Market Update

June 30, 2018

U.S. investment returns during the second calendar quarter of 2018 continued the trends begun during the first calendar quarter. The NASDAQ market gained 6.3% as large technology company stock returns made it the leading U.S. market. The Dow Jones Industrial Average gained 0.7% as industrial and financial stocks lagged and made it the worst performing market average. The S&P 500 gained 2.9%, almost exactly half way between the other two market indices.

While talk of tariffs, both initial and retaliatory, have generally been reported in the media as U.S. initiated and ill-considered, the impact has been much more negative in non-U.S. markets. International Developed markets were down 3.9% during the second calendar quarter and International Emerging Markets were down 10.3%. It seems as though the collective judgment of investors is that any escalation in trade barriers will hurt U.S. trading partners more than the U.S. itself.

Corporate earnings reported during April 2018 were consistently ahead of expectations, up more than 22% on a year-over-year basis. Mergers and acquisitions and Initial Public Offerings of common stock are both running well ahead of the dollar value of the last several years. Corporate investment in capital projects is up more than 10% during the first calendar quarter, no doubt fueled by the reduced corporate tax rate and the cutting of bureaucratic red tape through regulatory reform. The anticipated outcome of these investments will be an acceleration in economic productivity, and from that an increase in employee compensation. All in all, the private sector is doing fine and is likely to continue doing so.

Even though the Federal Reserve raised short term interest rates by 0.25% to a range of 1.75-2.00% in June 2018, the 10 year U.S. Treasury yield was 2.8% on June 30, 2018, unchanged from the March 31, 2018 level. Rising interest rate levels have not yet started to slow down the economy.

At this time common stock valuations generally appear to be fair and prospective earnings growth appears to be well above average. Such a combination should lead to positive market returns for the second half of 2018, and we are invested to participate in that potential outcome.

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