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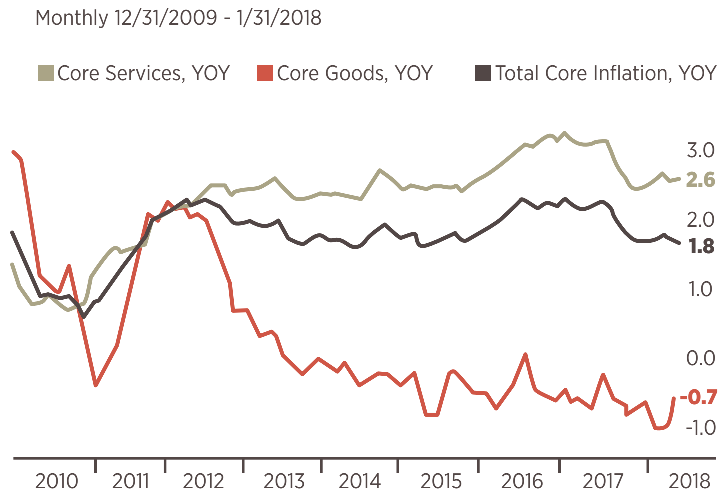
Viewpoint / March

Chart of the Month

One of our concerns for 2018 and beyond is the risk that inflation picks up in the US causing the Federal Reserve to more aggressively raise interest rates. Long term, we believe the secular trend is for the economy to experience lower levels of inflation due to demographics and technology but this doesn't mean that the economy can't experience bouts of cyclical inflation along the way. The chart at the right shows the reported core inflation rate and then breaks it into two components: inflation for services and inflation for goods. Over the past several years, the inflation rate for goods has been below zero (prices are falling) while the inflation rate for services has been above 2.3%. The combination of these two results in a reported core inflation rate averaging 1.9% over the past 4 years. Economic trends currently in place are likely to lead to rising commodity prices and decreased excess capacity which we believe will lead goods inflation back above 0%. This will push the overall economy-wide inflation rate above the Fed's target of 2% and likely cause the Fed to hike interest rates more than most analysts are forecasting.



Source: 2018 Bloomberg Finance L.P.

The Advisor Survey:

Margaret Dechant, CFP®, Chief Executive Officer

Are higher interest rates a good or bad thing?

What we are seeing in the economy today is the result of the stimulus, primarily in the form of low interest rates, applied after the global economic crisis. The anticipated economic growth has taken hold, as evidenced by a US economy that grew 2.6% in Q4 2017 and is expected to expand another 3.2% in Q1 2018. What we also see is that it is possible to have too much of a good thing and that a byproduct of a strong economy can be inflation. As consumers we are much more sensitive to price changes on goods we use in our daily lives and over the past several years, inflationary pressures have been almost non-existent for many of those products. As our economic cycle continues to evolve, and inflation along with it, we may see that change. So expect to earn more on cash but pay more at the pump and grocery store. #clipcoupons

	Source: FactSet 2017	February	YTD	2017	Benchmark
Stocks	United States	-3.7%	1.8%	21.8%	S&P 500
	Intl Developed	-4.5%	0.3%	25.6%	MSCI EAFE
	Emerging Markets	-4.6%	3.4%	37.8%	MSCI Emerging Markets
Bonds	US Investment Grade	-0.9%	-2.1%	3.5%	Barclays US Aggregate
	Intl Investment Grade	-0.8%	2.2%	10.5%	Barclays Global Aggregate xUSD
	Global High Yield	-1.4%	-0.2%	10.4%	Barclays Global High Yield
	Emerging Markets $	-1.4%	-1.5%	8.2%	Barclays Emerging Markets USD Aggregate
Other	Commodities	-1.7%	0.2%	1.7%	Bloomberg Commodity
	Gold	-2.0%	1.2%	13.2%	Gold New York Spot ($/oz)
	Oil	-5.0%	1.9%	12.5%	Crude Oil WTI/Global Spot NYMEX

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