

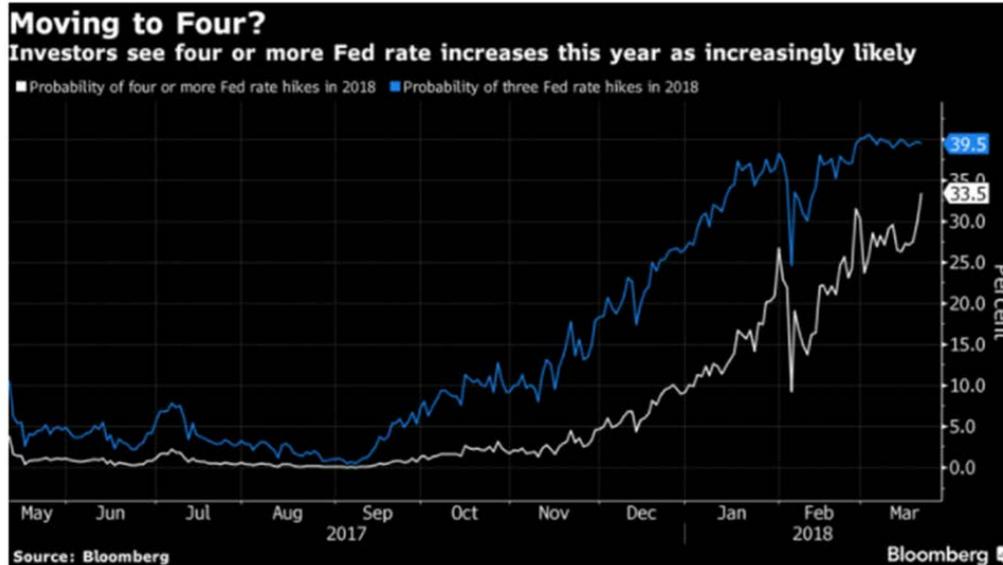


Last Week:

- The Dow Jones Industrial Average got stung, dropping 1,413 points or (-5.7%) last week
 - On January 26, the Dow hit its all-time high of 26,616 ... on February 26, the Dow hit its post-correction high of 25,709 ... we'll have to see if today's close, March 26, is a stormy day or is remembered for something else
 - Not surprisingly, all 30 stocks in the index were down, led by 3M (-9.2%), General Electric (-8.7%), and Goldman Sachs (-8.3%)
 - Feeling the greatest wrath were industry groups Steel, Internet and Brewers, all dropping over ten percent
 - There were some positive industry groups for the week: Mining (especially gold), Oil & Gas Exploration and Production, Mortgage Finance and Defense
- Dow Transports fell 520 points or (-4.9%)
 - It was the third decline of at least 400 points in the last eight weeks
- Dow Utilities fared relatively better, but still lost (-2.6%)
- The S&P 500 dropped (-6.0%) for the week, its worst weekly performance in more than two years
 - Eight of eleven sectors fared better than the index for the week, with the best being Energy (-0.8%) and Utilities (-2.4%)
 - The three underperforming sectors were heavyweights: Technology, Financials and Health Care
- Smaller-cap issues were slightly better than the major indices, with the S&P Smallcap 600 declining (-4.8%) and the S&P Midcap 400 dropping (-5.0%)
- NASDAQ plunged deeper on the back of technology concerns, posting a down (-7.3%) for the week
 - Facebook shares endured their worst daily decline in nearly four years, shedding \$36 billion of market cap Monday, amid concerns that user information was provided to influence election results
 - Software company Dropbox came public at \$21/share (above the high end of the expected range), giving it a market value exceeding \$9 billion
 - Salesforce announced it is acquiring Mulesoft for \$6.5 billion
- Equity pressure was felt globally, as only markets in Russia, New Zealand and Malaysia managed to stay in the black for the week
 - Europe dropped over 3% while declines were a bit higher in London (-3.4%), Paris (-3.6%) and Frankfurt (-4.1%)
 - London's FTSE 100 index fell to its lowest level in 15 months
 - Asia Pacific markets experienced similar declines, with China's Shanghai (-3.6%) and Shenzhen (-3.9%) falling in line with Tokyo (-4.9%) and Hong Kong (3.8%)
 - India's Sensex market only fell (-1.8%)
- The VIX volatility index jumped higher with the market selloff on Thursday and Friday, finishing the week at 24.87, up from 15.80 the week prior



- Crude oil tested the recent highs, closing at \$65.74, up over three bucks for the week
- 10-year Treasuries closed at a yield of 2.817%, down slightly for the week
 - Yields have stayed in a fairly tight range around 2.8% over the last 45 days
 - Treasury yields experienced a big decline Thursday, reflecting investor concerns about tariff announcements escalating into a full-blow trade war
- The US Dollar index was also down modestly for the week, but like Treasuries has stayed in a range around 90 for the last couple of months
- Gold finished the week at \$1,352.60/ounce, up nearly \$40
- As widely expected, the Federal Reserve Open Market Committee raised short-term interest rates by 25 basis points, and indicated it intends to raise rates a total of three times in 2018 and another three times in 2019 ... investors believe otherwise



- President Trump announced an executive order that could impose tariffs on \$50 billion of imports
 - Old Man Barron's opined that it only took one day for those tariffs to cost investors \$750 billion of market value
 - The National Retail Federation and The Business Roundtable (whose members include the CEOs of 22 of the 30 Dow Industrial constituents) announced their opposition to Trump's decision. In a statement, the Business Roundtable said: "Unilaterally imposing tariffs or other restrictions without a long-term strategy to bring about reforms in China will only raise prices in America, make American companies and products less competitive, and harm U.S. workers and consumers"
 - China said it "won't sit back and allow its legitimate rights and interests to be harmed and will take all necessary measures to protect" them. We tend to concur with GMO's Ben Inker, who published a white paper entitled "Trade Wars are Bad, and Nobody Wins"

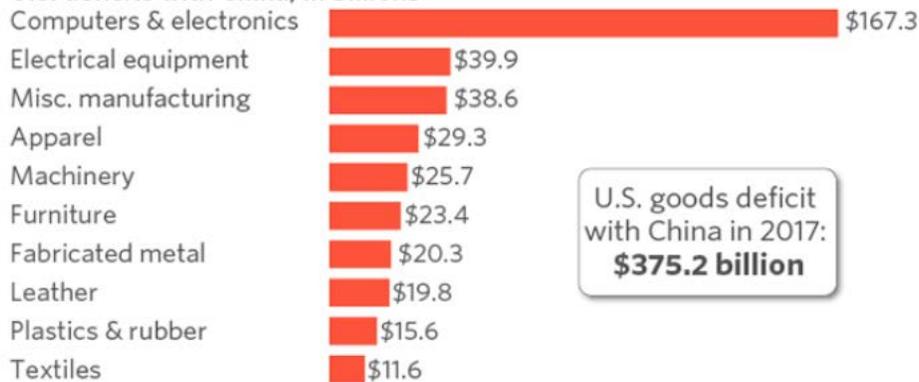
- “I don’t think this is a trade war,” Brown Brothers Harriman strategist Marc Chandler said. “We have seen this dance before. Countries will respond with some symbolic retaliation on a small number of goods that make a little more than a rounding error in bilateral trade, take some measures to ensure that the defection of the U.S. does not lead to an import surge, and appeal to the conflict resolution mechanism at the WTO”

The highs (few) and lows (many) of U.S. trading with China

One-sided deal? U.S.-China trade in 2017

China runs up huge surpluses in tech, manufacturing

U.S. deficits with China, in billions



U.S. goods deficit with China in 2017: **\$375.2 billion**

U.S. surpluses with China, in billions

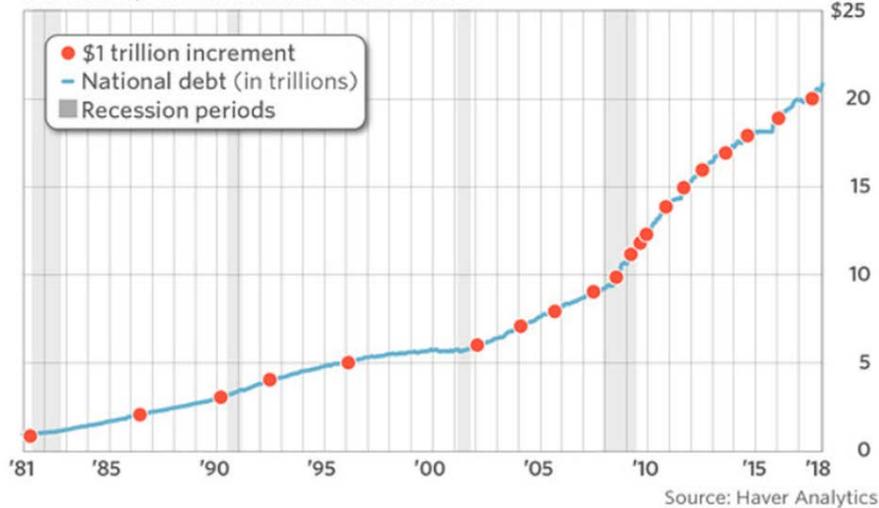


Source: U.S. Census

- The House of Representatives passed a 2,232 page bill that was released less than one day prior (Evelyn Woods couldn’t have read it that fast), authorizing \$1.3 trillion in spending through the government’s fiscal year end in September
 - Despite threatening to veto the bill only hours prior, President Trump signed it into law. “I say to Congress, I will never sign another bill like this again”
 - The bill features more money for the Pentagon and the opioid crisis, among other items that include border security funding
 - At least one Senator (John Kennedy of Louisiana) acknowledged that the federal government is spending at a profligate rate, but we can’t print what he said in this family friendly publication.

How the national debt has grown

The latest \$1 trillion increase took 6 months

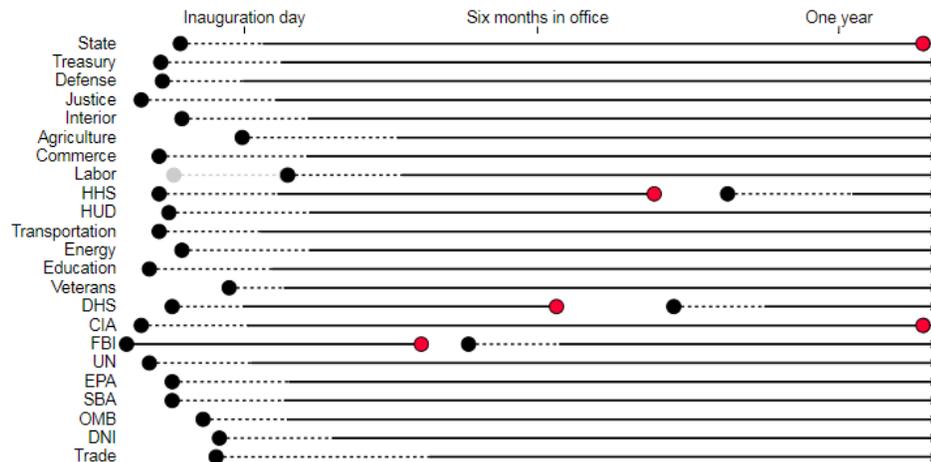


- National Security Advisor H.R. McMaster will be exiting the Trump Administration in the next month and will be replaced by former Ambassador John Bolton. A look at the various changes in the Cabinet are shown in the graphic below

Cabinet and top-level department head departures

A black dot ● marks a nomination, and a dotted line --- shows the period before he or she was sworn into office. A red dot ● marks when someone leaves office. Grey dots and lines ●---● mark nominees who were never sworn in.

Trump administration in March 2018



Source: Bloomberg

- IHS Markit's Manufacturing PMI rose to 55.7 in March, a three-year high
- Meanwhile, the Services PMI fell to 54.1 in March, down from 55.9 in February



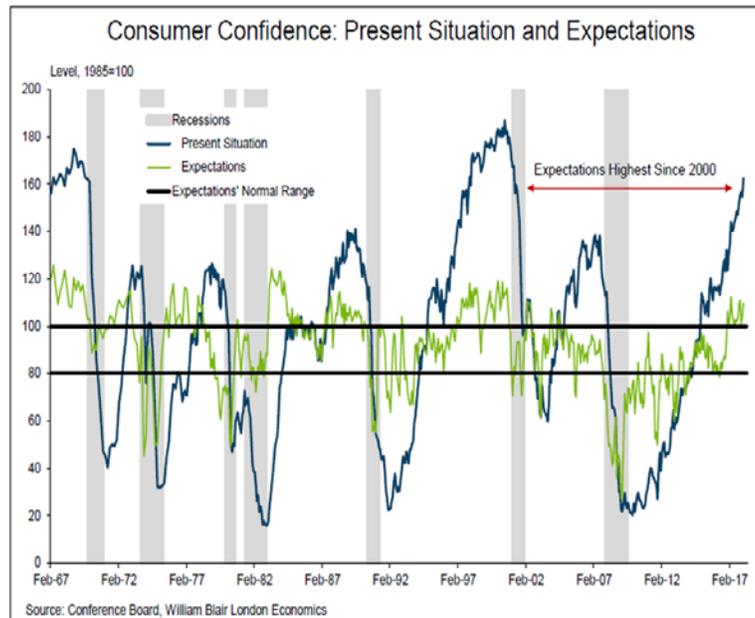
- Durable Goods Orders rose 3.1% in February (nearly double the consensus 1.7%), with the ex-Transportation figure coming in at +1.2% (more than twice the 0.5% forecast)
- New Home Sales rose to a 618,000 annualized rate in February, and January's data got revised higher. Still, that was a bit shy of the 630,000 consensus forecast
- Weekly jobless claims edged up 3,000 to 229,000
- The Conference Board's Leading Economic Index rose 0.6% in February, its fifth-straight monthly gain



This Week:

It's the last week of the first quarter of 2018 ... time flies when you are having fun

- US markets opened strongly, trying to erase some of last week's sell-off
 - JD Sports offered to acquire Finish Line for \$558 million, a 28% premium to Friday's closing price
 - USG rejected an unsolicited takeover offer from Germany's Knauf, saying it "substantially undervalues" the company
- European markets are modestly lower
- Asian Pacific markets were mixed
- Markets are closed Friday for the Easter weekend, and bond markets close early Thursday
- North & South Korea are expected to hold high level talks on Thursday
- Egypt holds elections this week
- It's a light week for earnings:
 - Monday: Paychex, **Red Hat**
 - Tuesday: FactSet, **IHS Markit**, lululemon and McCormick
 - Wednesday: Blackberry, GameStop, PVH and Walgreens
 - Thursday: **Constellation Brands**
- Economic reports:
 - Tuesday: Case-Shiller Home Prices, Consumer Confidence



- Wednesday: 4Q GDP Revisions, Trade Balance, Pending Home Sales
- Thursday: Weekly Jobs Report, US PCE, Michigan Confidence numbers, Personal Income/Spending, Chicago PMI



As always, thanks very much for your interest and support.

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Managing Director

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