Tax & Investment Advisors

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Key Economic Statistics

Leading Economic Index 109.5
Recent Trend: Increasing
(Source: The Conference Board)

Consumer Confidence Index 126.4
Recent Trend: decreasing
(Source: The Conference Board)

US Current Annual Inflation Rate (PCE): 1.80%
Overall FED Goal: 2%
Recent Trend: Increasing
(Source: Inflationdata.com)

US Unemployment Rate: 3.75%
Recent Trend: historically low
(Source: US Dept of Labor (BLS))

Interest Rates:
Fed Fund Target Rate: **1.75-2.00%**
2-year US Gov't Bond Yield: **2.55%**
10-year US Gov't Bond Yield: **2.82%**
30-year US Gov't Bond Yield: **2.93%**
Recent Trend: Interest rates continue to be low.
(Source: Wall St Journal Market Data)

Total Returns: YTD
US: S&P 500 (SPY): **2.52%**
US: Dow Jones Ind. Avg. (DIA):**(0.92)%**
US: NYSE Composite (NYA): **(2.38)%**
US: Aggregate Bond Index (AGG) **(1.64)%**
Europe: FTSE Europe (VGK): **(2.79)%**
Canada: I-Shares (EWC): **(3.05)%**
China: Large Cap (FXI): **(5.68)%**
Hong Kong: I-Shares (EWH): **(3.25)%**
Japan: I-Shares (EWJ): **(2.61)%**
Brazil: I-Shares (EWZ): **(19.48)%**
Gold: I-Shares: (IAU): **(3.92)%**
(Source: Morningstar Office)

Quarterly Investment Commentary: Q2 2018

7/6/2018

Over the previous quarter global equity markets have seen temperate movements upward, while volatility returned to normal levels. Fixed income markets within the U.S. have seen interest rates slowly increase over the most recent quarter as the Federal Reserve continues to tighten monetary policy, and hike interest rates.

Within the United States we have seen increases in earnings and GDP growth over the recent quarter. U.S. GDP growth has seen a recent acceleration this period, up 2.8% year over year. Implementation of the Tax Cuts and Jobs Act (2017), has led to moderately increased investment expenditures by corporations, and increased consumer spending within the United States. U.S. unemployment is now at 3.75% which is the lowest since December of 1969. Wage growth has picked up recently, reaching 2.9% year over year. Inflation has also moderately increased over the second quarter with core PCE at 1.80%, approaching the target levels of the Federal Reserve. We see the recent uptick in oil prices being the primary driver of the latest increase in inflation. Recent earnings releases within the U.S. have shown significant strength with EPS (Earnings Per Share) up 22% this quarter year over year. The U.S. may be on track for its best quarterly earnings season in eight years.

International equity markets have slightly underperformed this year at -3.4% YTD vs. the U.S. at 2.6% YTD. That being said, earnings growth has been positive outside the United States. Europe, Japan, and other developed economies have seen double digit earnings growth over the recent quarter. Developed international markets along with emerging markets are all trading at reasonable valuations on a P/E basis compared to their historic averages. We believe there are sizable opportunities in international equity markets.

Moving forward we see continued strength in U.S. equities along with developed international, and emerging

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markets. Within fixed income markets we are underweight duration, due to interest rate risk and we believe more rate hikes are in the cards for the near future. Down the road we see multiple risks emerging such as protectionist trade policies, political uncertainty, and the Federal Reserve moving too quickly to tighten. As the yield curve remains relatively flat, we do not see a high likelihood of an inversion in the near future. Over the recent decade the Federal Reserve has had a significant impact on the yield curve with continuous open market operations. That being said, we do not think the Fed will allow long term rates to fall much further. We believe the risk of an inversion is minimal; however, there is still a possibility that short term rates exceed long term rates and cause an inversion. In the meantime the U.S. dollar has shown weakness despite the rise in interest rates and increased growth within the United States. We expect this trend to continue as interest rates normalize across Europe and other developed economies. As the United States' current account deficit continues to increase, we expect more downward pressure on the U.S. dollar.

Lastly, recent trade policies implemented by the U.S. and China have stirred up fears in global equity markets. The United States recently announced a 25% tariff on $34 billion worth of Chinese imports such as agricultural machinery, semiconductors, and aviation products. In retaliation China has announced their own tariff of 25% on $34 billion worth of U.S. imports such as agricultural products and automobiles. Historically, tariffs have had a negative impact on global trade and ultimately consumers will pay increased prices as a result. The two countries traded over $570 billion worth of goods last year. With a trade deficit of $336 billion, the U.S. has traditionally been a net importer of Chinese goods. If trade hostility stops here then the impact of the current tariffs should be minimal on both the U.S. and China. Total U.S. exports account for just 8% of U.S. GDP at $2.3 trillion dollars, while Chinese exports account for 19% of Chinese GDP at $2.2 trillion. China also holds significant control over their economic system. China can use monetary policy tools to shrink the impact of any exorbitant tariffs. So far the announced tariffs will have a small impact on trade between the two countries, however, we will see if trade aggression continues to be a theme as we move into the latter half of the year.

By Ed Canty, Registered Investment Advisor Rep.