



A Motley Start to 2018

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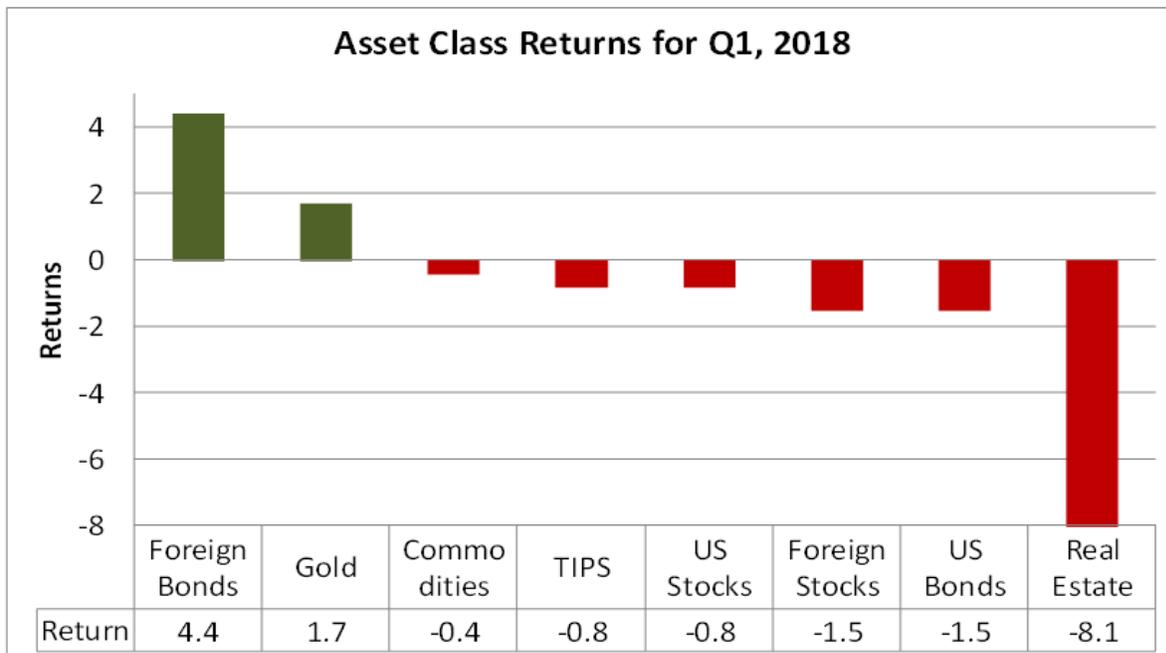
- With a few exceptions, most asset classes had small losses in the first quarter.
- In the U.S. stock market value stocks lost value while growth stocks grew.
- Growth stocks also led in foreign stock markets, and Latin America was the best performing region while Canada was the worst performing.

If something cannot go on forever, it will stop. [Herbert Stein](#) Economist

In the following commentary we review capital market performances around the world in the first quarter of 2018. For a longer term perspective over the past 92 years please see our [end of year 2017 commentary](#).

Asset Class Performance in Q1 2018

Most asset classes began the year with small losses. The exceptions were foreign bonds and gold with 4.4% and 1.7% returns respectively, and real estate with an 8.1% loss.



Source: The Capital Spectator

U.S. Stock Market

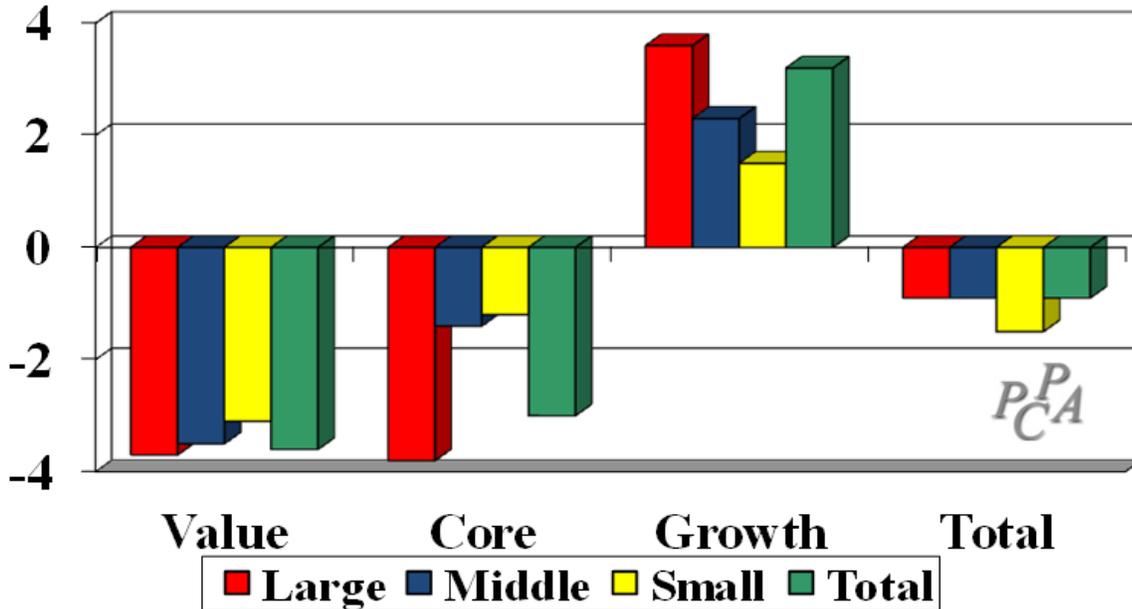
The U.S. stock market lost 0.8% in the first quarter, breaking a 9-quarter winning streak.



Source: Lance Roberts in *"The Correction Continues"*

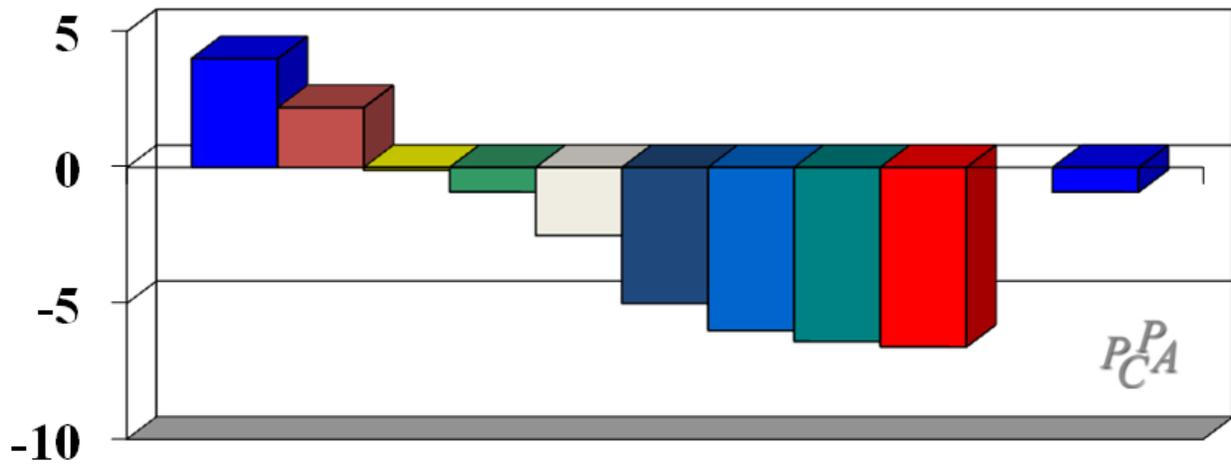
On the style front, value stocks lost 3.6% while growth stocks earned 3.2%, and large companies performed better than smaller companies. We use [Surz Style Pure](#)[®] classifications throughout this commentary.

Style Returns for Q1 2018



On the sector front, InfoTek and Consumer Discretionary were the only sectors with positive returns.

Sector Returns for Q1 2018



- InfoTek
- Discretionary
- Industrial
- Health
- Finance
- Materials
- Tel&Util
- Staples
- Energy
- Total

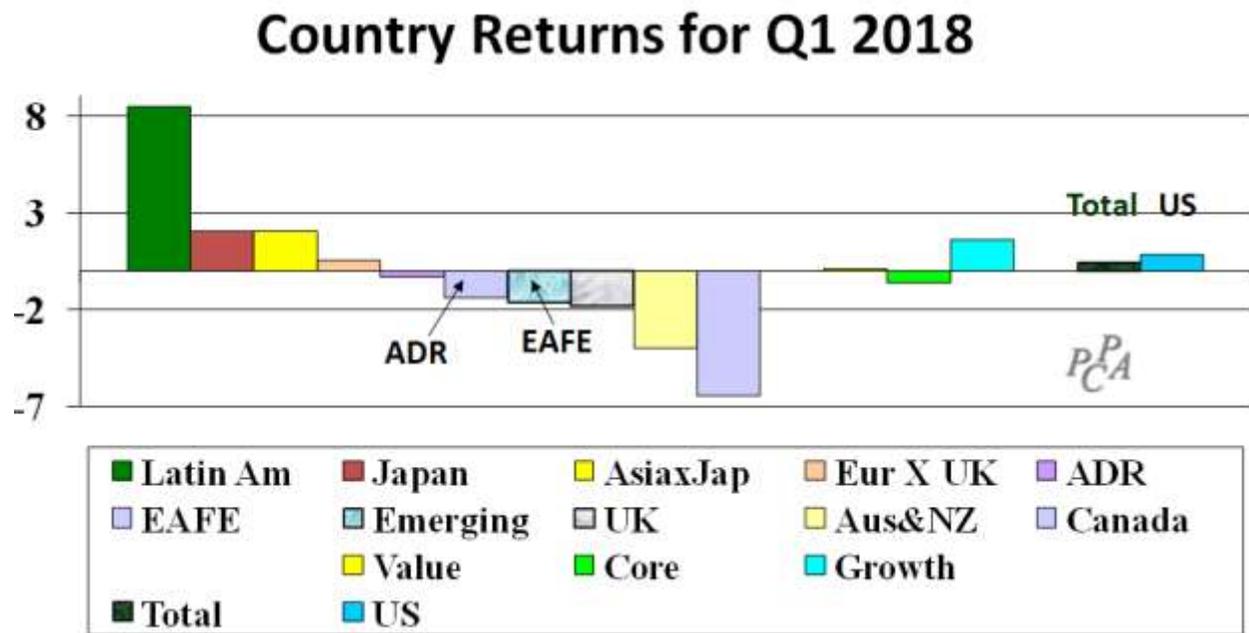
Drilling deeper into US market segments, the following heat map shows performance within style-sector cross-sections, where we see that small-cap growth technology (TECH) and large-cap growth consumer discretionary (DISC) performed best with 12.5% returns, while mid-cap core energy (ENER) stocks lost the most, with a 22.5% loss. There was a wide 35% spread between the best and worst market segments.

	STAP	DISC	HLTH	MATL	TECH	ENER	INDU	UTEL	FINC	TOTL
LrgVal	-10.3	0.3	0	-3.3	9.9	-8.3	-9.9	-6.2	-2.8	-3.7
LtgCor	-6.7	-6	-5	-6.5	-1.1	-13	-3.5	11.3	1.8	-3.8
LrgGro	1.9	12.7	-0.7	1.7	2.9	1	5.1	-3.9	0	3.6
MidVal	-0.9	-3.8	6.4	-3.1	8	-10.1	-3.2	-3.7	-3.8	-3.4
MidCor	-2.6	-4.4	3.3	-4.6	4.9	-22.5	-2.1	-4.4	-0.9	-1.4
MidGro	-1.3	0.1	1.9	-8.5	9.8	-2.7	3.1	-3	-1.9	2.3
SmlVal	1	-3.3	-2.9	-1.8	1.4	-11.2	-3.6	-7.7	-1.9	-3.1
SmlCor	-7.8	0.3	5	-9.7	2.3	-11.8	-3.8	0.4	1.7	-1.1
SmlGro	-9.4	-5.8	3.9	-8.1	12.5	-10.3	-2	-3	4.4	1.4
Total	-6.7	2.2	-0.2	-4.8	4	-7.3	-1.9	-4.7	-2	-0.9

Foreign Stock Markets

Looking outside the U.S., foreign markets eked out a 0.4% return, exceeding EAFE's 1.4% loss but lagging the U.S. stock market's 0.8% return. Like the U.S., growth stocks were the best performing.

Latin America dominated with an 8.5% return. Canada was the worst performing country with a 6.5% loss.



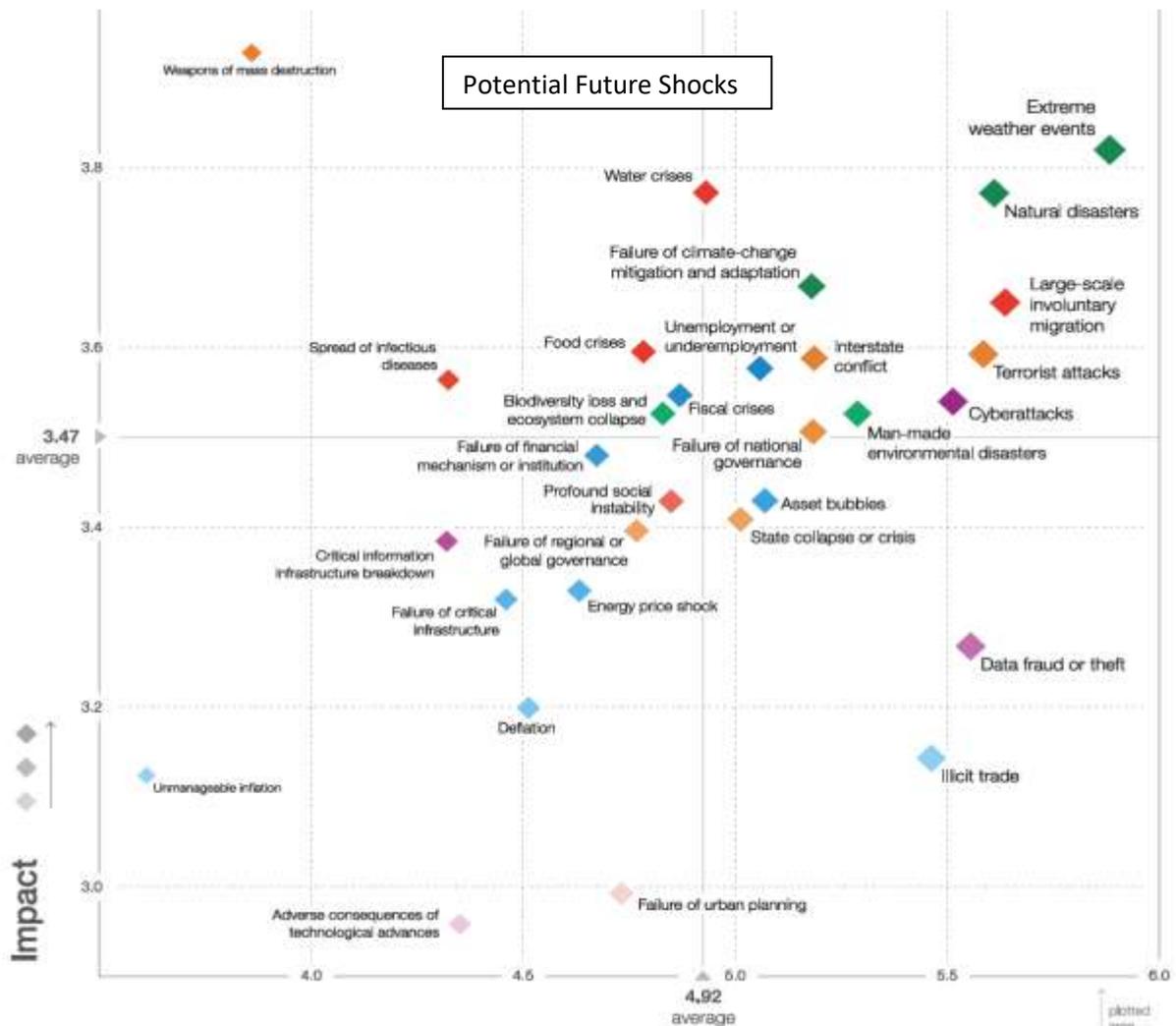
On the style front, growth stocks performed best with a 1.6% return, while core and value stocks suffered minor losses.

Looking in more detail in the following heat maps, the best performing segments were Financials in Latin America and Healthcare in Asia x Japan (China) with 10.5% returns. The worst performing segment was Healthcare companies in Canada with a 12% loss..

	STAP	DISC	HLTH	MATL	TECH	ENER	INDU	UTEL	FINC	TOTL
LrgVal	-6.2	-1.1	-2.7	-1	4.5	-0.3	-2.2	-2.1	-0.3	0
LtgCor	-1.7	-2	0.2	-3.2	1.2	-9.3	-2.2	-4.4	-0.7	-1.3
LrgGro	-0.7	3.4	5.4	-2.8	-0.1	2	0.5	0.6	0.2	1.8
MidVal	0.7	-2.7	-2.6	-0.2	0.8	-0.8	-1.5	0.4	0.6	0.1
MidCor	1.8	1.1	2.2	-1.2	3.6	-2.2	-0.6	-2.6	4.1	1.1
MidGro	-3	-0.5	8.3	-3.5	6.3	-2.3	-1.1	-2.7	-2	1.6
SmlVal	1.1	0	4	-1	1.5	-2.6	0.6	1.8	2.2	1.5
SmlCor	-0.4	0.8	7	-2.4	0.5	-1.6	1.2	-3.5	-0.9	0.1
SmlGro	-1	-1.9	4.8	-3.5	2.8	-1.8	-3.3	-3.5	0.9	0.1
UK	-8.9	-2	3.5	0.8	-1.9	-4.9	0.1	-9.1	-2.3	-1.7
JAPN	3.8	1.8	6.8	-3.8	3.1	-3.1	1	3.4	0.5	1.9
CANA	-8	-7.6	-12	-6.8	5.5	-11.2	-5.5	-11.3	-6.2	-6.5
AUST	1.5	-3	3.3	-5.2	-2.9	-7.6	-4.7	-8.4	-7.3	-4.1
APXJ	-1.4	0.9	10.3	0	3	1.8	-1.4	-2.8	0.8	1.7
EURO	0.6	1.2	-1.8	-3.6	3.5	2.5	-0.3	1.7	0.1	0.5
EMRG	-1.6	-6.2	-8.7	-3.2	-2.2	3.5	-4.8	-2.4	0.8	-1.6
LATN	-3.2	0.8	-5.3	5.8	1.2	9.3	-0.5	5	10.9	8.6
OTHR	-0.4	-0.8	2.1	-3.7	-0.9	-1.6	-3	4.6	6.1	1.3
TOTL	-1.2	0.1	2.4	-1	2.6	1.4	-0.5	-0.6	0.7	0.4
	STAP	DISC	HLTH	MATL	TECH	ENER	INDU	UTEL	FINC	
LrgVal	-6.2	-1.1	-2.7	-1	4.5	-0.3	-2.2	-2.1	-0.3	
LtgCor	-1.7	-2	0.2	-3.2	1.2	-9.3	-2.2	-4.4	-0.7	
LrgGro	-0.7	3.4	5.4	-2.8	-0.1	2	0.5	0.6	0.2	
MidVal	0.7	-2.7	-2.6	-0.2	0.8	-0.8	-1.5	0.4	0.6	
MidCor	1.8	1.1	2.2	-1.2	3.6	-2.2	-0.6	-2.6	4.1	
MidGro	-3	-0.5	8.3	-3.5	6.3	-2.3	-1.1	-2.7	-2	
SmlVal	1.1	0	4	-1	1.5	-2.6	0.6	1.8	2.2	
SmlCor	-0.4	0.8	7	-2.4	0.5	-1.6	1.2	-3.5	-0.9	
SmlGro	-1	-1.9	4.8	-3.5	2.8	-1.8	-3.3	-3.5	0.9	

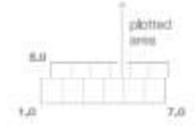
So Far, So Good, Until...

It's easy to slip into a sense of comfort, enjoying the great ride we've had for the past 9 years, so this quarter's minor disappointments should serve as a cautionary alert. Importantly, nothing that bad has happened, yet, but there are bad things lurking on the horizon as shown in the following graph from the World Economic Forum. The graph shows the sources, magnitudes and likelihoods of potential future shocks. For example, "Extreme weather events" has a high Likelihood because hurricanes and firestorms have already decimated several U.S. cities and territories; and the Impact is high because the costs of recovery are enormous.



- Likelihood**
- Top 10 risks in terms of Likelihood
- ◆ Extreme weather events
 - ◆ Large-scale involuntary migration
 - ◆ Natural disasters
 - ◆ Terrorist attacks
 - ◆ Data fraud or theft
 - ◆ Cyberattacks
 - ◆ Illicit trade
 - ◆ Man-made environmental disasters
 - ◆ Interstate conflict
 - ◆ Failure of national governance

- Impact**
- Top 10 risks in terms of Impact
- ◆ Weapons of mass destruction
 - ◆ Extreme weather events
 - ◆ Water crises
 - ◆ Natural disasters
 - ◆ Failure of climate-change mitigation and adaptation
 - ◆ Large-scale involuntary migration
 - ◆ Food crises
 - ◆ Terrorist attacks
 - ◆ Interstate conflict
 - ◆ Unemployment or underemployment



- Categories**
- ◆ Economic
 - ◆ Environmental
 - ◆ Geopolitical
 - ◆ Societal
 - ◆ Technological

Source: World Economic Forum Global Risks Perception Survey 2016
 Note: Survey respondents were asked to assess the likelihood of the individual global risk on a scale of 1 to 7, 1 representing a risk that is not likely to happen and 7 a risk that is very likely to occur. They also assess the impact on each global risk on a scale of 1 to 5 (1: minimal impact, 2: minor impact, 3: moderate impact, 4: severe impact and 5: catastrophic impact). See Appendix B for more details. To ensure legibility, the names of the global risks are abbreviated; see Appendix A for the full name and description.