Goodman Financial
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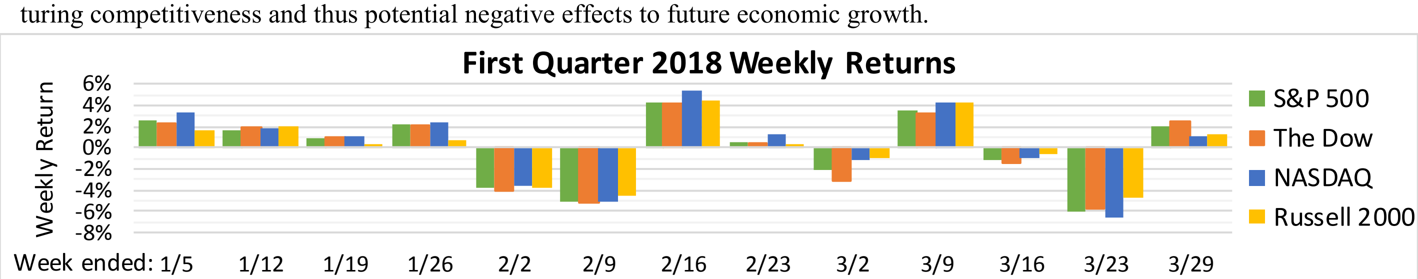
FIRST QUARTER 2018 MARKET & ECONOMIC REVIEW

Major Equity Market Indexes & Commentary

Index	Description	12/31/17	Low Close	High Close	3/31/18	QTD Return*
S&P 500	A market-capitalization weighted index of 500 large U.S. companies.	2,673.61	2,581.00	2,872.87	2,640.87	-1.22%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	24,719.22	23,533.20	26,616.71	24,103.11	-2.49%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	6,903.39	6,777.16	7,588.32	7,063.45	2.32%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,535.51	6,777.16	7,588.32	1,529.43	-0.40%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies.	22,764.94	20,617.86	24,124.15	21,454.30	-5.76%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,158.45	1,142.85	1,273.07	1,170.88	1.07%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom.	389.18	363.18	402.81	370.87	-4.70%

* Excludes effects of dividends — Sources: YCharts, Wall Street Journal

- Most major stock indices suffered losses during the first quarter of 2018. It was a roller coaster type of quarter that started off with large gains, only to see those gains erased and turned into losses by quarter-end. For instance, the widely followed Dow Jones Industrials Average (Dow) was up nearly 1,900 points or 7.7% by January 26th. The Dow then fell over 3,000 points to its low for the quarter on March 23rd, or a drop of 11.6% from the quarterly high. Such a drop of over 10% is often called a "Correction". Fears of global trade wars started by President Trump's steel and aluminum import tariffs weighed on stocks.
- The NASDAQ Composite, laden with large-cap technology stocks did manage to post a gain of 2.3% for the quarter. This index was up as much as 9.9% during the quarter, but only fell 8.4% from that high. News that Facebook (FB) allowed abuse of customer privacy weighed on this index during March.
- Small-cap stocks as represented by the Russell 2000 index were only down 0.1% for the quarter. As these companies are more U.S. domestic-focused, they are less impacted by the potential negative effects of global trade wars than their large-cap peers.
- Within S&P 500 sectors, only information technology and consumer discretionary had positive results for Q1. As previously mentioned, large-cap tech stocks had a good quarter, but you may wonder why consumer discretionary was positive given all the bad headlines regarding retailers these days The answer is that the sector's largest constituent is Amazon (AMZN), with a weighting of nearly 20% in that sector. AMZN, which is a GFC holding in most client portfolios, was up 24% in Q1. Without AMZN, the consumer discretionary sector would have also been down.
- Following its significant gains in 2017, the MSCI Emerging Markets Index was up 1.07% in Q1. This index is helped by its large weighting in technology stocks, which as noted above did well in the quarter, both in the U.S. and globally.
- European stocks as represented by the STOXX Europe 600 dropped 4.7% in Q1 while Japanese stocks as represented by the Nikkei 225 index were down 5.8%. Both the Euro and Yen have appreciated against the U.S. Dollar, causing concerns about manufacturing competitiveness and thus potential negative effects to future economic growth.



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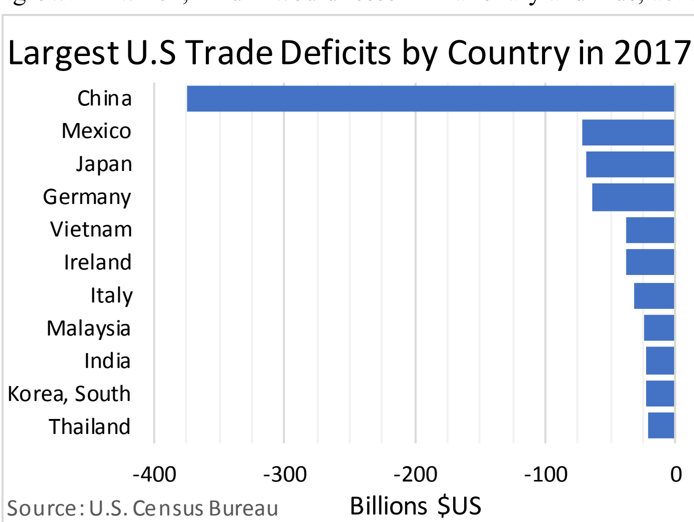
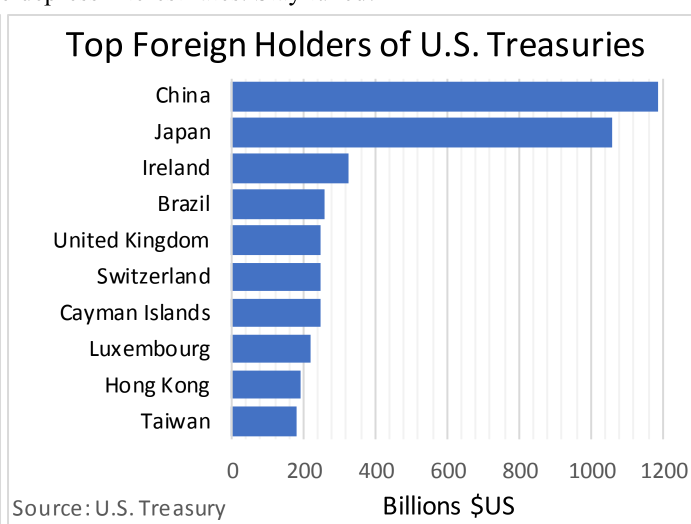
Fixed Income Rates & Commentary

Description	12/31/17	3/31/18	QTD Change in Basis Points*	Description	3/31/18	52-Week Range Low	52-Week Range High
90 Day Treasury Bill	1.39%	1.73%	↑ 34	Federal Funds Rate Target	1.50%-1.75%	0.75%-1.00%	1.50%-1.75%
10 Yr. Treasury Note	2.40%	2.74%	↑ 34	Prime Rate (U.S.)	4.75%	4.00%	4.75%
30 Yr. Treasury Bond	2.74%	2.97%	↑ 23	LIBOR (3-Month)	2.33%	1.15%	2.33%
15 Yr. Mortgage Rate	3.37%	3.86%	↑ 49	5-Year CD	1.67%	1.29%	1.67%
30 Yr. Mortgage Rate	3.92%	4.40%	↑ 48	New-car Loan (48mo)	3.72%	2.85%	3.72%

* One basis point is equal to 1/100th of 1%, or 0.01% Sources: YCharts, Wall Street Journal

- Bonds did not provide the "safe haven" status normally expected of them in times of turbulent equity markets. The 10-year treasury rate started the quarter at 2.4% and then increased by nearly one-half percent to a high of 2.94% before settling down to end the quarter at 2.74%. This resulted in most bond indices showing losses for Q1, with longer-dated corporate bonds having among the worst losses. The widely followed Barclay's Aggregate Bond Index Composite posted a loss for Q1 of 1.5%.
- The Federal Open Markets Committee of the U.S. Federal Reserve (the Fed) voted during its mid-March meeting to raise the Fed Funds Target Rate range by 25 bps to 1.50% to 1.75%. The fixed income markets had been expecting such a decision. This is the sixth rate hike since the Fed started raising the Fed Funds rates in late 2015. The Fed further signaled that two more rate hikes are likely this year, which would leave the target rate at a range of 1.75%-2.00% by year end. Some market commentators believe a third additional rate hike might be possible.
- The quarter ended with a war of words between the U.S. and China regarding trade tariffs and seems to be inching closer towards an all-out trade war. China threatened tariffs on U.S. exports of planes, cars and farm products, following the U.S. proposing tariffs on 1,300 various products imported from China. As seen in the chart below, China is the largest foreign holder of U.S. treasuries and this raises the possibility that they might also threaten to sell some of those holdings which would almost certainly cause a rise in U.S. interest rates. We think this is unlikely because it would cause unrealized losses on China's remaining U.S. treasury holdings.
- Any tariffs on imported goods are usually inflationary, which would of course put upwards pressure on interest rates. But, any trade war that might result from increasing levels of back and forth trade tariffs would almost certainly also be a risk to global growth - which, in turn would lessen inflationary and thus, act to depress interest rates. Stay tuned!





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Economic Indicators

Unemployment Rate	Description	12/31/17	3/31/18	QTD Change
Average Weekly Initial Claims for Unemployment Insurance	The number of new filings for unemployment insurance benefits. **Claims contiue to fall, reaching levels not experienced since the 1970s.** *Most economists believe claims below 300,000 indicate a healthy labor market environment.*	240,250	228,250	-5.0%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. **The unemployment rate remains at its lowest level since early 2001.** *The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%.*	4.1%	4.1%	0 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wages rose during the quarter, likely as a result of a tightening labor market. This suggests more disposable income for consumers.**	$919.08	$925.29	0.68%
Index of Consumer Sentiment	This index reflects consumer attitudes towards the state of the economy. **Consumer confidence rose during the quarter, setting a new post-recession high.**	95.9	101.4	5.74%
Manufacturers' New Orders for Consumer Goods and Materials (Millions) *	The number of new orders placed for consumer goods. **New orders increased, indicating higher demand for U.S.-produced consumer goods and validating high consumer confidence and low unemployment.**	$206,543	$208,413	0.91%
Manufacturers' New Orders for Nondefense Capital Goods, Excluding Aircraft (Millions) *	This index is the producer's counterpart of new orders of consumer goods and materials. **New orders for nondefense capital goods increased during the quarter, suggesting increased business confidence in the economy.**	$66,929	$67,684	1.13%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Capacity utilization increased, reflecting the growth in manufacturers' new orders.**	75.7%	76.4%	71bps

*These items are as of 2/28/18, the date of the most recently published statistics

Sources: YCharts, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor

U.S. Economic Health

- Initial Claims for Unemployment Insurance continued their downward trend, making post-recession lows during Q1.
- The unemployment rate ended the quarter at 4.1%, a rate that has held steady for 6 months in a row now. The 20-year low of 3.9% last seen in 2000 seem safe for the time being.
- As seen in the chart below, wage inflation continued its upward trend to near post-recession highs, approaching 3%. This will continue to put upward pressure on all inflation measures, including the widely followed Consumer Price Index (CPI). In turn, this will also put pressure on the Federal Reserve to continue with increases to its short-term Federal Funds rate, so as not to fall behind the inflation curve.
- As seen above, many widely followed measures of U.S. economic growth continue to be positive. The new tax law appears to have caused many consumers and companies to be more optimistic about the future.