

Economic Review

Economic worries returned in the first quarter as concerns increased about a trade war escalation, mounting debt, higher interest rates, and higher inflation. Nevertheless, the underlying economy continues to show strength and economic indicators still point in a positive direction. The Conference Board Leading Economic Index (LEI) rose again in the latest reading, despite a sharp downturn in stock markets and weakness in housing construction in February. The LEI six-month growth rate has not been this high since the first quarter of 2011 and points to robust economic growth throughout 2018.

As widely expected, the Federal Reserve met in March and raised the Fed Funds Target Rate by 25 basis points on the strength of the U.S. economy.

Headline inflation, as measured by the Consumer Price Index (CPI), rose 0.2% in February and 2.2% over the last 12 months. All six major grocery store food group indexes declined. The energy index increased 0.1% in February and rose 7.7% over the past year. Core inflation, which excludes food and energy, has remained at an annual rate of 1.8% for the past three months.

US economic growth increased at an annual rate of 2.9% in the fourth quarter of 2017 according to the Bureau of Economic Analysis real gross domestic product (GDP) report. GDP had exceeded 3% in each of the prior two quarters.

The unemployment rate remained unchanged for the fifth consecutive month at 4.1% in February, according to the U.S. Bureau of Labor Statistics. Employment rose in construction, retail trade, professional and business services, manufacturing, financial activities, and mining. The number of unemployed persons was little changed at 6.7 million.

The University of Michigan Surveys of Consumers Sentiment Index reached the highest level since 2004, and the Current Conditions Index set a new peak, dating back to the mid-1940s. The March gain in sentiment was primarily among lower income households with higher income households citing significantly greater concerns with government economic policies, especially trade policies. The consensus expectation among consumers is that interest rates will increase in the foreseeable future.

Financial Markets Review:

Domestic Stock Market

It was a wild ride in the first quarter as volatility came screaming back into the market. The S&P 500 soared in January, up 5.73%. A gut-wrenching February followed as the markets entered the correction zone dropping over 10% from their high. When the dust finally settled, the S&P was negative 1.22% (excluding dividends) for the first quarter at 2,640.87. Among other major averages, the Dow Jones Industrial average closed the quarter down 2.49% to 24,103.11, while the technology heavy NASDAQ Composite ended the quarter up 2.32% at 7,063.44. During the quarter, on March 9, the U.S. equity market celebrated the 9th year since the market bottom of the great recession. During this period the S&P 500 rose almost fourfold.

Only two of the 11 sectors in the S&P 500 posted positive returns in the first quarter. Information technology advanced 3.53% and consumer discretionary gained 3.09%. The hardest hit sectors were telecom services dropping 7.48% and consumer staples declining 7.12%.

Among capitalizations, the S&P SmallCap 600 Index managed a positive return of 0.57% while mid-cap and large-cap stocks fell. The growth style continued its domination over value in the first quarter and both large and small growth styles posted positive returns while their value counterparts were down for the quarter.

The top-performing stocks in the Dow Jones Industrial Average for the first quarter included Intel (+12.8%) Cisco Systems (+12.0%) and Boeing (11.2%). Detractors included General Electric, plunging 22.8%, followed by Procter & Gamble (-13.7%) and Exxon Mobil (-10.8%).

The best performing S&P industry groups for the quarter were broadline retailers (+15.1%), travel & tourism (+15.0%), and specialty retailers (+13.1%). The worst performers were consumer electronics (-24.4%) diversified REITs (-18.6%) and tires (-17.6%).

Looking ahead, the economy remains on solid footing against a backdrop of positive global economic growth combined with strong earnings momentum. Rising risks that could derail the markets include geopolitical events, tariffs and trade wars that could impair global growth and investor sentiment, the possibility of a yield curve inversion if the Federal Reserve follows a more aggressive interest rate hike path, and the buildup of debt and increasing deficits leading to a higher inflationary environment and tepid productivity growth.

Category/Style	Total Returns (03/31/18)			Annualized Returns (03/31/18)		
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500	-0.76	-0.76	13.99	10.78	13.31	9.49
S&P Midcap 400	-0.77	-0.77	10.97	8.96	11.97	10.90
S&P Small Cap 600	0.57	0.57	12.68	10.76	13.56	11.35
Russell 1000 Large Cap Growth	1.42	1.42	21.25	12.90	15.53	11.34
Russell 1000 Large Cap Value	-2.83	-2.83	6.95	7.88	10.78	7.78
Russell 2000 Small Cap Growth	2.30	2.30	18.63	8.77	12.90	10.95
Russell 2000 Small Cap Value	-2.64	-2.64	5.13	7.87	9.96	8.61

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

The MSCI All Country index record of advancing 15 straight months was snapped in February. Still, synchronized global expansion and strong fundamentals around the world remain a favorable backdrop moving forward, although trade protectionism is a threat to continued global growth. It is now just one year until the U.K. divorce from the European Union known as Brexit.

The MSCI EAFE Index of developed markets followed the US markets lower in the first quarter sliding 1.53%. Emerging and frontier markets fared better for the period with emerging markets gaining 1.42% and frontier markets surging 5.10% according to their respective MSCI indexes.

For the quarter, the Euro Stoxx 600 Index lost 4.70% to 370.87 in local currency. Germany's DAX Index tumbled 6.35% to 12,096.73. France's CAC-40 Index slipped 2.7% to 5,167.30. And the effect of impending Brexit weighed on the UK as the London FTSE 100 Index tanked 8.21% to 7,687.77.

In Asia, Japan's Nikkei stock average slumped 5.76% to 21,454.30. In emerging markets, China's Shanghai Composite Index lost 4.18% to 3,168.90 and India's S&P BSE Sensex index slid 3.19% to 32,968.68

The Americas DJ Americas index was off 1.27% for the quarter to 634.00. Brazil's Sao Paulo Bovespa Index rocketed 11.7% to 85,365.56. Canada's S&R/TSX composite index dropped 5.19% to 15,367.29 and Mexico's S&P/BMV IPC Index sank 6.54% for the quarter to 46,124.85.

Top performing countries (in \$U.S.) based on the S&P Global BMI were Vietnam (+22.2%), Kenya (+19.4%), and Romania (+18.7%). Laggards included the Philippines (-10.1%), Bangladesh (-10.0%) and Oman (-8.7%).

The dollar continued to slump against world currencies in the first quarter falling 2.59% according to the WSJ Dollar Index. The dollar fell 5.69% against the yen, ending the quarter at 106.24 (JPY/USD) and was also 2.58% weaker versus the euro at \$1.23 (USD/EUR).

World Bond Markets

The U.S. 10-year note yield marched higher in the first quarter posting its third consecutive quarterly gain. The 10-year yield reached a four-year high at 2.94% in February before falling to 2.74% at the end of the quarter. The yield curve flattened only slightly with the spread between the 2-year and 10-year bond at 47 basis points allaying fears of an imminent yield curve inversion.

As bond yields rose bond returns declined. For the quarter, the Barclays U.S. Aggregate Bond Index dropped 1.46% and the Barclays U.S. Treasury TIPS Index fell 0.79%. The Barclays Municipal Index lost 1.11%, marking its worst quarterly loss in 15 years. The 7-day yield on money funds climbed to 1.44% according to the Crane 100 Money Fund index. Yields on foreign bonds rose in the first quarter, with the 10-year bond yield up 0.20% in the UK to 1.37%, ahead 0.14% to 2.12% in Canada and up 0.11% to 0.50% in Germany. Yields slipped 2 basis points to 0.04% in Japan.

Commodities

Commodities moved generally upward in the first quarter. The Bloomberg Commodity Index edged 0.91% higher to 631.07. Among individual commodities, cocoa vaulted 35.10% for the quarter while at the other extreme lean hogs plunged 20.24%. Gold advanced 1.26% to \$1,322.80/troy oz., and crude oil jumped 7.48% to \$64.94/barrel. The national average price of gas according to AAA was \$2.65 at the end of March. The highest recorded average price of gas was \$4.11 in July 2008.

Mutual Funds/Exchange-Traded Funds

The increasing popularity of passive investing and low cost Exchange-Traded Funds (ETFs) continues with 142 new ETF funds added to the ranks in the past 12 months bringing the total to 1,878. \$738 billion in net growth over the past year brings the total in ETF assets to \$3.5 trillion as of February 2018 according to the Investment Company Institute. Mutual funds showed asset growth of 11.45% over the same period to \$18.8 trillion, but witnessed a decline of 152 funds to 7,963.

MUTUAL FUNDS OVERVIEW AS OF MARCH 31, 2018

Category	Total Returns		Annualized Returns			
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed	-1.05	-1.05	2.11	1.71	2.06	3.59
Short Taxable Bond	-0.34	-0.34	0.75	1.09	1.03	2.21
Intermed. Taxable Bond	-1.33	-1.33	1.32	1.29	1.75	3.86
Long Taxable Bond	-2.48	-2.48	4.80	2.71	4.10	6.39
High Yield Bond	-0.98	-0.98	3.19	3.87	3.81	6.67
World Bond	1.13	1.13	5.85	2.80	1.43	3.05
Small-Cap Blend	-0.96	-0.96	9.63	7.19	10.28	9.16
Mid-Cap Blend	-1.03	-1.03	10.22	6.58	10.37	8.83
Large-Cap Blend	-1.00	-1.00	12.78	8.89	11.68	8.57
World Large Stock	-0.42	-0.42	14.99	7.79	9.24	5.81
Foreign Large Blend	-0.85	-0.85	15.19	5.77	6.25	2.71
Natural Resources	-4.39	-4.39	8.50	3.54	1.02	0.65
Real Estate	-6.94	-6.94	-2.33	1.15	5.55	5.89

Source: Morningstar Category Returns, Morningstar, Inc.

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Must be accompanied by important definitions and disclosures on pages 3-4.

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The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommendation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.

Gross Domestic Product (GDP) is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). **Real Gross Domestic Product** (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The **S&P/Case-Shiller Home Price Indices** are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **Consumer Price Index (CPI)** measures prices of a fixed basket of goods bought by a typical consumer. It is widely used as a cost-of-living benchmark and uses January 1982 as the base year. The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. The **Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. The **Michigan Consumer Sentiment Index** was created in the 1940s is conducted by the Survey Research Center and consists of at least 500 telephone interviews posed to a different cross-section of consumers in the continental U.S. each month. The survey questions consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. **Price-earnings (P/E) ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index (S&P600)** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index (S&P400)** is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly \$750 million to \$3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **NAREIT Equity Index** is comprised of real estate investment trusts which own or have an equity interest in rental real estate (rather than making loans secured by real estate collateral). REITs involve risk, including the loss of principal and the possible lack of liquidity. **Morgan Stanley Capital International (MSCI) All Country World Index (ACWI)** is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region.

The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. The **BM&F Bovespa**, also known as the Sao Paul Stock Exchange, is Brazil's stock exchange. It is the third largest stock exchange in the world by market value with over 500 companies traded on the exchange. The IBOVESPA is an index of about 50 stocks and is the main indicator of the Brazilian stock market's average performance. **S&P/TSX 60 Index** is a stock market index of 60 large companies listed on the Toronto Stock Exchange. Maintained by the Canadian S&P Index Committee, a unit of Standard & Poor's, it exposes the investor to ten industry sectors. **S&P/BMV IPC Index** seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market. The constituents are weighted by modified market cap subject to diversification requirements. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments. The **S&P Global BMI (Broad Market Index)** comprises the S&P Developed BMI and S&P Emerging BMI, is a comprehensive, rules-based index measuring global stock market performance. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-Linked Bond Index (US TIPS)** measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from \$1000 to \$1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. **Barclays Capital Global Aggregate ex-U.S. Index** measures the performance of the global bond market, excluding U.S. securities. **Bloomberg Commodity Index**: is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category, but have since changed to another category.