



## MANAGER COMMENTARY FIRST QUARTER 2018



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### Market Review

U.S. equities charged sharply higher across the board during January, boosted by record consumer and business confidence numbers. By late January, however, volatility had resurfaced and the S&P 500 Index suffered its first correction since early 2016. Tariff and trade war jawboning have led to continued volatility and pressure on the market as we closed the first quarter with modest losses on most headline U.S. equity indexes.

#### *Size/Style*

As has been the case throughout 2017, growth stocks outperformed value stocks by a substantial margin during the opening weeks of 2018; however, value gained momentum throughout the quarter and outpaced growth stocks during March.

- Mega-caps performed in line with large-caps.
- Growth dominated value in both the mega-cap and large-cap segments.

#### *S&P 500 Sectors*

Counter-cyclicals lagged their large-cap S&P 500 peers during Q1 as the economic outlook was buoyed by growing business and consumer confidence:

- Technology has demonstrated consistent leadership throughout 2017, and again paced the S&P 500.
- Consumer Discretionary stocks continue their solid rebound.
- Energy and Telecom stocks also continued their 2017 performance; however, their performance has been relatively poor.

### Market Outlook

Recent market volatility brought us our first correction in a couple of years, and has curbed some of the excess valuation, and optimism, from U.S. equity markets. The economy remains quite solid; confidence is very high, small businesses are bullish due in large part to the regulation tide moving out, and excess inflation is largely absent. The Fed is of course now practicing QT (Quantitative Tightening), as well as now having bumped the Federal Funds Rate six times. We're in late innings, but the economy itself is not flashing any red lights.

The LargeCap portfolio currently favors slightly more volatile companies with solid share price momentum and low dividend yield. We prefer large-cap growth over mega-cap value stocks. Technology (Software, Internet) and Services (Information Services) sectors are in favor, while Financials (Equity REITs) and Energy (Energy Reserves) sectors are out of favor.

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