GIBRALTAR
FINANCIAL, LLC

QUARTERLY MARKET COMMENTARY

1st Quarter - 2018

As stock market volatility picks up, it's shaping up to be an interesting year for investors.

- Hedgeye Risk Management, LLC

REVIEW OF Q1 2018

The first quarter of 2018 most definitely saw a comeback in volatility. For the entire year in 2017, the S&P 500 ETF (ticker SPY) did not have a move of more than 2%, positive or negative. In the first three months of 2018, the SPY has already had more than eight such movements, the largest coming on February 5th where the S&P 500 ETF closed more than -4%.

For the 1st Quarter, the major stock market indexes finished as follows:

- SPDR S&P 500 ETF (SPY): -0.78%
- SPDR Dow Jones Industrial Average ETF (DIA): -2.01%
- Powershares QQQ ETF (QQQ – Tracks the NASDAQ 100): 3.09%
- iShares MSCI EAFE ETF (EFA – Measures International Developed stocks): -1.79%
- SPDR S&P Mid Cap 400 ETF (MDY – Measures Mid-Cap stocks in the US): -0.84%
- SPDR S&P 600 Small Cap ETF (SLY – Measures Small-Cap stocks in the US): 0.55%
- SPDR Aggregate Bond ETF (SPAB): -1.79%

The point of this exercise is to show that broadly, neither stocks nor bonds had positive returns through the first quarter, and the ride was a bumpy one, to say the least!

Dating back to the 3rd quarter of 2016, the US has seen 7 quarters of successive year-over-year GDP growth, something that has never happened before. Historical lows in realized volatility (which measures bumpiness of the ride, or lack thereof) in US markets coupled with a long cycle of GDP growth acceleration and very strong earnings growth provided a nice tailwind and drove stock prices to all-time highs throughout 2017 and into 2018.

While it's important to understand what drove markets higher in 2017 and through part of the first quarter of 2018, the more important question is what will drive markets in 2018?

Q2 2018 OUTLOOK

Could 2018 be the awakening of the bear? While 2018 is the Year of the Dog according to the Chinese zodiac, the elevated level of volatility in the market and aging economic cycle could usher in a different type of animal…

Fundamentals are holding tight for the current time, however, it is hard to argue that markets are not trading at elevated valuations, by any measure. One preferred measure of valuation, the Shiller CAPE, which in short measures P/E ratios adjusted for inflation, is now at its 2nd highest level ever, trading at a distant 2nd to the extreme levels of the tech bubble in the late '90s and early '00s. This by no means is a sign to run for the hills, however, we do view cash as an asset class and think it smart to use cash as a tool to preserve capital and manage volatile markets.

If you have any questions or would like to talk more in depth on our views, please feel free to call or email us directly.

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