

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished March at 24,103, down 3.7% for the month and -2.49% year to date. The Standard & Poor's 500 closed March 29 at 2,641, losing 2.69% for the month and -1.22% so far for the year. The NASDAQ Composite dropped 1.9% in March, still up 2.32% so far in 2018. Small company stocks as measured by the Russell 2000 ended March at 1,529, gaining 1.12% for the month and -0.40% so far for the year. Telecommunications (-8.68%) and Energy (-6.58%) have been the weakest performing sectors so far in 2018.

*"An unusual backdrop to the weak quarter is that volatility and poor trading action has occurred even as the growth in corporate profit estimates has accelerated."
Barron's, The Trader by Vito Racanelli, April 2, 2018*

Fixed Income Outlook

The Fed voted unanimously in their March 21 meeting to raise the federal funds rate by .25% to a range between 1.5% - 1.75%. Officials indicated that they expect to raise rates another two or three times this year, and three times next year. At these forecasts, this would put the fed-funds rate at 2.75% - 3.00% by the end of 2019. The Barclays Aggregate Bond Index is down 2.22% so far in 2018, as bond prices drop when rates rise. Investors can limit their interest rate risk by continuing to limit the duration of their fixed income portfolios.

Corporate Profits

Amidst persistent volatility in the equity markets, triggered first by fears of inflation, and later by fears of a trade war, corporations are expected to report a strong 1st Quarter in the coming weeks. According to FactSet, for Q1 2018, the estimated earnings growth rate for the S&P 500 is 17.3%. If the estimate were to hold, it would be the highest growth rate since Q1 2011. This environment of strong corporate profits, along with strength in other economic indicators such as employment, has led many observers to forecast that we are unlikely to see recession in the immediate term. Strong 1st quarter earnings should also help bring price to earnings ratios closer to historical averages, as historically high valuations in the equity markets have been observed since 2017's strong rally.

"According to FactSet, the 2018 consensus earnings-per-share estimate for the S&P 500 index rose 7% in the quarter ... the largest 1st-quarter increase in the annual EPS estimate since FactSet began tracking it in 1996. For that reason - and the prospect of overall good economic growth - Kate Warne, investment strategist at Edward Jones, remains bullish. The second quarter might be down and tech worries are a valid concern, but the broad underlying market fundamentals are improving, she notes." (Barron's, The Trader by Vito Racanelli, April 2, 2018)

Employment Reports

Unemployment remains at a 17-year low of 4.1%. 103,000 jobs were created in March, a bit lower than expected but the broader 3-month average shows a healthy 201,000 jobs added per month. Average hourly earnings will continue to be closely watched in these releases, as higher than expected raises are good news for workers - but too much good news may spark inflationary fears in markets. Inflation is a natural drag on equity markets.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 02/28/2018	CLOSE AS OF 03/29/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	25029.2	24103.11	-926.09	-2.49%
S&P 500	2713.83	2640.87	-72.96	-1.22%
NASDAQ Composite	7273.01	7063.45	-209.56	+2.32%
RUSSELL 2000	1512.45	1529.43	+16.98	-.40%
Fed Funds Rate	1.25% - 1.5%	1.5% - 1.75%	+0.25%	
2-Year Treasury	2.25%	2.27%	+0.02%	
10-Year Treasury	2.87%	2.74%	-.13%	
Crude Oil \$ per Barrel	\$61.64	\$64.94	+\$3.30	+7.48%
Gold \$ per Troy oz.	\$1317.90	\$1327.30	+\$9.40	+1.37%
UK Pound in U.S. \$	\$1.3779US= 1£	\$1.4028US = 1£	\$ STRONGER	+3.70%
Euro in U.S. \$	\$1.2197US= 1€	\$1.2298= 1€	\$ STRONGER	+2.42%
Canada \$ per U.S. \$	\$1.28135C= \$1.00 US	\$1.28925C \$1.00 US	\$ STRONGER	+2.90%
Japan Yen per U.S. \$	106.71¥ = \$1.00 US	106.35¥ = \$1.00 US	\$ WEAKER	-5.59%



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