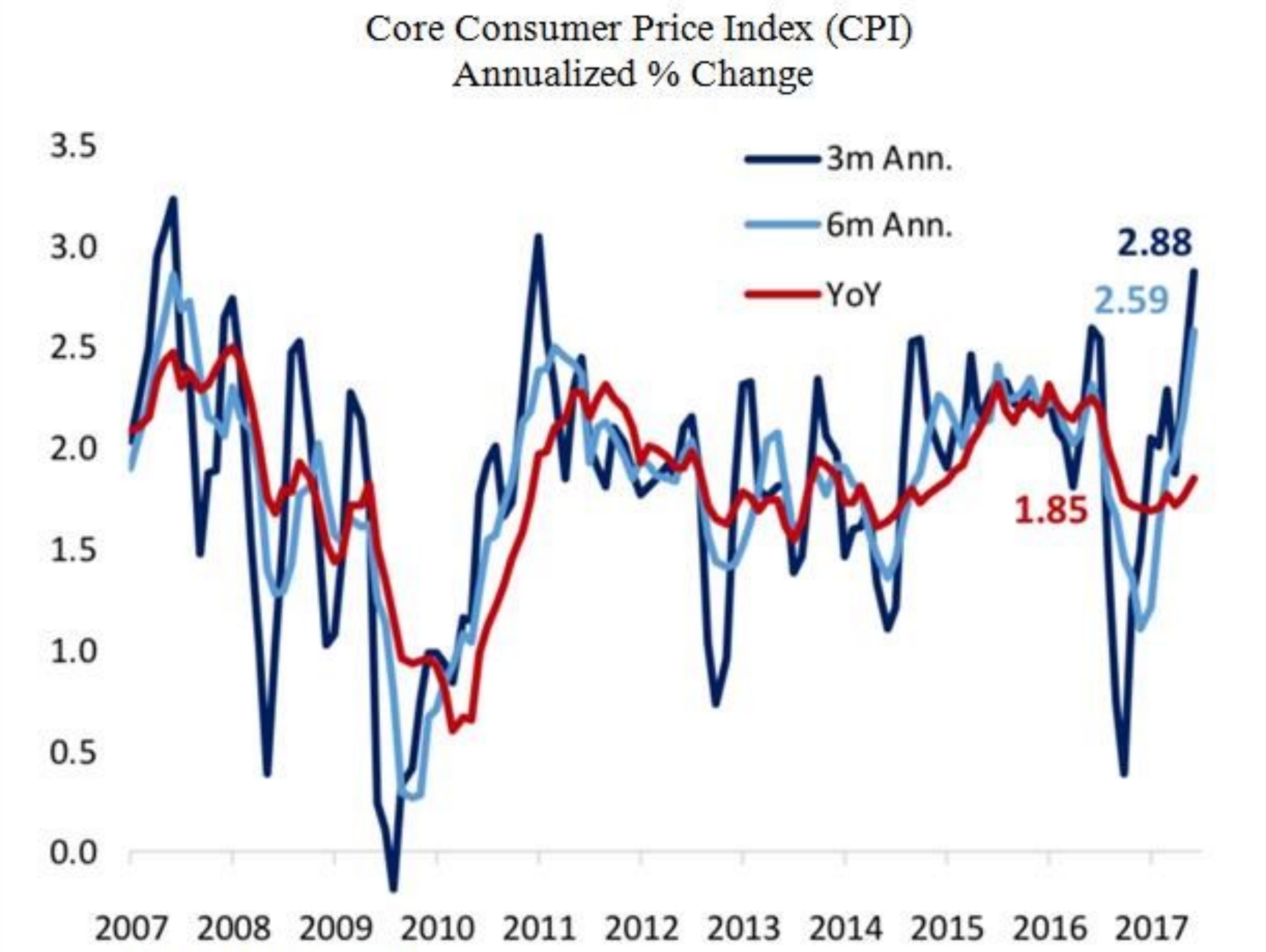
Chart of the Month

March 2018



Source: Bureau of Labor Statistics

The S&P 500 fell 3.76% in February, the first monthly decline since October 2016. The 15 months of uninterrupted gains, which was the longest such streak ever, produced a total return of more than 36%, including a 5.78% increase in January, the biggest monthly advance since March 2016.

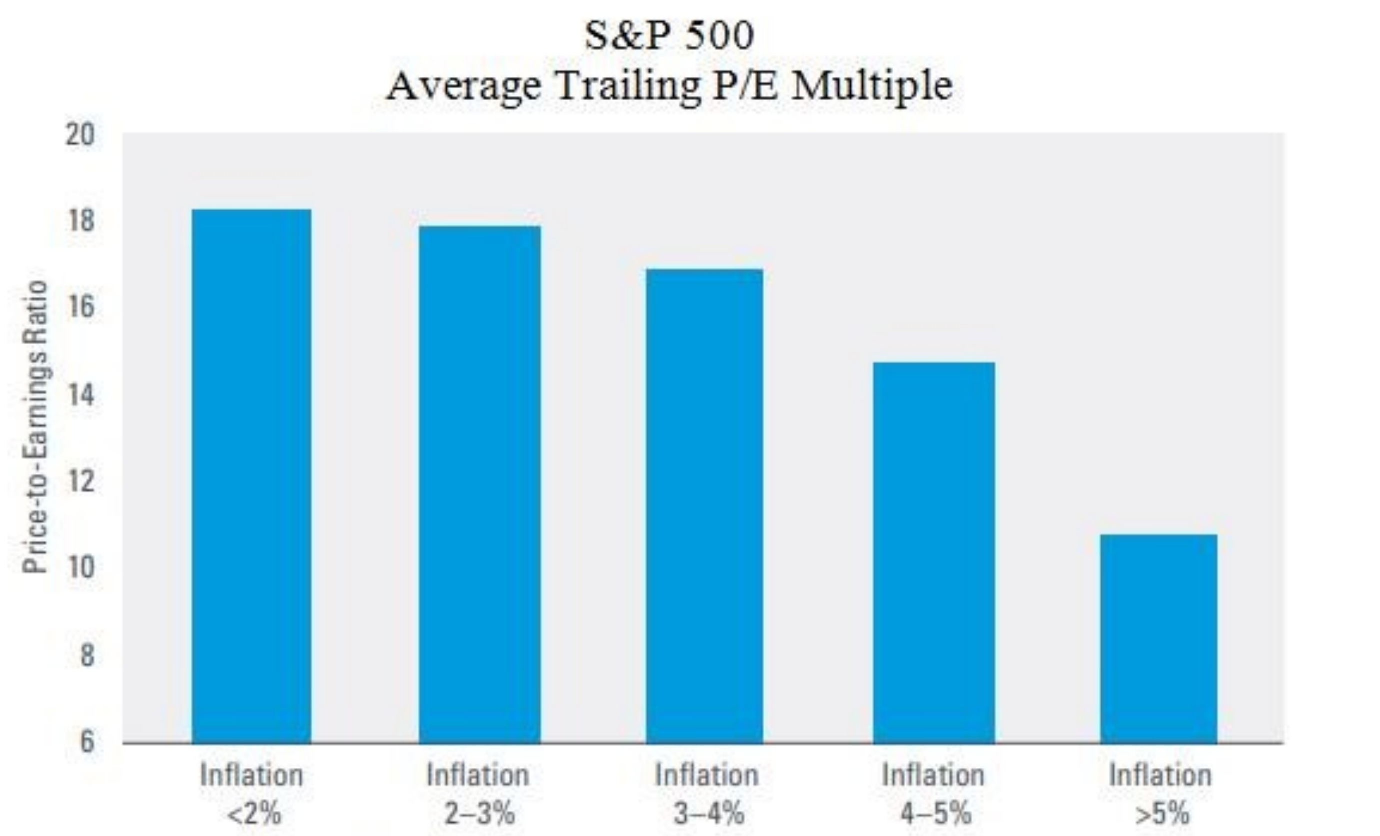
At its low in February, the S&P had slumped nearly 12% vs. the all-time high achieved in late January. The index subsequently recovered 10% before giving back over 2% in the final two days of the month. While down approximately 5% from its peak, the market is still up 1.8% for the year as it heads into March.

If nothing else, the correction served to remind investors that stock prices go up *and* down, albeit with an upward trend over the long term. Importantly, we believe the fundamental outlook remains positive with the economy exhibiting solid growth and corporate profits projected to climb 15%-20% this year.

Counterbalancing the strength in economic activity is an acceleration in inflation. As shown above, the Core Consumer Price Index (CPI) rose 2.88% at an annualized rate in January, the fastest three-month pace since 2011, and more than 1% greater than the year-over-year rate of 1.85%. The YOY rate will likely ascend toward and perhaps slightly above the Fed's target of 2% over time, in large part due to the stimulus from recently implemented fiscal policies (i.e. lower tax rates and increased spending).

Although inflation remains reasonable by historical standards, rising prices generally lead to rising interest rates as the Federal Reserve imposes tighter monetary policy and bond investors demand higher yields on debt instruments. Higher yields, in turn, provide competition for stocks. That said, with the 10-year Treasury at 2.83%, we believe equities are still attractive relative to fixed-income investments.

Based on historical averages, stock valuations should hold firm as long as inflation does not exceed 3% (see below). With a cushion of roughly one percentage point between the current rate and when it could become problematic, we are not overly concerned about the moderate uptick in inflation or interest rates.



Source: LPL Research, FactSet 02/16/18
Inflation represented by consumer price index (CPI); data series back to 1962.

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