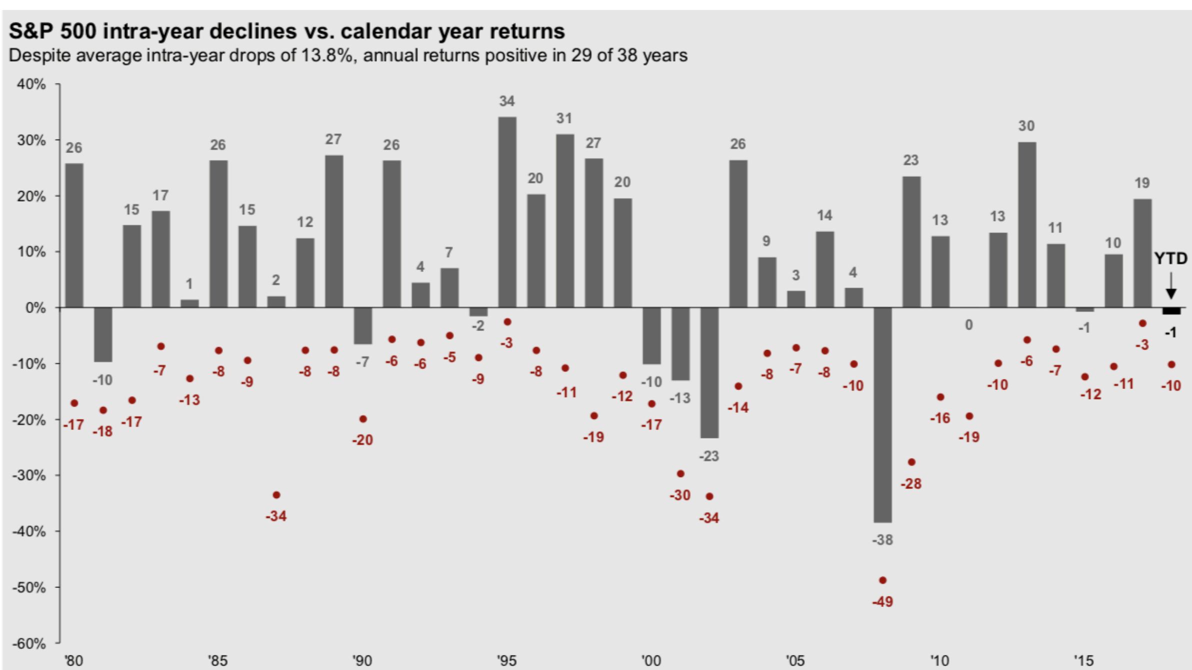
Market Commentary
First Quarter, 2018

2018 is the 10th year of the current bull market for domestic equities. If market sentiment remains positive through the third quarter of this year, it will become the longest bull market in American history. *"When will it end?"* Unfortunately, no one knows or will know without the benefit of hindsight.

What we do know is the economy is strong, inflation expectations are subdued, and the recent tax cuts should contribute towards higher economic growth, all of which would normally be positive for the equity markets. However, it is unusual for tax cuts and fiscal stimulus to occur late in the business cycle, which could contribute towards an overheated economy, higher inflation expectations and more aggressive policy actions from the Fed.

Equity market volatility is often higher during the late stages of an economic cycle. In the first quarter of 2018, volatility returned to the equity markets after a very subdued 2017. Following an 18 month period without a single 5% drop, there were four 5% declines and one 10% decline in the S&P 500 during the first quarter. Only time will tell if this higher volatility is a "catch-up" for the market complacency last year or the beginning of extended turbulence. The chart below illustrates the magnitude of intra-year declines and frequency of positive annual returns from the S&P 500 since 1980.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%.
Guide to the Markets – U.S. Data are as of March 31, 2018.

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Asset Management

Despite average intra-year declines of 13.8%, annual positive returns occurred in 29 of the last 38 years. The recent volatility may feel extreme, but it is not that unusual. What was unusual was the absence of volatility during 2017.

The chart below was included in last quarter's market commentary, and we include it again to illustrate how recent volatility has impacted valuations at March 31, 2018. The S&P 500 price/earnings (P/E) multiple was 16.4x at March 31, 2018 down from 18.2x at year end and very close to its 20 year average of 16.0x. The All Country World (ACWI) ex-U.S. P/E was 13.3x at March 31, 2018, down from 14.3x at year end and 8% below its 20 year average of 14.5x. Based on current valuations, we continue to expect higher returns from foreign equities than domestic equities, with the highest returns coming from emerging markets.

MSCI All Country World ex-U.S. and S&P 500 Index
Dec. 1996 = 100, U.S. dollar, price return

	P/E	20-yr. avg.	Div. Yield	20-yr. avg.
S&P 500	16.4x	16.0x	2.1%	2.0%
ACWI ex-U.S.	13.3x	14.5x	3.3%	3.0%

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.
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As mentioned in previous letters, we believe strongly in the merits of a diversified investment portfolio. However, occasionally we will over-weight asset categories with lower valuations and under-weight asset categories with higher valuations, consistent with the investment objectives and risk tolerance of each client. As a result, the allocations to both developed international and emerging markets equity asset categories continue to be above target for most clients.

Higher volatility and rising interest rates had a modest impact on portfolio performance during the quarter, with the exception of MLPs. Benchmark index returns by asset category for the first quarter and trailing one year period were:

Asset Category (Benchmark Index)	First Quarter 2018	Trailing One Year
Domestic Equity (S&P 500)	-0.8%	14.0%
Developed International Equity (MSCI EAFE)	-1.5%	14.8%
Emerging Markets Equity (MSCI Emerging Markets)	1.4%	24.9%
Alternatives (Alerian MLP)	-11.1%	-20.1%
Fixed Income (Bloomberg Barclays Municipal 1-10 Year)	-0.7%	1.2%
Preferred Stock (S&P Preferred Stock)	-0.6%	3.1%

Thanks again for your trust and confidence. Should you have any questions or would like to discuss your financial goals and investment portfolio please let us know.

Respectfully,

The JRM Investment Counsel Team
Jack, Phil and Lauren