



Weekly Market Review

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The Week Ending January 12, 2018

Equity markets extended their hot start into the second week of 2018. Both domestic and international indices are in the 4% range year-to-date already. Investors are increasing their equity exposure hoping to capitalize on the positive economic sentiment aided by the tail-wind of tax relief. While the uptick in economic growth and inflation is good news for equities, it has had the opposite effect on bonds. Rates in the middle and longer portions of the yield curve fell throughout 2017 which boosted bond returns. The first two weeks of 2018 saw rates rise to levels near where they started 2017, pushing the Bloomberg Barclays Agg index down -0.5% so far.



The rise in rates has also led to a selloff in real estate securities. REITs (Real Estate Investment Trust) pose investment characteristics of both fixed income and equities. The income production through the collection of rent gives them their fixed income properties and their ownership of the underlying property gives them their equity properties. Historically, when rates begin to rise, REITs have struggled. But over the full course of a prolonged rising rate environment, REITs have done quite well benefiting from economic growth. So far for 2018, the DJ US Select REIT Index is down a little over -5%.

Another interesting dynamic in the market to begin 2018 is the U.S. Dollar weakness. Conventional wisdom would tell you that organic U.S. economic growth and rising interest rates would cause the U.S. Dollar to appreciate. But the U.S. Dollar Index, which measures the dollar against a basket of six other currencies, fell throughout 2017 and now into the beginning of 2018. This has mostly been attributed to the Euro appreciating against the dollar due to the Euro Zone's faster than expected economic growth and shift to a less accommodative monetary policy by the ECB. A depreciating currency is generally a tailwind for economic growth as it makes products and services priced in U.S. Dollars cheaper for international buyers.



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