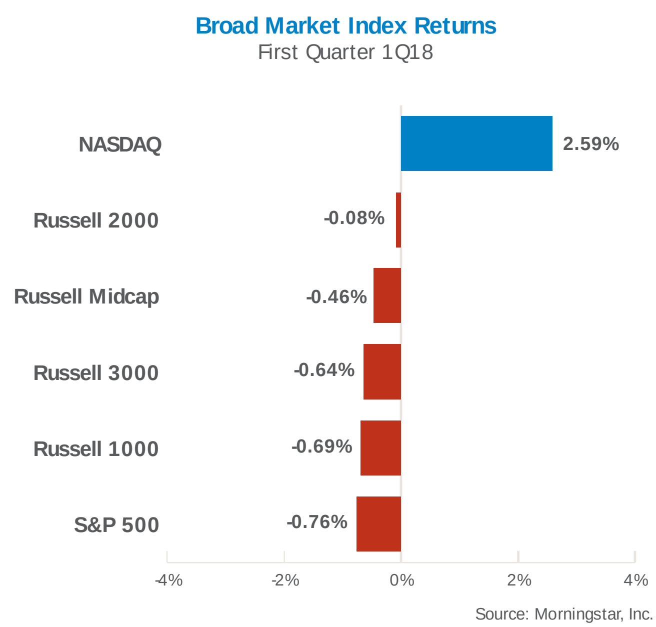
Ramsey & Associates, Inc.
(206) 324~1950
info@RamseyAssoc.com

After a year of extraordinarily low volatility in 2017, market volatility returned with a vengeance in early 2018. In January, the market continued the upward trend we saw in 2017, only to surrender it in February. Since then we've seen significant market volatility including at times strong intraday volatility. Most market indices ended the quarter in negative territory.

The Economy



The US economy continued on its upward trajectory, with overall growth and employment posting solid gains. The Bureau of Economic Analysis reported its third estimate of fourth quarter 2017 gross domestic product (GDP) of 2.9%, up slightly from the prior estimate, but somewhat lower than the third quarter's 3.2% reading. The employment situation also made gains, with an average of approximately 242,000 jobs added each month. At the same time, the unemployment rate remained steady at 4.1%. The Federal Open Market Committee (FOMC) modified its interest rate policy by raising the federal funds rate target 0.25% to a range of 1.50% to 1.75%. Economists expect as many as three additional increases in 2018 as inflation picks up and wage pressures accelerate.

The global economic environment continues to benefit from a rebound in demand and generally accommodative monetary policies. The Eurozone economy grew at a 2.7% annual rate in the fourth quarter, well above trend. Growth in the region has been driven by ultra-accommodative monetary policy, a firming labor market, and robust domestic demand. Japan is expected to maintain its strong momentum into 2018, driven in part by revived external demand. China continued its strong growth from 2017 and experienced its first year-over-year acceleration since 2010. The country's 6.8% fourth quarter annualized GDP growth was higher than the 6.5% target, even as policymakers are implementing deleveraging designed to limit debt-

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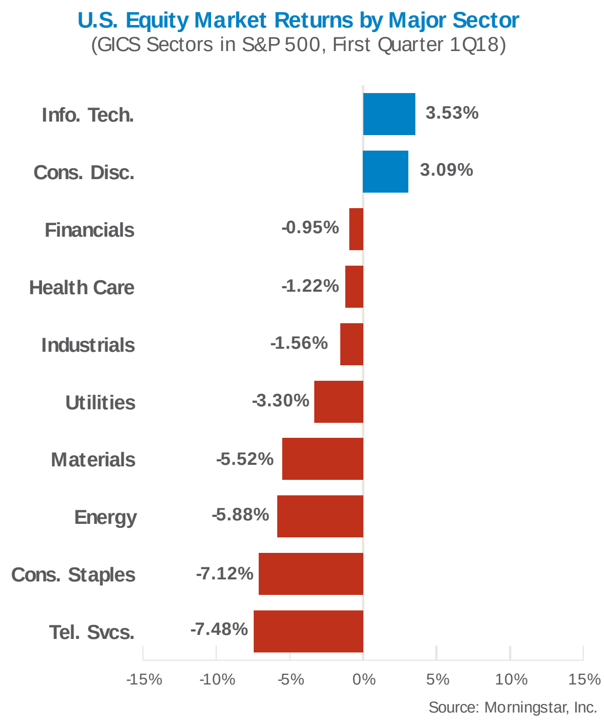
driven growth. However, economists believe that the focus on deleveraging will inhibit China's growth somewhat in 2018.

Highlights

GROSS DOMESTIC PRODUCT (GDP)

The Bureau of Economic Analysis released the third estimate of the fourth-quarter 2017 real GDP, a seasonally adjusted annualized rate of 2.9%, down from the third quarter's 3.2% annualized growth, but up slightly from the 2.5% prior estimate. Economists generally believe it will be difficult to maintain this level of growth while the economy is at full employment, meaning that the expansion may be in its latter stages. Consumer spending continued to drive growth during the quarter. Inflation showed signs of accelerating in the quarter, with the personal consumption expenditures (PCE) index of prices rising 2.7%, following a 1.5% advance in the prior quarter. Corporate profits fell by 0.1% (not annualized) during the quarter. Confidence among businesses and consumers is high, but economists caution that sustaining current levels of growth will be difficult.



HOUSING

The housing segment remains robust, and analysts continue to have a positive outlook for 2018. Existing home sales for February (the latest monthly data available) grew at an annualized rate of 5.5 million units, an increase of about 3% from January, and up about 11% from year-ago levels. The inventory of existing homes was slightly more than three months of supply, down marginally from the prior year. Existing home prices in February were up 0.4% from January and have increased 5.9% from February 2017. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at 70,

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slightly lower than the previous month. Nevertheless, analysts cite strong homebuilder confidence in maintaining a positive outlook for housing over the coming months.

EMPLOYMENT

The employment situation continued to be very robust in February. Employers added 313,000 jobs during the month, far exceeding the consensus expectations of 200,000 new jobs, and outpacing the prior month's gain of 239,000. The three-month moving average also jumped, coming in at 242,000. The unemployment rate in February remained at 4.1%, unchanged since October 2017. Average hourly earnings increased by a modest 0.1% in the month, with expectations that wages will rise in coming months.

FED POLICY

The FOMC ended its recent March meeting by announcing an increase of 0.25% in the federal funds rate target from 1.50% to 1.75%. While the rate increase was expected, the FOMC also revised upward its economic and interest rate projections. The FOMC increased its GDP growth estimate for 2018 from 2.5% to 2.7%, and also expects growth to be 2.4% in 2019, higher than its previous estimate of 2.1%. The FOMC also lowered its estimates for unemployment for this year and going forward. The FOMC is becoming somewhat more hawkish in its interest rate stance and may become increasingly so in coming quarters as inflation begins to rise.

Interest Rates

Fixed income securities' prices and yields were affected by a variety of factors, including the FOMC's decision to raise short-term interest rates once again at its recent March meeting; the Trump administration's new tariff policies on aluminum and steel imports; solid improvement in economic data; and volatility in stock prices. The administration's new tariffs on certain imported goods were a fulfillment of one of President Trump's campaign promises, but created concern among analysts that the gains from the recently enacted tax reform package would be undone. The economy continues to post strong gains, and the FOMC is likely to become increasing hawkish under new Federal Reserve (Fed) Chairman Jay Powell. The FOMC expects to raise short-term rates at least three more times in 2018.

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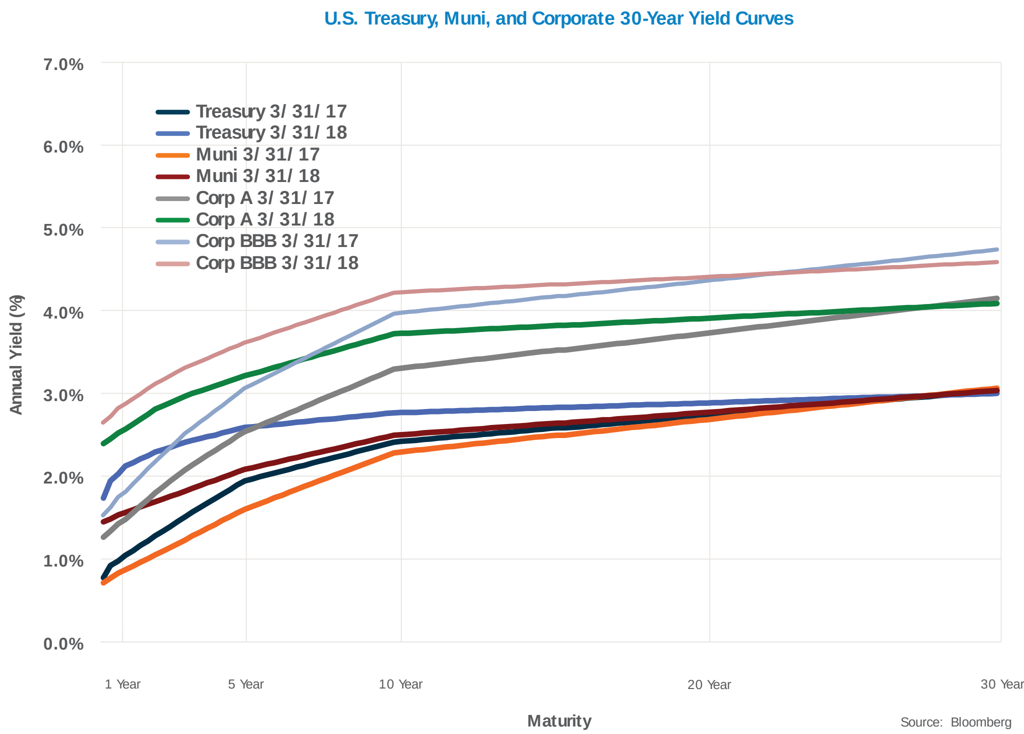

Interest rates in the quarter were driven primarily by robust economic growth in the US and globally. In addition, fixed income markets had to determine the impact of a new Federal Reserve Chairman, Jay Powell, and how his leadership may differ from that of his predecessor, Janet Yellen. Bond investors also needed to navigate the fallout from the Trump administration's announcement of tariffs on aluminum and steel imports. Many economists view tariffs as a tax, and as a result, financial markets were more volatile during the quarter. The trend in yields was higher throughout the quarter, and not very volatile. In addition to strong economic growth and the tariff announcement, other factors contributing to the yield changes were the FOMC's decision to raise short-term interest rates, as well as geopolitical issues such as North Korea's offer to have its leader, Kim Jong Un, meet with President Trump later this spring. Inflation expectations rose modestly, with the Fed's gauge of five-year forward inflation expectations rising from 1.96% on December 31.

Fixed income securities generated mostly negative total returns across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index declined 1.3% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index fell by 2.4% during the three months. High yield securities, which often follow the performance of equities, posted a modest negative return of -0.9%. Municipals were also lower, as the

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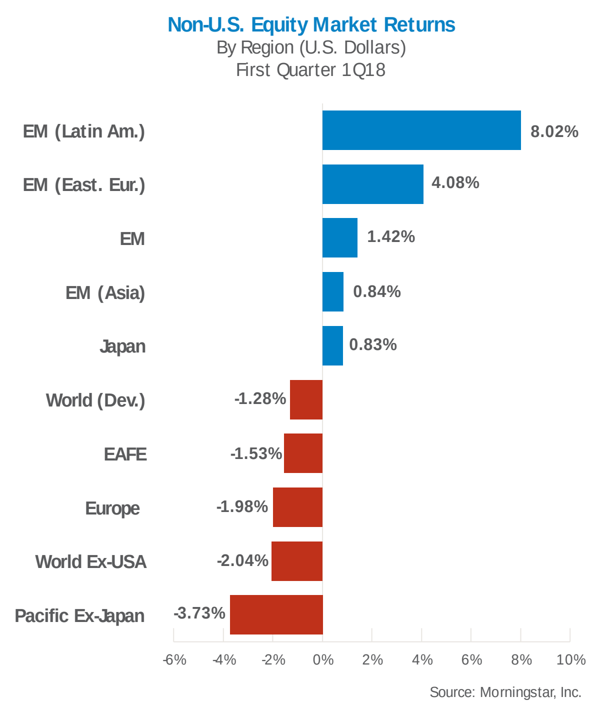
Bloomberg Barclays Municipal Bond Index eased by 1.1% during the quarter. Prices of non-US fixed income securities were higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced 3.6%. Emerging markets bonds suffered, with the JPM EMBI Global Index declining by 1.8%.

Equity Markets

Equity markets began the year on a strong note, rising 5.7% in January, but encountered volatility in February, from which it never fully recovered. The volatility and pullback were not unexpected, as broad indices had generated consistent gains in a low-volatility environment throughout 2017 and were overdue for profit-taking. In addition, the Trump administration's tariff announcement added a reason for volatility. As a result, the Chicago Board Options Exchange Volatility Index—better known as VIX—spiked as high as 37 in February before settling at lower levels, though higher than in January. Against this backdrop, the S&P 500 Index finished the quarter with a loss of 0.8%. The negative quarterly return was only the second in the S&P 500 Index's past five years.

The ten primary economic sectors delivered generally negative performance during the quarter. Information Technology, Consumer Discretionary, and Financials were the strongest performers on a relative basis, generating returns of 3.5%, 3.1%, and -1.0%, respectively. The Telecommunications Services, Consumer Staples, and Energy sectors were the poorest relative performers, posting returns of -7.5%, -7.1%, and -5.9%, respectively.



The Russell 1000 Index of large capitalization stocks generated a -0.7% total return. Within the large cap segment, growth stocks once again outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly outperformed large caps, and finished the quarter with a total return of -0.1%. Small cap growth outperformed small cap value. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of 2.6%.

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The Dow Jones Industrial Average of 30 large industrial companies declined 2.0%. Real Estate Investment Trusts (REITs) posted substantial losses during the quarter, with the DJ US Select REIT Index falling 7.4%. Commodities delivered modest losses, with the Bloomberg Commodity Index easing 0.4% for the quarter.

International stocks performed reasonably well on a relative basis, generally outpacing US equities. As in the prior quarter, European economies continue to accelerate, as domestic demand has picked up and monetary policy has remained extremely accommodative. China continues to deleverage its economy, but has recently posted strong economic growth. With that as a backdrop, international stock indices were mixed. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, declined -1.2%. The MSCI EAFE Index of developed markets stocks fell by 1.5%. Regional performance also was varied for the quarter. Latin America was the strongest performer on a relative basis, with a return of 8.0%. China also generated positive returns, with a gain of 1.8%. The Pacific ex-Japan region was the poorest performer, declining 3.7%. Emerging markets performance was modestly higher, as the MSCI Emerging Markets Index gained 1.4%.

Looking Forward

The US economy is strong, and according to the consensus of economists, is primed to get even stronger. The tax cuts enacted in December—which amount to $1.5 trillion over 10 years—are only now beginning to flow through the economy, and the recent omnibus spending bill will add even more stimulus that will be felt over the next few months. Economists expect this stimulus to result in GDP growth of more than 3% this summer, job growth of 200,000 per month, and an unemployment rate declining to near 3%. Although welcome, such growth historically has not been sustainable for very long. The Trump administration's imposition of large tariffs on steel and aluminum imports also may have lingering effects on growth in the coming years. Many economists believe that the tariffs themselves may not have a significant impact, but to the extent they spur a broader trade war, growth could be adversely affected. In addition, the tariffs are a fulfillment of President Trump's generally anti-trade campaign promise, which may eventually lead to slow growth. Overall, however, the economy is still growing at an accelerated rate, and is likely to do so for the next several quarters. The risks to the positive economic outlook continue to include the potential for monetary policy missteps by the Fed, specifically, allowing inflation to rise too rapidly. Most analysts also expect the volatility that has defined the market so far this year to continue throughout the year.

It is important to understand that last year's low volatility was an anomaly. Volatility is an inherent characteristic of the market and it is something all investors must expect. That being said the level of

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volatility experienced this past quarter was unusual. It will be interesting to see how the rest of the year plays out, but we are encouraging clients to be prepared for the significant volatility to continue.

As always, please be sure to let us know if you have any upcoming cash needs from the portfolio that we are not aware of or if you feel your portfolio allocation is no longer appropriate for your situation. Also, if you have any concerns with the current market conditions, please be sure to call us. We would be happy to discuss the current market or your portfolio with you at any time.

Please advise Ramsey & Associates in writing if: there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, revising our previous recommendations and/or services; or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless and until we hear from you to the contrary, in writing, we will continue to manage your accounts consistent with the existing investment objective.