

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished February at 25,029, losing 4.3% in a volatile month but still up 1.3% so far for the year. The Standard & Poor's 500 ended its 10 month-over-month win streak, closing at 2,713, down 3.9% for the month and up 1.5% year to date. The NASDAQ Composite dropped 1.9% in February, still up 5.4% so far in 2018. Small company stocks as measured by the Russell 2000 ended February at 1,512, losing 3.97% for the month and down 1.5% so far for the year. The Technology sector has been the strongest performing sector so far in 2018, with Consumer Discretionary and Financials also outperforming.

EMPLOYMENT REPORTS

As of the most recent report, unemployment remains at the lowest level, 4.1%, since December 2000. Wage gains grew 2.9%, which was higher than expected. Initial jobless claims, a proxy for layoffs in the U.S., for the week ended Feb. 24 reached its lowest level since 1969.

We expect the monthly employment releases to be closely watched in the near term, and too much good news may exacerbate inflationary fears, which led to volatility in February. The fear is that such a tight labor market and rising wages will trigger greater than expected inflation. It may be helpful for investors to consider that modest inflation is normal for a growing economy, and persistently below target inflation has been a concern to economists for the past few years. With many expecting the volatility to continue, it's also helpful to remember to focus on long-term goals and time horizons, rather than short-term swings.

FIXED INCOME OUTLOOK

A strong labor market, tax cuts, and increased government spending have all contributed to many observers increasing their targets for inflation, and boosting the likelihood of the Federal Reserve raising interest rates by at least the three .25% increases already penciled in for 2018. Many expect the first increase to occur at the March 20-21 Fed meeting.

The yield on the 10-year Treasury has risen sharply from 2.05% to 2.87% between September '17 and February '18. Prices decline as interest rates rise in the bond market. Investors may want to reduce their interest rate risk by limiting duration, looking to short or intermediate duration bonds.

"Such pressures include the prospect of future interest rate increases, concerns about accelerating inflation - which chips away at the purchasing power of bonds' fixed payments- and a widening federal budget deficit pushing the Treasury department to boost debt sales, increasing the supply of bonds ... Though rising rates can signal increasing economic health, this year's half percentage point climb in the yield on the benchmark 10-year U.S. Treasury note was a major factor behind the recent stock market tumble, forcing investors to reconsider valuations ..." (*The Wall Street Journal*, Daniel Kruger and Gunjan Banerji, Investors Bet Against Treasuries as Bond Market Anxiety Intensifies, March 1, 2018)

CORPORATE PROFITS

According to FactSet, with 90% of the S&P 500 reporting Q4 results, 74% of companies are reporting higher than expected earnings, and 78% are reporting higher than expected sales. The earnings growth rate is 14.8%, which if it holds, will be the highest growth rate since Q3 2011. All eleven sectors of the economy are reporting year-over-year growth. Corporate earnings are a key driver of share prices and market performance.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 01-31-2018	CLOSE AS OF 02-28-2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	26149.39	25029.20	-1120.19	+1.3%
S&P 500	2823.81	2713.83	-109.98	+1.5%
NASDAQ Composite	7411.48	7273.01	-138.47	+5.4%
RUSSELL 2000	1574.95	1512.45	-62.5	-1.5%
Fed Funds Rate	1.25% – 1.50%	1.25% – 1.50%	UNCHANGED	
2-Year Treasury	2.14%	2.25%	+0.11%	
10-Year Treasury	2.72%	2.87%	+0.15%	
Crude Oil \$ per Barrel	\$64.73	\$61.45	-\$3.28	+1.70%
Gold \$ per Troy oz.	\$1,343.10	\$1,318.80	-\$24.30	+0.73%
UK Pound in U.S. \$	\$1.4191US = 1£	\$1.3767US = 1£	\$ STRONGER	+1.88%
Euro in U.S. \$	\$1.2414US = 1€	\$1.2201US = 1€	\$ STRONGER	+1.63%
Canada \$ per U.S. \$	\$1.2315C= \$1.00 US	\$1.2831C = \$1.00 US	\$ STRONGER	+2.07%
Japan Yen per U.S. \$	109.19¥ = \$1.00 US	106.71¥ = \$1.00 US	\$ WEAKER	-5.31%



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