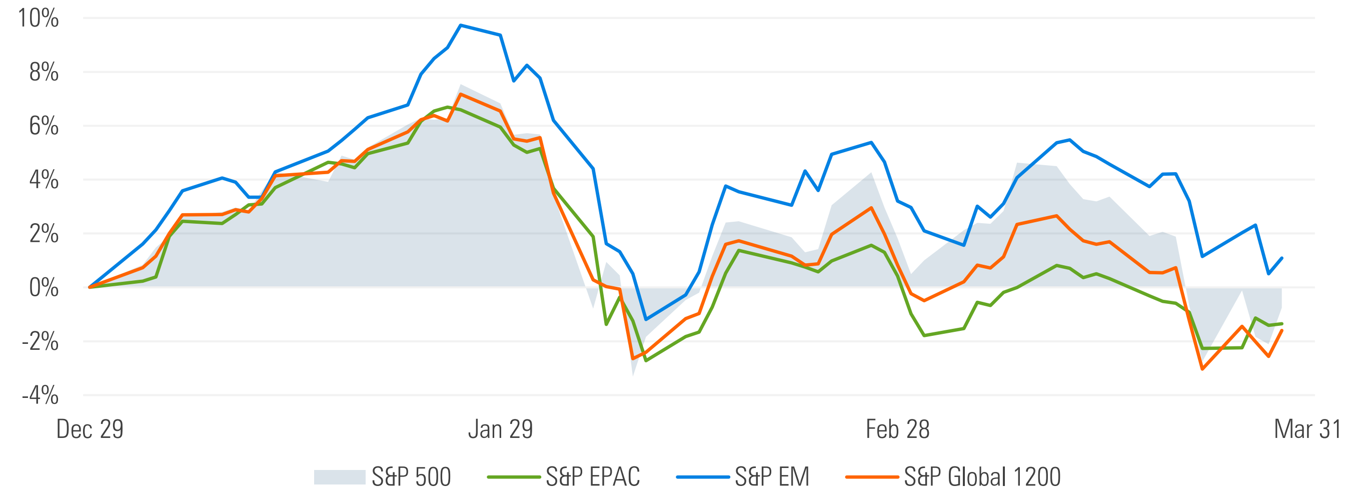

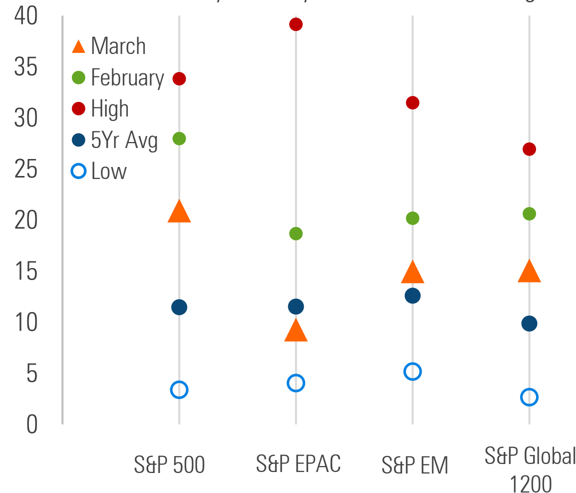

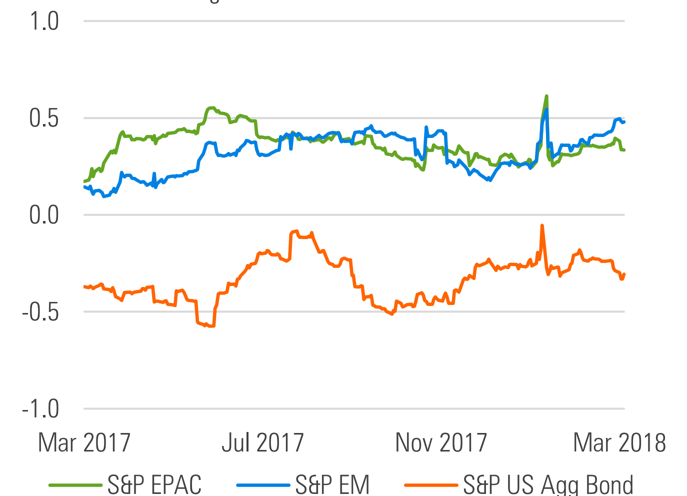

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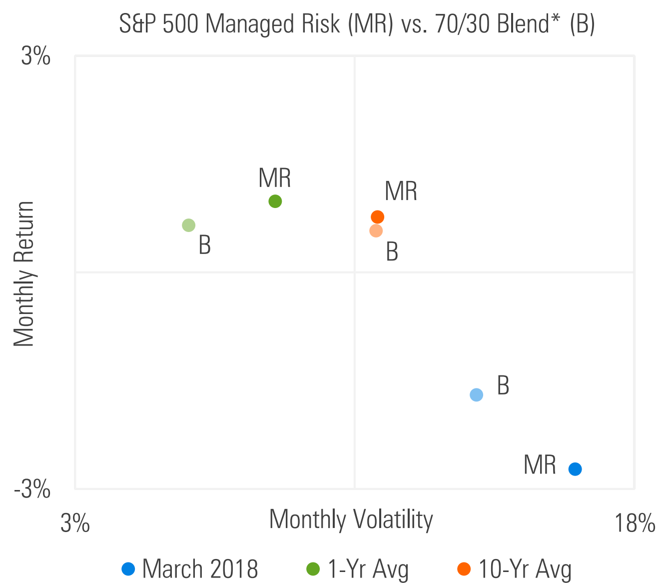
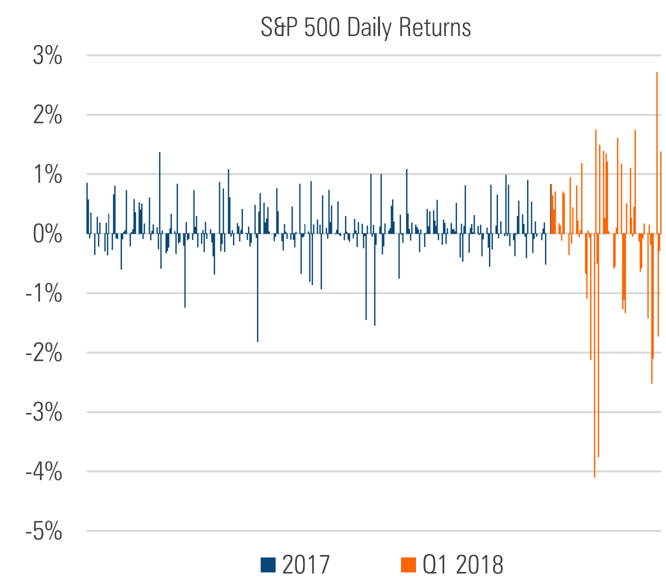
MANAGED RISK INVESTING

- The persistence of higher market volatility from February meant that the **S&P 500 Managed Risk Index**, which has an 18% vol cap and no fixed allocation to bonds, maintained a hedge position through all of March. After ending February at a 72% equity allocation, it was increased to as high as 92% before finishing the month at 67%.
- Its hedge position helped to limit its participation in the downturn so that it exhibited less volatility than the S&P 500, but trailed its return by 19 bps for the month.
- Over the last 10 years, the Managed Risk Index has exhibited virtually the same average monthly volatility as a 70/30 blend*, while generating an average excess monthly return of 19 bps.

- In spite of having arguably the most hawkish central bank in the world, the U.S. dollar (as measured by the Bloomberg Dollar Index) fell 0.95% in March, leaving it 12% lower than its Jan. 3, 2017 post-crisis peak.
- Amidst a sea of red, small and mid-cap stocks were one of the few bright spots in March, likely due in part to their perceived relative advantage in the event of retaliatory tariffs.

*As measured by the S&P 500 Index and the S&P US Aggregate Bond Index.





Total Returns as of March 31, 2018

	S&P 500	S&P 500 MR	S&P 400	S&P 600	S&P EPAC	S&P EM	S&P Global 1200	S&P US AGG	Crude Oil	US Dollar
1 Month	-2.5%	-2.7%	0.9%	2.0%	-1.8%	-2.1%	-2.1%	0.5%	0.2%	-0.9%
3 Months	-0.8%	-1.6%	-0.8%	0.6%	-1.3%	1.1%	-1.0%	-1.3%	0.4%	-2.9%
6 Months	5.8%	5.0%	5.4%	4.5%	3.0%	8.8%	4.6%	-0.9%	19.5%	-3.0%
1 Year	14.0%	13.1%	11.0%	12.7%	15.3%	24.3%	14.8%	1.2%	23.6%	-8.0%
1M Volatility	20.9%	17.2%	19.4%	19.2%	9.3%	15.0%	15.1%	1.8%	29.0%	6.1%

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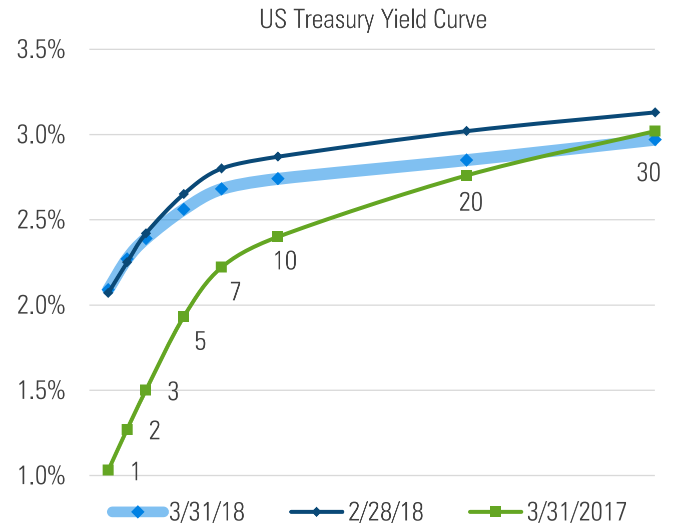
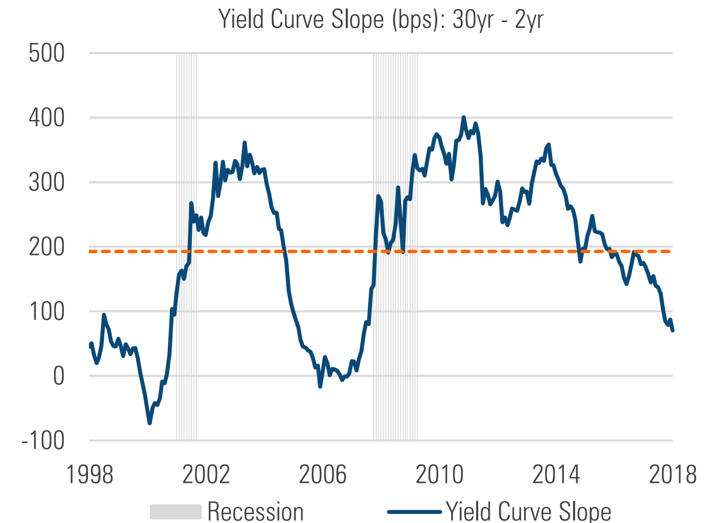
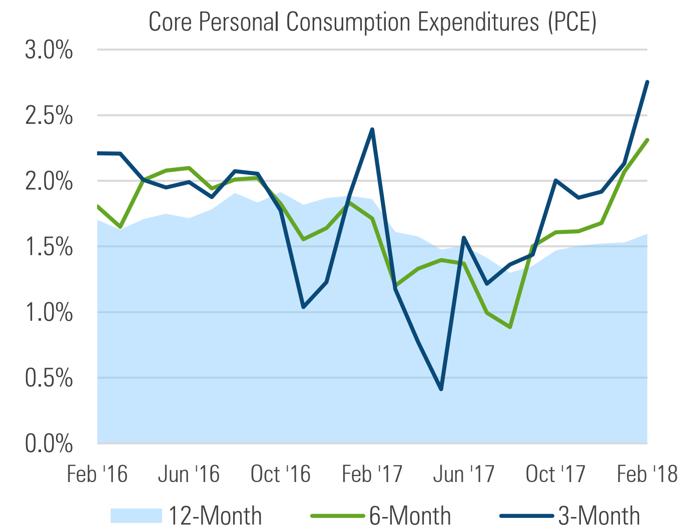
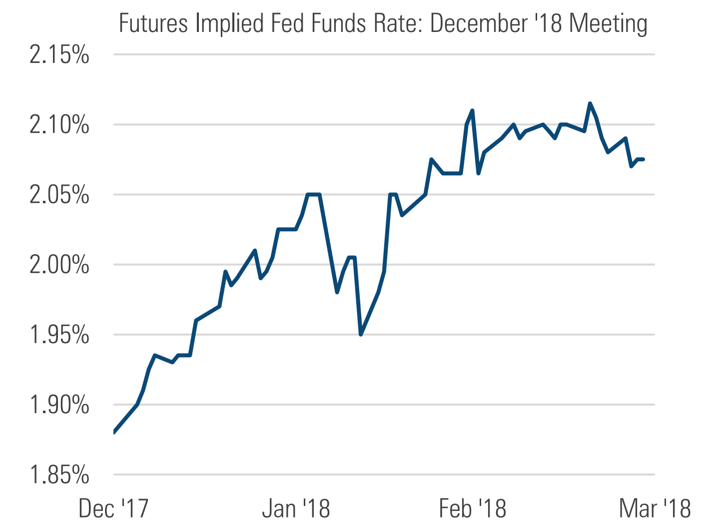
THE STRANGE STATE OF RATES

- The slope of the yield curve fell 17 bps in March, pushing it to its lowest level since September 2007 and well below its 20-year average. Its decline over the last year has been almost entirely a function of rising short-term rates.
- The Fed's March rate hike was both the first of 2018 and the first under new Fed chairman Jerome Powell. The hike pushed the fed funds rate above the year-over-year core personal consumption expenditure (PCE), the Fed's preferred measure of inflation.
- At the end of 2017, the fed funds futures market reflected an expectation of three rate hikes by the end of 2018. With one hike now in the books, the prediction is still for two more hikes by year end, but the probability is slightly lower.
- While the most recent PCE reading saw a 12-month change of just 1.6%, the annualized 6- and 3-month changes were above the Fed's 2% target at 2.3% and 2.8%, respectively.
- Since the end of the debt ceiling on Feb. 8, the Treasury has issued $620 billion in just seven weeks. Amidst accelerated issuance and Fed policy normalization, investors may do well to be diligent in managing portfolio risks.









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