Market Review and Outlook—March 5, 2018

That was Quick US stocks did very well in December and January, but they fell hard in February, giving back more than half of their two-month gains. Foreign stocks had even better December and January results, and then gave back more than half of those gains. Bonds just had a bad three months, falling gradually each month. The table shows mostly positive three-month returns, but much lower than they had been in January.

Rising Interest The leading factor in recent weeks has been US interest rates. We have known, for years, that US interest rates would rise, and the rise would be slow but steady, and take years. In a good news/bad news twist, the current US economy, which is solid and growing modestly, is doing well enough that this rise is beginning. The Federal Reserve Bank (Fed) has judged that our economy can withstand higher interest rates. This is like a doctor weaning you off pain medicine after a surgery. Overall, it is good news.

Stock investors did not take change well in February, and threw a short-lived temper tantrum. The economy continues to plug along just fine, and interest rates continue to inch upward. The Fed has a clear glide path for not only interest rates, but also for gradually selling off the trillion dollars of bonds they purchased since 2009 to prop up the melted-down US economy. Again, the patient is off pain medications, and that's good news.

Bonds These will be facing a gentle headwind for years, yet should still provide a much more stable base than stocks. The table below shows less than 2% annual returns from bonds over the past five years. That could well continue, although opportunity bonds had better results in the past five years and that, too, could continue.

Stocks February's market decline has made US stocks less expensive, while foreign stocks are on the verge of being slightly cheap. The global economies are all doing fine. As a baseball analogy, global economies are all hitting singles and doubles—no home runs and no strikeouts. This makes stocks appear reasonable, worth sticking to long-term target allocation levels. Any time that recent results include gains and losses is a good time to rebalance, selling some gains and buying some bargains. This seems like a very good time to rebalance your portfolio. and to commit to avoiding investor temper tantrums.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.24%	+0.68%	+0.27%	+0.17%	+0.37%
Intermediate Term Bond	-1.36%	+0.85%	+1.24%	+1.69%	+3.77%
Intermediate Muni Bond	-0.48%	+2.11%	+1.69%	+1.94%	+3.81%
Large-Cap Stock	+2.37%	+15.47%	+9.20%	+13.05%	+8.73%
Mid-Cap Stock	-0.11%	+10.07%	+6.58%	+11.36%	+8.63%
Small-Cap Stock	-2.21%	+8.54%	+7.36%	+11.02%	+8.98%
Foreign Large-Cap Stock	+1.57%	+19.59%	+5.65%	+6.62%	+2.67%
Foreign Small/Mid Cap Stock	+2.83%	+24.94%	+10.30%	+9.88%	+6.03%
Diversified Emerging Markets	+6.38%	+27.53%	+7.91%	+4.50%	+2.66%
Technology	+6.50%	+33.73%	+17.69%	+20.10%	+12.97%
Real Estate	-10.00%	-7.44%	+0.50%	+5.42%	+6.01%
Natural Resources	+1.49%	+9.63%	+2.77%	+1.35%	-0.09%
Moderate Allocation (50-70% stocks)	+0.68%	+9.09%	+5.02%	+7.29%	+6.11%

The data in this table comes from Morningstar and is as of February 28, 2018
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