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INVESTMENT SUMMARY

2nd Quarter 2018

With the first half of the year completed, investment returns across all asset classes were truly mixed through the June 30th period. U.S. stock benchmarks ended the quarter on a strong note, which pushed their performance for the year into positive territory after a poor first quarter. Conversely, the major bond index (Barclays US Aggregate) has strung together two negative quarters in a row, as bond prices weakened due to higher interest rates. Overseas, both stocks and bonds continued their struggle in the face of a stronger U.S. dollar, as well as a general slowdown in economic activity. Given the ramp up in geopolitical rhetoric, intensifying trade disputes, and volatile political developments around the world, it is somewhat remarkable that swings in asset prices haven't been more pronounced.

As we have noted in previous writings, the fundamentals of the U.S. economy remain strong. GDP growth is expected to accelerate in the second half of the year towards a 3% pace, while corporate earnings are forecast to rise by an impressive 20% clip in the recently completed second quarter. The latter growth rate is stunning and can be attributed to the corporate tax cuts that were voted into law at the end of 2017. Stock market bulls have taken note of these strong earnings results. Higher profits provide support to equity prices, as measured by traditional stock valuation metrics like price-to-earnings and price-to-book multiples. Consequently, stocks are now trading around a 16.5 price-to-earnings multiple, which is near the historical average for the S&P 500 and, therefore, deemed a reasonable valuation for stocks when compared to history.

Putting it all together, this economic expansion is now the second longest on record (nine years and counting) and has contributed to an unemployment rate of 3.8%, the lowest in twenty years. Looking ahead to the Fall, mid-term elections are fast approaching and will bring with them a referendum on our current President's policies, as well as debate about the way forward. These political tensions are not necessarily a bad omen for markets but do introduce uncertainty for investors. On the trade front, we are monitoring the various negotiations closely, and would become concerned if the threatened tariffs were to eventually be implemented. Because trade is at the core of the world economy, increased taxes on exports and imports would have a destabilizing impact on overall business conditions as well as the global financial markets.