

February 2018 Market Watch

Volatility returned in force in February, leading to sharp swings in stock prices and a fairly broad-based sell-off in domestic equities. Among the perceived risks were newfound concerns regarding the pace of inflation, as interest rates continue to rise off of their historical lows and the Fed remains intent on continuing its hawkish stance. It's important to highlight that while interest rates now stand well above where they were a year ago, they still remain near their all-time historical lows. Outside of interest rates, domestic wage inflation appears to be picking up. The January employment report showed that average hourly earnings ticked up 2.9% YoY. The recent trend of wage inflation is unlikely to let up given the ensuing corporate tax cuts and fiscal stimulus set to increase already stiff competition for workers. The current unemployment rate of 4.1% is at levels only experienced two other times (1968-1969 & 1999-2000) in the past fifty years. Initial jobless claims, which count the number of Americans filing new applications for unemployment benefits, fell in February to the lowest level since 1969.

In February, domestic indices all finished in negative territory – wiping away much of the gains generated to start the year. The NASDAQ Composite (-1.9% MTD) was this month's best performer, while the Dow Jones Industrial Average (-4.3% MTD) was this month's laggard. The sell-off in domestic equities was broad-based, with ten of the eleven S&P 500 sectors

	Date	1 Week Ago		1 Month Ago		1 Year Ago		YTD
	2/28/18	2/21/18	%chg	1/31/18	% chg	2/28/17	% chg	Return*
DJIA	25,029.2	24,797.8	0.9%	26,149.4	-4.3%	20,812.2	20.3%	1.3%
S&P 500	2,713.8	2,701.3	0.5%	2,823.8	-3.9%	2,363.6	14.8%	1.5%
NYSE Comp Index	12,652.6	12,695.5	-0.3%	13,368.0	-5.4%	11,512.4	9.9%	-1.2%
NASDAQ Composite	7,273.0	7,218.2	0.8%	7,411.5	-1.9%	5,825.4	24.8%	5.4%
Russell 2000	1,512.5	1,531.8	-1.3%	1,575.0	-4.0%	1,386.7	9.1%	-1.5%
Japan Nikkei 225	22,068.2	21,970.8	0.4%	23,098.3	-4.5%	19,119.0	15.4%	-3.1%
MSCI EM (Emerging Markets)	1,195.2	1,209.7	-1.2%	1,254.6	-4.7%	936.4	27.6%	3.2%
MSCI EAFE	2,051.7	2,062.3	-0.5%	2,153.1	-4.7%	1,753.1	17.0%	0.0%
FTSE 100	7,231.9	7,281.6	-0.7%	7,533.6	-4.0%	7,263.4	-0.4%	-5.3%
SSE Comp Index	3,259.4	3,199.2	1.9%	3,480.8	-6.4%	3,241.7	0.5%	-1.4%

US Equity Sector Performance

	February	YTD	1 Yr Ret.
Consumer Discretionary	-3.5%	5.6%	22.2%
Consumer Staples	-7.8%	-6.3%	-0.3%
Energy	-10.8%	-7.4%	-2.8%
Financials	-2.8%	3.5%	19.9%
Health Care	-4.4%	1.9%	14.3%
Industrials	-3.9%	1.1%	16.3%
Information Tech	0.1%	7.7%	36.3%
Materials	-5.3%	-1.3%	16.0%
Telecom	-7.1%	-6.5%	-5.0%
Utilities	-3.9%	-6.8%	-2.0%
Real Estate	-6.9%	-8.8%	-3.6%

US Equity Style Performance

	February	YTD	1 Yr Ret.
Dow Jones Utilities	-4.4%	-7.5%	-4.9%
AMEX DJ TRANS Avg.	-5.1%	-1.9%	11.8%
Russell 1000 Value	-4.8%	-1.1%	7.8%
Russell 1000 Growth	-2.6%	4.3%	26.1%
Russell 2000 Value	-5.0%	-3.8%	3.0%
Russell 2000 Growth	-2.8%	0.9%	18.4%

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finishing in negative territory for the month. The Information Technology sector inched out a positive return (+0.1% MTD) and remains the standout both from a YTD (+7.7%) and YoY (+36.3%) basis. The Energy sector was the worst performing sector in February (-10.8% MTD), as crude oil prices declined 5% throughout the month.

International markets also finished February with sharp declines. The SSE Composite (-6.4% MTD), MSCI Emerging Markets (-4.7% MTD), and MSCI EAFE (+4.7% MTD) were the worst performers for the month.

For the second month in a row, interest rates increased across the yield curve. This was largely attributed to continued expectation for inflation and further rate hikes by the Federal Reserve throughout 2018. Bond prices move inversely to bond yields, therefore an increase in bond yields results in a decline in bond prices and vice versa. The yield on the 3-Month U.S. Treasury bill increased eighteen basis points (bps) to 1.65%, while the yield on the 10-Year U.S. Treasury bond increased fifteen bps to 2.87%.

The Bloomberg Commodity Index was down -1.8% in February, driven by decreases in both the price of gold and crude oil. After starting the year strong, crude oil declined -4.8% during the month to close at \$61.64/barrel, while gold finished down -1.9% MTD to settle at \$1,317.90/ounce. The U.S. Dollar reversed its recent slide to finish up +1.8% during the month of February. It remains 11% lower than where it stood this time last year.

Bond Markets (%)

	2/28/18	1 Mth Ago	1 Yr Ago
US Benchmark Bond - 3 Mth	1.65	1.47	0.61
US Benchmark Bond - 6 Mth	1.85	1.66	0.75
US Benchmark Bond - 2 Yr	2.25	2.14	1.26
US Benchmark Bond - 5 Yr	2.65	2.52	1.93
US Benchmark Bond - 10 Yr	2.87	2.72	2.39
US Benchmark Bond - 30 Yr	3.13	2.94	3.00

Commodities (In US dollars)

	2/28/18	1 Mth Ago	1 Yr Ago
Gold	1,317.90	1,343.10	1,253.90
Crude Oil	61.64	64.73	54.01
US Dollar Index	90.55	88.95	101.13
Bloomberg Commodity IDX	88.14	89.80	87.74

US Bond Sector Performance

	February	YTD	1 Yr Ret.
Bloomberg Barclays U.S. Aggregate Govt. Intrm.	-0.29%	0.10%	-0.61%

Interest Rates (%)

	2/28/18	1 Mth Ago	1 Yr Ago
Prime Rate	4.50	4.50	3.75
Federal Funds Rate	1.43	1.43	0.66
Libor Rate 30 Day	1.67	1.58	0.79
Libor Rate 3 Months	2.02	1.78	1.06
30yr Fixed Mortgage	4.43	4.22	4.10

Exchange Rates (per US dollar)

	2/28/18	1 Mth Ago	1 Yr Ago
Canadian Dollar	1.281	1.227	1.324
Mexican New Peso	18.867	18.581	19.993
Euro	0.820	0.803	0.941
British Pound	0.726	0.703	0.804
Swiss Franc	0.945	0.930	1.001
Chinese Yuan	6.332	6.291	6.869
Indian Rupee	65.146	63.604	66.719
Japanese Yen	106.705	109.155	111.885

Economic Sentiment

	2/28/18	1 Yr Ago
Unemployment Rate	4.10%	4.70%
Average Single Family Home	282,400	270,400
Capacity Utilization	77.54%	75.83%

*Performance for world indices represents price returns (excluding dividends) for the DJIA, S&P 500, NASDAQ, Russell 2000, MSCI EM, MSCI EAFE, NYSE, SSE, and Nikkei, due to data availability.

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