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Second Quarter 2018 Commentary

The path investors took during the first half of 2018 has been described as a winding road leading to a place we've been to before. In general, global economies are growing, though some are healthier than others. Equities are outperforming bonds, with U.S. stocks leading those of developed markets, and the U.S. dollar is strong versus other currencies. Optimism abounds.

The U.S. economy received a boost from the Tax Cuts and Jobs Act as well as the 2018 budget deal, which includes a $300 billion increase in discretionary spending. Strong consumer spending and business investment leads some analysts to forecast first half GDP of 3%. So much for the predictions from just a few years ago for low- and slow-growth being the new normal.

U.S. corporate earnings growth should roughly double that of the rest of the world this year, thanks to reduced tax rates and other changes in the corporate tax code. Revenue growth was nearly 10% for the first quarter. Global demand for exports, including energy-related goods, and a better domestic investment environment provide multiple sources of stability in the event the risk landscape deteriorates.

What may be deteriorating are relations between the U.S. and our largest trading partners. While the world is not engaged in an actual trade war, U.S. trade protectionism and the retaliation it invites could hamper global growth. The direct impact would be modest given the small amount of imports being taxed thus far, but the ripple effects to business and consumer confidence could become more pronounced.

Despite these trade rumblings, most of the macroeconomic news has been good this year, especially for the U.S. where stocks should continue to benefit from lower individual and corporate tax burdens, vigorous private sector hiring, and consumer spending. Additionally, U.S. interest rates should continue rising gradually as evidence of strong growth becomes even more convincing, at least for the next year.

We believe the dollar strength and U.S. equity markets' dominance will reverse only if 1) the U.S. economy appears to have materially weakened; or 2) the rest of the world shows signs of closing the gap that has existed for years between domestic total returns and those of global indices. We do not expect either of these two dynamics to take hold over the balance of 2018. In fact, for the remainder of 2018 we expect little further change to major foreign exchange rates and a gradual rise in global stock prices, with advances in U.S. markets surpassing those from around the world.

Grant and I appreciate your business. Please let us know if you have any questions, or if you would like to schedule a portfolio review.

Grant

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