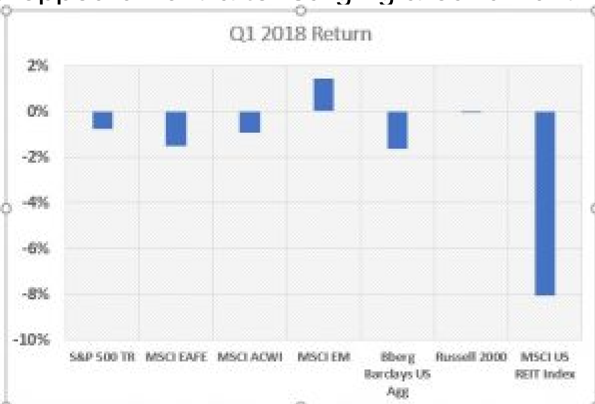
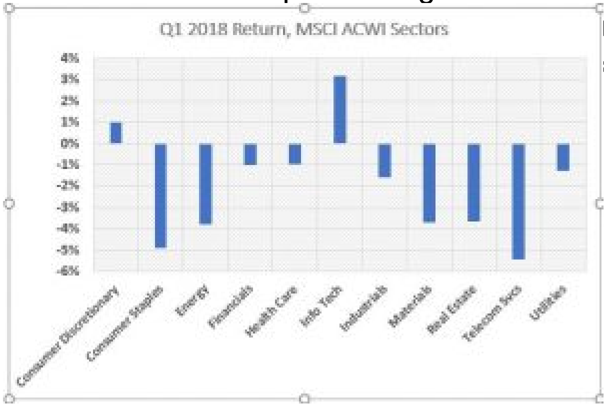
A Bloomberg review of the quarter asked ?[Is Nowhere Safe?]? The headline had a point. Both stocks and bonds declines for the First Quarter of 2018 with higher interest rates weighing on both asset classes. The S&P 500 Index dropped 0.76% after surging around 10% from the 2017 close in January. February and March broug Still, damage was minimal, and investors still have the ations without having to do so under the stress of losses.



Developed country stocks also dropped with the MSCI EAFE Index losing 1.53% for the quarter in dollar terms. Emerging markets stocks were the bright spot with the MSCI EM Index gaining 1.42% for the quarter. Among the global sectors, information technology led the way. The sector posted a nearly 4% gain. Telecom Services and consumer staples were the losers, each posting losses of around 5%. Consumer staples usually hold up in market downturns, and it?s surprising to see them down so much. Their decline may reflect their overvaluation, as investors have piled into dividend-paying stocks that have traditionally been less volatile. Low beta or low volatility ETFs that often hold these stocks have also captured large amounts of cash as investors have sought yield from stocks and



ıt has traditionally been the least painful way. Investors ks up so high that they are leading the downturn.

Bonds also dropped in the first quarter. The Bloomberg Barclays US Aggregate Index closed down 1.64%. The yield on the 10-Year US Treasury went from less than 2.45% to more than 2.7%, and spent considerable time in the 2.8%-2.9% range. The yield on the 2-year US Treasury went from 1.9% to more than 2.2%. So rates are rising at the same time the yield curve or difference in yield between the 2-year and 10-Year Tresuries is flattening. Rates increase typically result from bullishness on the economy, while a flat curve indicates bearishness. Corporate bonds also declined. The iShares Investment Grade Corporate Bond ETF (LQD) lost 2.9C cepting credit risk. The yield spread on A-rated corpora s points to more than 95 basis points during the quarter.

High yield spreads also increased, but less dramatically, from less than 3.6 percentage points to more than 3.7 percentage points. However, one of the largest floating rate bond fund, the $11 billion Fidelity Floating Rate High Income Fund (FFRHX), posted a 1.17% gain. Floating rate loans or bank loans are first lien loans of corporations whose credit is generally rated below investment grade. Investors in them are first in line in case of trouble, and they offer coupons that float with Libor (London Interbank Offer Rate), so they provide a measure of inflation protection. They often do well in rising rate environment, but excessively rising rates can spell trouble for them, as the companies behind them have limits on what they can pay. The bond market is also sending some mixed signals. Rates are rising, and investors anticipate hikes by the Federal Reserve, but the yield curve is also flattening. And a flat or inverted curve has a good record of forecasting recession. Impending recession or not, volatility has returned after a long absence in 2017 when every month saw a gain in stocks (the first time in history that happened). Perhaps a time of reevaluation has arrived for investors, as they rediscover the virtues of holding some cash in an environment where almost everything else is down.