

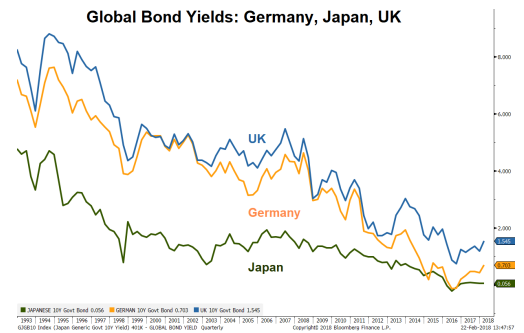
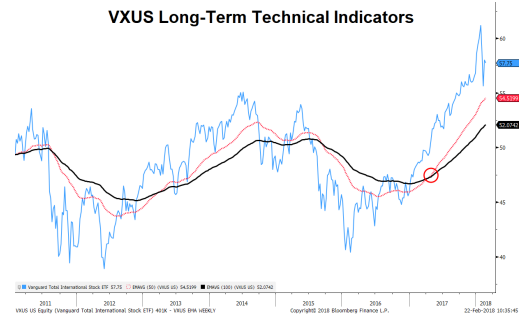
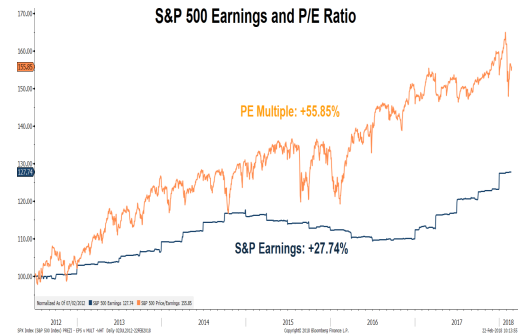
## Domestic Stocks

Domestic stocks opened the year on a strong note, reaching a record high on January 26th, 2018. After that, we saw a return of volatility and a market correction of slightly more than 10%, from peak to trough.

While the market correction helped lower forward P/E multiples slightly, valuations remain elevated. The chart shows the S&P 500's P/E ratio compared to consensus long-term earnings growth. What you will notice is that consensus long-term earnings growth has not kept pace with the increase in the P/E. In fact, since the second half of 2012 we have seen S&P 500 earnings grow nearly 28% and the price-to-earnings ratio grow by more than 55%. Even though earnings have received a boost from improved economic growth and tax reform, we would need to see earnings growth momentum to continue to justify current valuations.

lifted bond yields significantly since the second half of 2016. We are currently witnessing a transition from accommodative monetary policies, which have suppressed bond yields since the financial crisis, to interest rate normalization.

Rising bond yields are a positive for bond investors who have been searching for yield in a low interest environment. However, rising nominal growth, wages and inflation, are likely to continue pressuring bond returns in the foreseeable future. While returns are likely to be lower than historical averages, bonds remain an indispensable component of portfolio construction as they provide a stable income stream and may protect principal when equity markets come under pressure. Nevertheless, with the backdrop of rising interest rates, bond investors should carefully consider duration, proactive inflation hedging, and potential yield curve shifts.



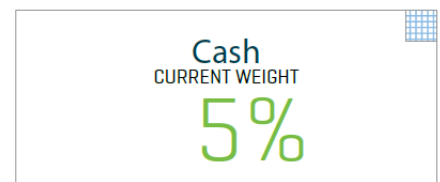
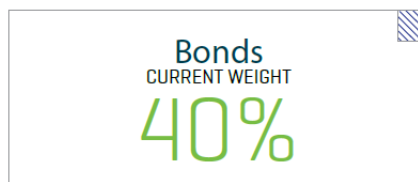
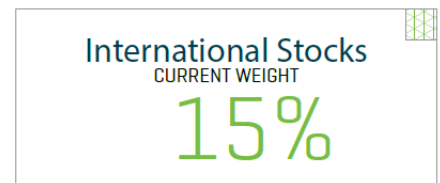
*\*Click each chart to enlarge*

## International Stocks

After turning in a solid 2017, International stocks also saw a pullback of nearly 10%, peak to trough. However, as of February 22, 2018 are now up slightly on the year. Improving economic data and still accommodative monetary policy has helped bolster international stocks. Long-term technical indicators also remain constructive with the Vanguard Total International Stock ETF's (VXUS) 50-week exponential moving average remaining above the 100-week exponential moving average. Our recommendation is to maintain an overweight exposure to developed international stocks and emerging markets.

## Bonds

Global economic growth has accelerated and both business and consumer sentiment have continued to show strength. This has



\*The 401k Plan Manager is a "guide" for a base allocation of a Balanced Investment Model for an investor with 5+ years before retirement. It is not intended to provide specific recommendations regarding investment style (i.e. value vs. growth), market capitalization ( i.e. small cap/mid-cap/ large cap). For more information of how STA can assist you in 401k questions, please contact us at [info@stawealth.com](mailto:info@stawealth.com).