

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW FIRST QUARTER 2018

What Happened:

The market correction we have been anticipating finally arrived. In late January, the market reacted negatively to labor reports showing that wage growth exceeded expectations. On the surface such news seems positive, but investors became concerned about the resurgence of inflation. So far, inflationary pressures are not at elevated levels, but some economists fear that a change may be coming.

Another contributing factor for the correction was the stretched stock valuations. After two years of steady gains since the last 10% correction, the market was overdue for an adjustment. Following the current correction, however, stock valuations appear much more reasonable and in line with historical levels.

This correction appears to be following the normal script—increased volatility with no discernable trends. There are short rallies followed by quick bursts downward, often retesting previous market lows. Generally, corrections take several months to run their course. After that, we expect the market to resume an upward bias—albeit with continued volatility—as investors slowly return to the market.

First Quarter 2018 Performance:

S&P 500 Index (large stocks)	-0.8%
Russell 2000 Index (small stocks)	-0.1%
MSCI EAFE Index (international stocks)	-1.5%
Barclays U.S. Aggregate Bond Index (bonds)	-1.5%

Prognosis:

Economic indicators remain strong, with no signs of recession. Unemployment is very low and business sentiment is high. Interest rates are rising, but in a slow and orderly fashion. What's more, corporate earnings in 2018 are expected to grow by a whopping 18% over last year. These factors bode well for the market going forward.

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