Quarterly Market Review

First Quarter 2018

THE MILESTONE GROUP
Wealth Through Discipline

Asset Class Performance

First Quarter 2018

Volatility returned during the first quarter of 2018 driving down prices of most risk assets. Commodities outperformed once again with a modest return of 2.2%, but are still negative on an annualized basis for the previous 10 years. Emerging Market stocks recovered from the lows in February to post a positive return on the quarter, helped by a weakening US Dollar and stable commodity prices.

The Federal Reserve welcomed a new chair, Jay Powell, who continued the current tightening cycle by hiking the Federal Funds target range from 1.50% to 1.75% in March, which led to modest losses in bonds. MLPs underperformed the most with a loss of 11.6% for the quarter.

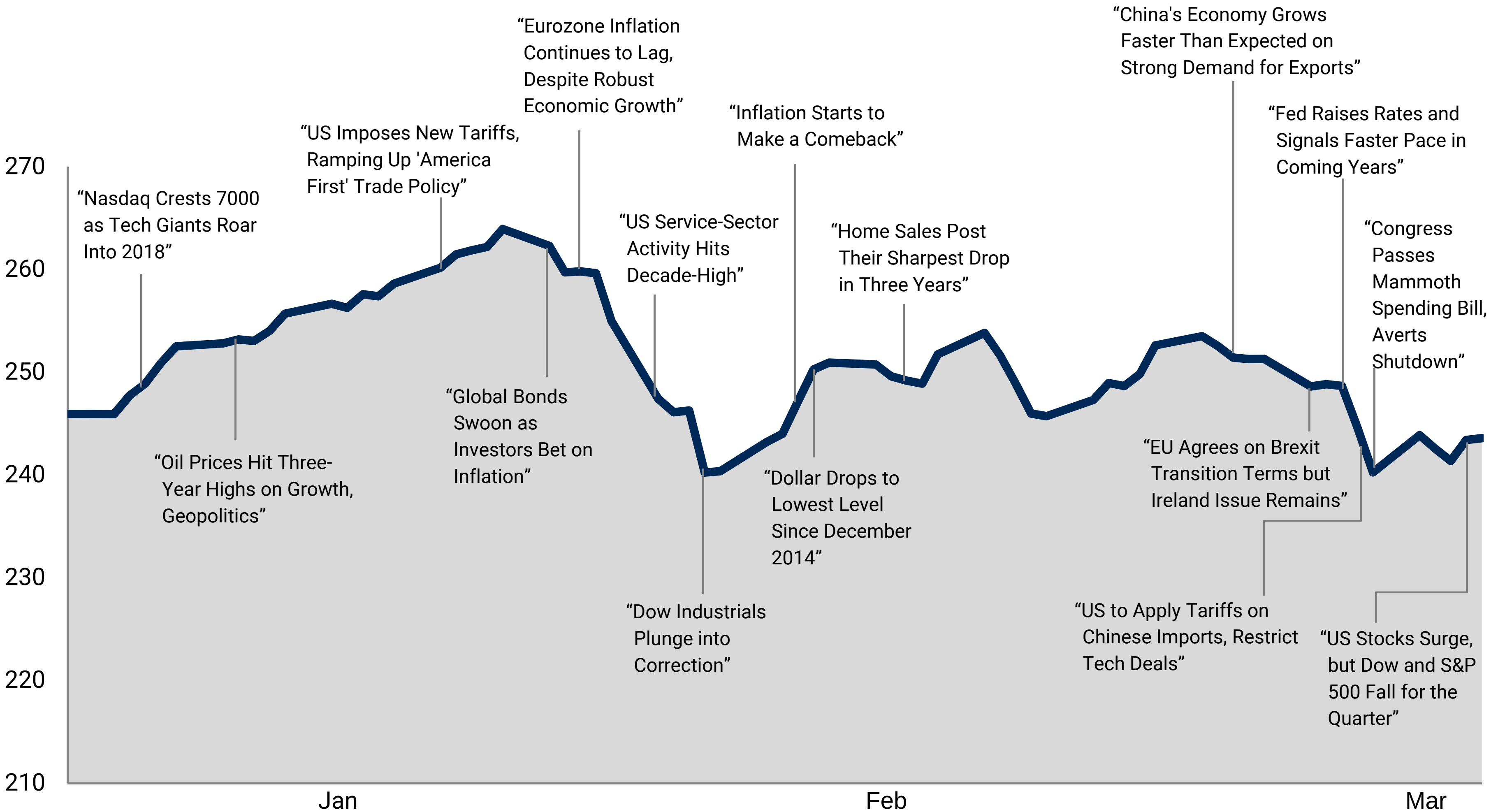
Asset Class	First Quarter 2018	Past 1 Year	Past 10 Years*
Commodities: GSCI	2.2%	13.8%	-10.8%
Emerging Market Stocks	1.4%	24.9%	3.0%
Foreign Hedged Govt. Bonds	0.4%	2.6%	3.7%
U.S. T-Bills / Cash	0.3%	1.1%	0.3%
U.S. Small Stocks	-0.1%	11.8%	9.8%
Short-Term U.S. Govt. Bonds	-0.2%	0.0%	1.1%
Foreign Small Stocks	-0.4%	19.7%	6.2%
U.S. Micro Cap Stocks	-0.7%	11.1%	10.5%
U.S. Intermediate Govt Bonds	-0.7%	-0.2%	2.2%
U.S. Large Stocks: S&P 500	-0.8%	14.0%	9.5%
U.S. Inflation Indexed Bonds	-0.8%	0.9%	2.9%
High Yield Bonds	-0.8%	3.7%	7.8%
Municipal Bonds	-1.1%	2.7%	4.4%
Foreign Large Value Stocks	-1.3%	17.5%	2.4%
Foreign Real Estate	-1.4%	10.1%	2.7%
Foreign Large Stocks	-1.5%	14.8%	2.7%
Corporate Bonds	-1.6%	0.4%	2.9%
Foreign Small Value Stocks	-2.3%	16.1%	5.9%
U.S. Small Value Stocks	-2.6%	5.1%	8.6%
U.S. Large Value Stocks	-2.8%	7.0%	7.8%
Long-Term U.S. Govt. Bonds	-3.2%	3.3%	5.7%
U.S. Real Estate	-6.7%	-1.1%	6.9%
Master Limited Partnerships	-11.6%	-20.6%	N/A

*Annualized

World Stock Market Performance [1]

First Quarter 2018

With selected headlines from Q1 2018



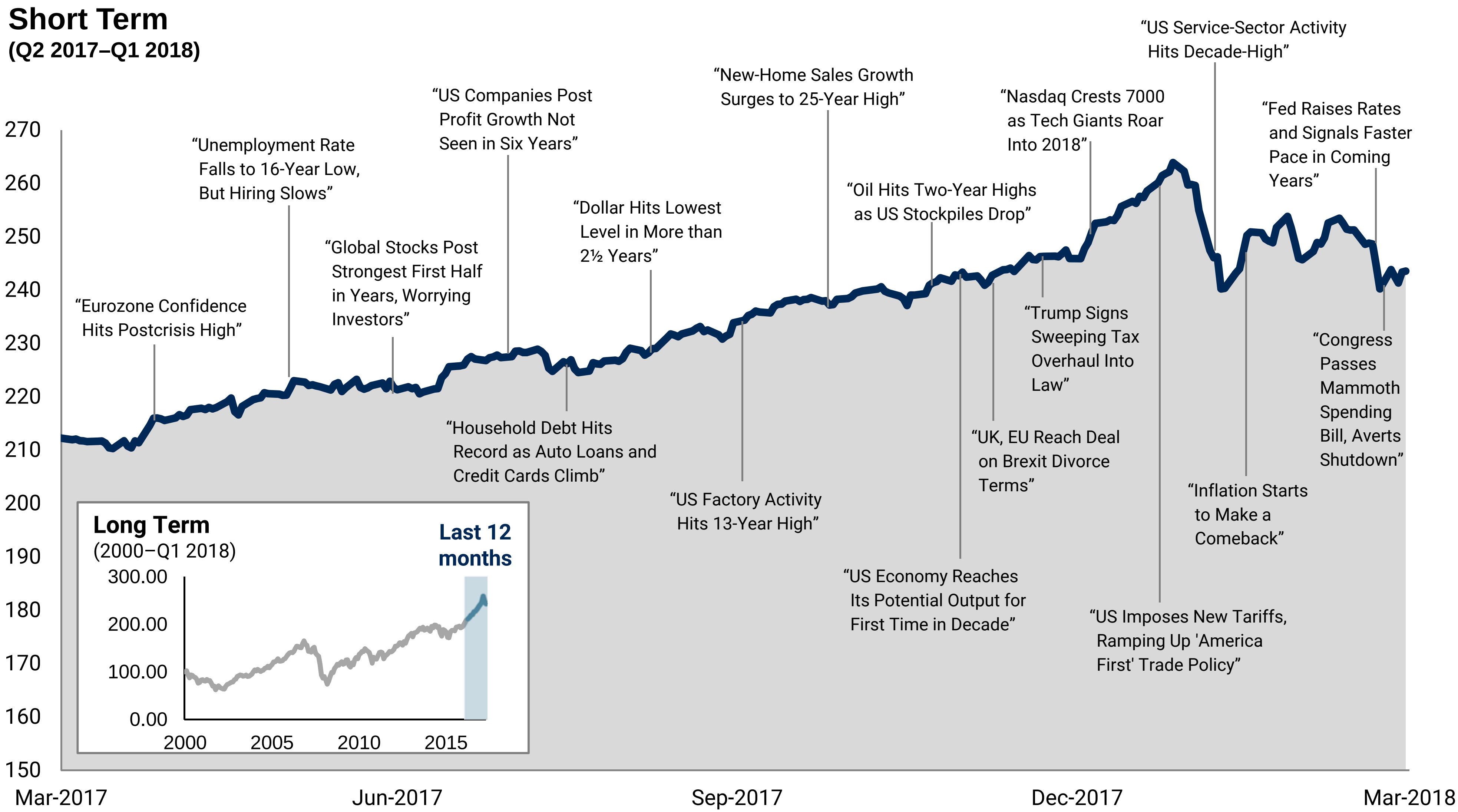
[1] MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2018, all rights reserved.

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news. Investors cannot invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance [1]

First Quarter 2018

With selected headlines for the past 12 months



[1] MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2018, all rights reserved.
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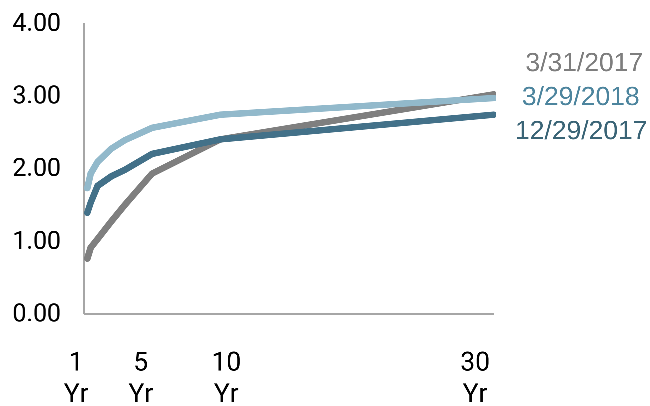
Interest rates increased in the US during the first quarter. The yield on the 5-year Treasury note rose 36 basis points (bps), ending at 2.56%. The yield on the 10-year Treasury note increased 34 bps to 2.74%. The 30-year Treasury bond yield rose 23 bps to finish at 2.97%.

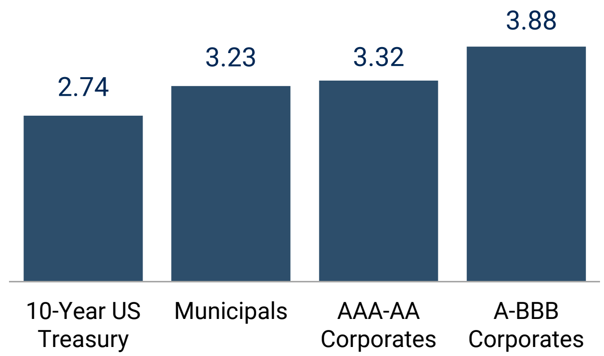
On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 1.63%, while the 1-year Treasury bill yield rose 33 bps to 2.09%. The 2-year Treasury note finished at 2.27% after a yield increase of 38 bps.

In terms of total return, short-term corporate bonds dipped 0.38% and intermediate corporates fell 1.50%. Short-term municipal bonds advanced 0.10%, while intermediate munis declined 1.29%. Revenue bonds performed in-line with general obligation bonds, declining 1.19% and 1.20%, respectively.

US Treasury Yield Curve (%) [2]



Bond Yields across Issuers (%) [3]



Period Returns (%) [4]

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Municipal Bond Index	2.66	2.25	2.73	4.40
Bloomberg Barclays US Aggregate Bond Index	1.20	1.20	1.82	3.63
Bloomberg Barclays US Government Bond Index Long	3.53	0.45	3.28	5.75
Bloomberg Barclays US High Yield Corporate Bond Index	3.78	5.17	4.99	8.27
Bloomberg Barclays US TIPS Index	0.92	1.30	0.05	2.93
FTSE World Government Bond Index 1-5 Years	5.77	2.36	-0.37	0.57
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	1.06	1.21	1.93
ICE BofAML 1-Year US Treasury Note Index	0.66	0.54	0.42	0.71
ICE BofAML 3-Month US Treasury Bill Index	1.11	0.53	0.34	0.34

Note: Data as of March 31, 2018. One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

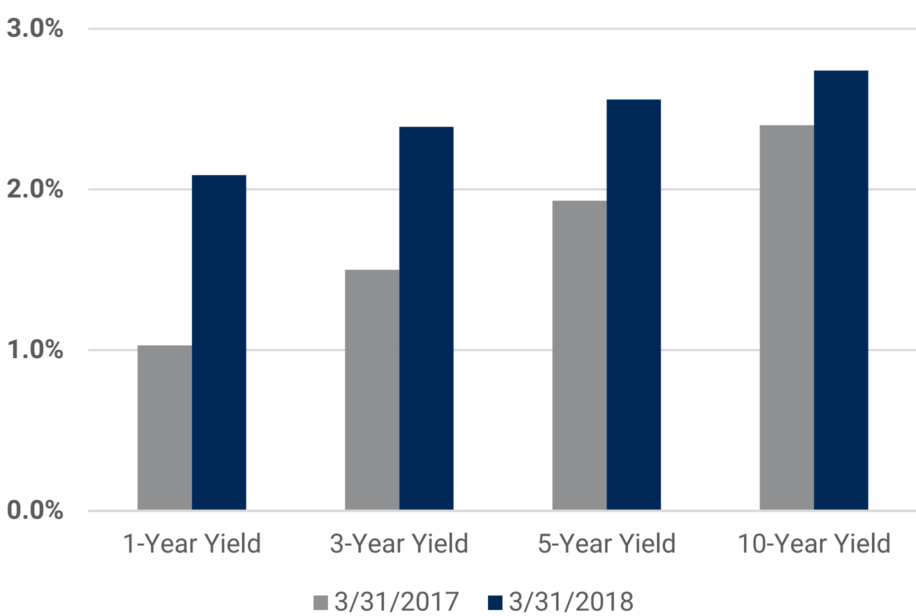
Rising Rates: Not Always Bad News

Higher Interest Rates

Equity markets surged in January, buoyed by ongoing strong economic data, robust earnings growth and optimism from the new tax cut package. Amid the jubilant market climate, both the S&P 500 and Treasury Bond Yields accomplished a rare feat by closing at simultaneous 52-week highs during January. In particular, one and three-year treasury yields soared, reaching their highest levels in over nine years.

Concerns of lower inflation abated as wage pressure and a continued rise in consumer prices pushed inflation expectations higher during the quarter. A weaker dollar, which can put upward pressure on domestic prices, also contributed to the spike in rates. Another contributing factor is markets are anticipating that the increased debt issuance by the Treasury department will require higher yields to entice investors into treasury bonds.

U.S. Treasury Bond Yields[5]



Rising Interest Rates and Stock Returns

As interest rates rose throughout the quarter, most equity markets fell in February and March, which rekindled fears that higher rates will drag down stock prices. Even an article in the New York Times remarked, “It’s long been a truism that higher inflation and its close cousin, higher interest rates, are deadly for stock prices.” [6] It is understandable that speculators could get spooked by rising rates due to the potential impact on corporate earnings and the possibility for fixed income securities to become more attractive, siphoning capital out of the stock market.

Examining historical data for periods in which the 10-year Treasury Bond Yield rose 1% or more since 1967 allows investors to observe how stocks fared during rising rate environments. The table on the following page captures over 50 years of data in a variety of macroeconomic conditions and illustrates stock returns during the periods when bond yields rose and three-year returns following peak yield levels. The data leads to the following observations about the relationship between rising rates and stock price returns.

- The average performance of the S&P 500 during past rising rate environments was 10.3%, almost in line with long-term stock returns.
- On a three-year basis, stock returns average 12.1%.
- Remarkably, stocks only fell during three periods while rates were rising and in two instances, losses exceeded 10%.
- The largest loss occurred during the 1973 to 1974 bear market as the economy absorbed two large macroeconomic shocks after the Bretton Woods monetary system disintegrated and the country faced the OPEC oil embargo.
- The second largest loss of 10.7% largely coincided with an economic recession and an oil price shock leading up to the Iraq invasion of Kuwait.

Note: Past performance is not a guarantee of future results.

Rising Rates: Not Always Bad News

During the most recent upswing in interest rates stock returns have followed a similar historical pattern. On the other hand, investors should exercise caution since the current monetary conditions differ greatly from the past. Global central banks used many unprecedented monetary tools that resulted in historically low interest rate levels to help economies heal from The Great Recession. As rates climb and normalize, investors could encounter higher levels of market volatility going forward if the economy experiences a bout of unexpected inflation. Higher interest rates could also raise borrowing costs that erode corporate profits and hurt consumer spending.

On the positive side, rising rates can be a sign of a healthy, growing economy. Analysts project corporate earnings among S&P 500 firms to log double digit gains for 2018, which could support future stock market gains.[7] The bump-up in rates can also benefit bond investors through higher levels of interest income, a key component of fixed income returns.

Concluding Thoughts

Historical data shows that stocks have delivered positive returns when interest rates rise. However, depending on other factors, such as geopolitical risks and potential changes in the global economic outlook, stocks could generate a wider range of outcomes. As students of market history, we know to expect the unexpected and one of the most effective tools to manage uncertainty is to maintain investment discipline through a broadly diversified portfolio of assets built to weather the inevitable market swings.

We hope this commentary is helpful and informative. We appreciate your confidence in our team as we help you grow and protect your financial security.

Stock Returns When Interest Rates Rise[8]

Rate Trough Month/Yr	Rate Peak Month/Yr	Starting Yield*	Ending Yield*	Stock Returns*	Following 3-Year Stock Returns*
3/67	1/70	4.5%	7.8%	2.4%	14.6%
3/71	8/73	5.7%	7.4%	6.2%	3.8%
12/73	8/74	6.7%	8.0%	-28.8%	15.1%
12/74	9/75	7.4%	8.4%	29.5%	11.9%
12/76	3/80	6.9%	12.8%	5.2%	20.6%
6/80	9/81	9.8%	15.3%	8.4%	18.5%
5/83	6/84	10.4%	13.6%	-1.3%	30.6%
1/87	10/87	7.1%	9.5%	8.1%	10.3%
12/89	9/90	7.8%	8.9%	-10.7%	18.1%
10/93	11/94	5.3%	8.0%	1.8%	31.1%
1/96	6/96	5.7%	6.9%	21.2%	29.1%
10/98	1/00	4.5%	6.7%	28.3%	-13.8%
10/01	3/02	4.6%	5.3%	23.2%	2.7%
6/03	5/06	3.3%	5.1%	11.6%	-8.5%
12/08	4/10	2.4%	3.9%	24.8%	12.8%
7/12	12/13	1.5%	2.9%	25.3%	8.9%
7/16	2/18	1.5%	2.9%	19.1%	?
Averages				**10.3%**	**12.1%**

* Yields represented by 10-Year Treasury Bonds; Stocks represented by S&P 500. Yields and returns based on monthly data. All stock returns are annualized.

Note: Past performance is not a guarantee of future results.

Disclosures/Endnotes

Asset class returns illustrated on page 1 are provided by Bloomberg and Ibbotson and utilize the following index or investment fund returns: U.S. Large Stocks: S&P 500 Index; U.S. Large Value Stocks: Russell 1000 Value Index; U.S. Small Stocks: Russell 2000 Index; U.S. Small Value Stocks: Russell 2000 Value Index; U.S Micro Stocks: DFA U.S. Micro Cap Fund; Foreign Large Stocks: MSCI EAFE Net Div. Free Equity Index; Foreign Large Value Stocks: DFA International Value Fund; Foreign Small Stocks: DFA International Small Company Fund; Foreign Small Value Stocks: DFA International Small Cap Value Fund; Emerging Market Foreign Stocks: IFC Emerging Markets Equity Index; U.S. Real Estate Stocks: NAREIT Investment Trust Index; Foreign Real Estate Stocks: Dow Jones Wilshire ex-U.S. International Real Estate Index; Master Limited Partnerships: Alerian MLP ETF; Others include: NASDAQ Composite; Cash: U.S. 90-Day Treasury Bills Index; U.S. Government Bonds: Bloomberg U.S. 1-3 Yr. Govt. Bond Index, Bloomberg U.S. 3-5 Yr. Govt. Bond Index, Bloomberg U.S. 10+ Yr. Govt. Bond Index; Inflation-Hedged Bonds: Barclays U.S. Inflation Linked Bond Index; Corporate Bonds: Lehman Brothers U.S. Corporate Index; High Yield Bonds: CSFB High Yield Bond Index; Foreign Government Bonds: JP Morgan GBI; Commodities: Goldman Sachs Commodity Index; Municipal Bonds: Barclays Capital Municipal Bond Index; Consumer Price Index.

Charts and graphs in this document are shown for illustration purposes only. They illustrate hypothetical scenarios that track stocks comprising the selected index and assume reinvestment of all dividends and other similar income. Indices are not investable securities. Although securities have been engineered to track indices, such securities charge management and administrative fees that reduce performance and compounding returns. Milestone's fees range from 0.25% to 1.00% per year depending on account size. The index returns illustrated would be lower if transaction costs and fees for asset allocation/financial planning advice were deducted. The information presented in this document has been developed internally and/or obtained from external sources, which The Milestone Group believes to be reliable; however, The Milestone Group cannot guarantee the accuracy, adequacy, or completeness of such information nor can we guarantee the appropriateness of any strategy referred to in this letter for any particular investor. Your situation is unique and your portfolio should not be managed based solely on the information in this letter. Economic forecasts reflect subjective judgments and assumptions, and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as discussed in this letter. This letter reflects the opinion of The Milestone Group on the date written and is subject to change at any time without notice.

ENDNOTES:

1 MSCI ACWI Index (USD) [net div.]. MSCI data © MSCI 2017, all rights reserved.
2 Federal Reserve.
3 State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated.
4 Bloomberg; US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. The S&P data are provided by Standard & Poor's Index Services Group.
5 Federal Reserve.
6 Steward, James B. "Inflation and Stocks Are Both Up, and That's Stirring Some Worries." *The New York Times* 15, Mar. 2018.
7 Standard & Poor's.
8 Yields and stock returns are based on monthly data; Yield index is the10-Year Constant Maturity Rate from the Federal Reserve; Stock return index is the S&P 500 from Dimensional Fund Advisors; All stock returns are annualized.

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