2Q2018

THE INVESTOR QUARTERLY

MARKET COMMENTARY AND INVESTMENT PERSPECTIVES

The Investor Quarterly is issued in order to communicate the current state of capital markets and provide overview of economic conditions. The information contained in this publication should not be construed as investment advice. You should discuss with your financial advisor the conditions of your unique circumstances. The material prepared by Ashton Thomas Private Wealth, LLC., for use by its approved advisors.

WELCOME

Greetings,

The second calendar quarter of 2018 witnessed a continuation of the stock market's volatility that manifested itself in early February of this year but was virtually absent in 2017. The S&P 500 Index, the most widely recognized proxy for U.S. Stocks, ended the second quarter of 2018 at 2,718.37, delivering a total return (including dividends) to investors for the period of +3.43% [1]. The relatively modest size of the gain belied the Index' broad trading range of (approx.) 8% throughout the quarter, from its closing low of 2,581.88 (April 2nd), to its closing high of 2,786.85 (June 12th). In fact, during the quarter's 64 trading days, the S&P 500 Index experienced 20 trading sessions that delivered gains of at least +1%, and another 16 days that saw losses greater than (-1%) [2]. The Dow Jones Industrial Average, another closely watched domestic stock Index, increased by just +1.26% during the period [3], while the NASDAQ Composite Index, a proxy for Information Technology companies, rose +6.31% during quarter [4]. The best performing domestic U.S. stock market Index in Q2 2018 was the Russell 2000 Index, a proxy for Small-Cap domestic stocks, which gained +7.75% during the period [5].

U.S. investors in foreign stocks didn't fare as well, as they faced the headwind of a strengthening U.S. Dollar. The U.S. Dollar Index Futures rose +4.64% during the second quarter, completely wiping away gains of foreign stocks delivered in local currency terms [6]. The FTSE All-World ex-US Index, a proxy for foreign "developed" markets' stocks, declined (-2.67%) for the period, while the FTSE Emerging Markets Index, a proxy for foreign "emerging" markets' stocks, delivered a loss of (-8.22%) for the quarter [7].

U.S. Treasury Bond yields continued to "flatten" along the yield curve in the second quarter, as the Federal Reserve Bank ("Fed") under the leadership of a new Chairman, Jerome "Jay" Powell, raised the foundational Fed Funds Rate for the second time in 2018 on June 13th, to a range of 1.75% to 2.00%. The Fed further signaled its intention to add two more interest rate hikes this year, and likely two to three more in 2019, as it attempts to "normalize" monetary policy, and prepare itself for the eventual need for monetary accommodation whenever this extended economic expansion comes to its inevitable end. The Fed also continued its gradual, but accelerating, removal of the liquidity it injected into the credit markets from 2008 through 2013 through its Quantitative Easing ("Q/E") programs. The Fed's Balance Sheet assets declined by $102.4 Billion during Q2 2018, and it has now reduced the size of its inflated Balance Sheet by $153.9 Billion, to just under $4.3 Trillion, year-to-date [8]. The bellwether "2 – 10 Yield Spread" (the difference in the yields between the 10-Year U.S. Treasury Bond and its 2-Year counterpart) began the quarter at 0.47% (47 bps) but narrowed to just 0.33% (33 bps) by quarter's end [9]. If the 2-Year U.S. Treasury Bond yield should be "forced" above its 10-year counterpart by further Fed Funds Rate hikes, the yield curve may "invert", which occurs when longer term rates are lower than short-term rates. That possibility is seen as an ominous sign as relates to continued economic expansion, as all seven U.S. recessions since the late 1960's were precipitated by an "inverted" yield curve [10].

Broadly speaking, bonds continued to struggle during the second quarter of 2018. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for U.S. Bonds, declined by (-0.16%) for the quarter, following its Q1 2018 decline of (-1.46%) [11]. As was the case with equities, foreign bond markets underperformed their U.S. counterparts during the quarter. The FTSE Global Government Bond Index (USD), a proxy for non-U.S. Government Bonds, declined by (-3.1%) for the second quarter, again, in large part due to the rising value of the U.S. Dollar [12].

(1) https://finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC
(2) http://www.raymondjames.com/weisswealthstrategies/pdfs/equity-market-update.pdf
(3) https://www.spindices.com/indices/equity/dow-jones-industrial-average/?
(4) http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO
(5) http://indexcalculator.ftse.com/ICStep4DR.aspx
(6) https://www.investing.com/quotes/us-dollar-index-historical-data
(7) http://trusttreefinancial.com/wp-content/uploads/2018/07/FINANCIALINDEXRETURNS-6-31-18.pdf
(8) https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm
(9) https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2018
(10) https://www.cnbc.com/2017/06/05/inverted-yield-curve-predicting-coming-recession-commentary.html
(11) https://performance.morningstar.com/Performance/index-c/performance-return.action?t=XIUSA000MC
(12) https://www.ftse.com/products/indices/Global-Bonds

ASHTON THOMAS PRIVATE WEALTH

WELCOME

From a policy perspective, the Federal Reserve Bank is far ahead of its foreign Central Bank counterparts in terms of their removal of monetary accommodation. The European Central Bank ("ECB") has maintained a 0.00% interest rate on its Main Refinancing Operations Rate (its version of the Fed Funds Rate), indicating its intention to keep it there at least through the summer of 2019 [13]. Unlike the Fed, the ECB's Balance Sheet continues to employ Quantitative Easing stimulus, as it deems it necessary to prevent a recession, and its Balance Sheet has now reached €4.58 Trillion Euro, or $5.37 Trillion USD [14]. The Bank of Japan's ("BoJ") Interbank Lending Rate (its version of the Fed Funds Rate) remained negative (-0.10%) at the end of June, indicating its continued concerns for the fragility of its economy, which saw its first quarterly decline in GDP following nine consecutive quarters of expansion. That said, the BoJ has begun the process of slowly unwinding its Balance Sheet assets. At the end of June, it held ¥537 Trillion ($4.8 Billion USD) on its Balance Sheet [15], down slightly from its May 2018 record high of ¥540 Trillion. As a percentage of Japan's GDP, however, ¥537 Trillion is (approx.) 95% of the country's ¥556 Trillion GDP [16], a much higher percentage of the Fed's and the ECB's Balance Sheets, which represent 23%, and 43%, respectively, of their countries' GDP [17].

We see rising risks in both the equity and debt markets globally, as the U.S. economic expansion reached nine years in length at the end of June, the second longest in U.S. history at 108 months [18]. There is little doubt that its expansionary cycle has been "artificially" extended by the Fed's policy accommodation, and given the size, scope, and tools employed in that accommodation, there is uncertainty amongst equity market participants as to the impact of its removal. The thirty-plus year "bull market" in bonds is likely (sadly) over as well, as rising interest rates and the first signs of wage inflation in over a decade, will make fixed-rate, long-duration bonds of any credit quality a difficult place to find (net) positive returns. We continue to employ tactically defensive stock and bond managers in our clients' portfolios, as we attempt to both participate in potential market advances, while avoiding large market losses.

As always, we appreciate your continued support of our efforts, and welcome your comments.

Thank you,

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(13) https://www.ecb.europa.eu/press/pr/date/2018/html/ecb.mp180614.en.html
(14) https://tradingeconomics.com/euro-area/central-bank-balance-sheet
(15) https://tradingeconomics.com/japan/central-bank-balance-sheet
(16) https://tradingeconomics.com/japan/gdp
(17) https://seekingalpha.com/article/4082998-fed-ecb-boj-balance-sheets
(18) https://en.wikipedia.org/wiki/List_of_economic_expansions_in_the_United_States

THE MARKET AT A GLANCE

U.S. EQUITIES:

U.S. equities delivered gains across all market capitalizations, as well as in both "Growth" and "Value" stocks. The Russell 1000 Growth Index gained +5.76% for the second quarter, while its "value" counterpart, the Russell 1000 Value Index delivered a more modest +1.18% return during the period. Small-Cap stocks performed better than their Large-Cap counterparts in both "styles", with the Russell 2000 Growth Index adding +7.23% for the period, while its "value" counterpart delivered +8.80% for the quarter [19].

From a Sector perspective, the best performing market sector during the second quarter was the Energy sector, which delivered an impressive +13.48% return, due to an almost identical +14.18% rise in oil prices [20]. It was followed by the Consumer Discretionary sector, up +8.17% amid a strong consumer backdrop, and the Information Technology sector, which gained +7.09% for the period. Other gainers included Real Estate, up +6.13%, Utilities, up +3.74%, Healthcare, up +3.09%, and the Materials sector, which gained +2.58% for the quarter. The remaining Sectors were negative in the second quarter, with the biggest decliner being the Industrial sector, which declined (-3.18%), closely followed by the Financials sector, which was down (-3.16%). Consumer Staples declined (-1.54%), and Telecommunication stocks were among the decliners, retreating by (-0.94%) during the quarter [21].

The quarter saw several themes emerge, most of them positive, but increasing concerns over trade tensions contributed to market volatility and uncertainty. President Trump announced a series of trade tariffs on Chinese imports, as well as the possibility of tariffs on our neighbors, Mexico and Canada, and on the Eurozone. The market has yet to decide whether the President intends to implement tariffs broadly and permanently, or if he is using the threat of further tariffs as a negotiating tool to bring our trading partners to the table in an effort to reduce the world's largest trade deficit, currently at $810 Billion [22]. Our trade deficit with China is a whopping $375 Billion alone, and initial responses from the Peoples Republic of China indicate they will reciprocate with identically-sized tariffs, strategically applied to the agricultural and manufacturing sectors and regions of the U.S. economy that were politically supportive of the President in the past election. Beside the geopolitical uncertainties that challenge us in North Korea, Iran, Russia, and the Middle East writ large, trade tariffs are the largest concern keeping market participants up at night.

On a positive note, the earnings acceleration that began in Q1 2018 continued in Q2, as what is being described as a "benign valuation reset" continues. The first quarter's S&P 500 Index' Operating Earnings were +26.79% higher than the first quarter of 2017, in part due to improved economic conditions, but largely due to the Tax Cut and Jobs Act of 2017, which permanently reduced the top marginal corporate tax rate from 35%, down to 21%, dramatically improving Operating Margins. According to Standard and Poor's, Operating Margins (11.40%) for the S&P 500 Index constituents in Q1 2017 were the highest on record in more than twelve years, and Q2's Operating Margins are projected to improve further, to 11.78% [23]. With the dramatic improvement in the S&P 500's "Per Share Index Earnings", the trailing four quarters Price to Earnings ("P/E") Ratio will likely decline for the second consecutive quarter in Q2, to 19.34 times earnings. If earnings are delivered as projected, we will see the lowest P/E Ratio the Index has recorded since Q3 2015 [24]. The S&P 400 Index, a proxy for U.S. Mid-Cap stocks has a trailing four quarter P/E Ratio of 24.10 times earnings [25], while its U.S. Small-Cap Index counterpart, the S&P 600 Index has a trailing P/E Ratio of 43.86 times earnings [26]. While all these Indices are seeing healthy P/E Ratio "compression", valuations remain elevated.

(19) http://trusttreefinancial.com/q2-2018-brandons-quarterly-market-commentary/
(20) http://www.fedprimerate.com/crude-oil-price-history.htm
(21) https://www.unleashedfinancial.com/articles/quarterly-market-commentary-q2-2018
(22) https://www.thebalance.com/trade-deficit-by-county-3306264
(23) https://us.spindices.com/indices/equity/sp-500
(24) https://us.spindices.com/indices/equity/sp-500
(25) https://us.spindices.com/indices/equity/sp-400
(26) https://us.spindices.com/indices/equity/sp-600

THE MARKET AT A GLANCE

Professor Robert Shiller's CAPE Index, which "smooths" the impacts of earnings volatility by dividing current Prices by the average of their 10-Years' Earnings, ended the second quarter at 33.78 [27], still the second highest reading in the ratio's history, only exceeded during the "Dot-Com Bubble" period of 1998- 2000. Despite the global economic expansion, we've enjoyed over the past year or more, domestic stock prices remain relatively expensive, and as such, we remain cautious in allocating client assets to the sector.

INTERNATIONAL DEVELOPED MARKETS:

The MSCI E.A.F.E. (Europe, Australia, Far East) Index, a proxy for Large and Mid-Cap equities across "developed" foreign countries' equity markets declined (-1.24%) during the second quarter of 2018, and is down (-2.75%) year-to-date through June 30th [28]. Like their U.S. counterparts, developed foreign "Growth" stocks outperformed their "Value" counterparts. In local currency terms, foreign Growth stocks earned +5.00% during Q2, but when the impact of the stronger U.S. Dollar was considered, the gains were reduced to +0.52%. In local currency terms, "Value" stocks earned +2.47% for the quarter, but with the U.S. Dollar headwind, U.S. investors experienced a loss of (-2.05%). Large-Cap stocks slightly outperformed their Small-Cap counterparts in local currency terms, up +3.76% for the quarter, versus +3.61%, but U.S Dollar-based investors lost (-0.75%), and (-0.94%), respectively [29].

In contrast to the accelerating economic growth we're seeing in the U.S. where consensus estimates are for GDP growth of +2.9% in 2018, Eurozone's GDP rose a very modest 0.4% in Q1 [30]. As previously mentioned, Japan's GDP declined by (-0.2%) in Q1 2018, the first quarterly contraction in Japan in nine calendar quarters [31]. Projections for full-year (2018) GDP growth in the Eurozone call for an economic expansion of +2.1%, while Japan is expecting a more modest GDP growth rate of +1.2% [32].

EMERGING MARKETS:

Higher short-term interest rates in the U.S. have far reaching implications, including, to the Emerging Market equity markets. As U.S. rates rise, so does the value of the U.S. Dollar, especially in an environment like the current one, where foreign Central Banks are keeping interest rates at, or below 0% in some cases. A stronger U.S. Dollar hits hardest those countries most dependent upon borrowing in hard currency, those with external deficits. Emerging Market countries like Argentina, Turkey, Mexico, Russia and Brazil, all of which have large current account deficits, have seen the greatest depreciation of their currencies versus the U.S. Dollar, and since most of these countries finance that deficit using U.S. Dollar – denominated debt, their equity and debt markets were hardest hit last quarter.

U.S. Dollar strength was the Emerging Markets' biggest challenge during the quarter. In local currency terms, the MSCI Emerging Markets Index, a proxy for 24 "emerging" economies' equity markets around the world was down (-3.5%) for the quarter, but with currency losses added to those "local" market losses, U.S. Dollar-based investors saw a decline of (-8%) [33]. The worst performing Emerging Market equity market last quarter was Brazil, which was down a whopping (-26.4%). Indonesia's market lost (-12.2%), South Africa's declined (-11.7%), Malaysia's gave up (-11.4%), and South Korea's fell (-9.1%) [34].

While Emerging Markets have been struggling since January of this year due to currency headwinds, they generally have more attractive fundamental valuations than developed economies. South Korea's

(27) https://dqydj.com/shiller-pe-cape-ratio-calculator/
(28) https://www.msci.com/documents/10199/822e3d18-16fb-4d23-9295-11bc9e07b8ba
(29) https://huberfinancial.com/wp-content/uploads/FINAL-Quarterly-Market-Review-QMR-Q2-2018.pdf
(30) https://www.independent.co.uk/news/business/news/eurozone-gdp-latest-uk-stagnation-eurostat-office-for-national-statistics-a8332206.html
(31) https://countryeconomy.com/gdp/japan
(32) http://www.eulerhermes.com/economic-research/blog/EconomicPublications/global-economic-outlook-Jun-2018-confidence-to-be-bold.pdf
(33) http://www.lazardnet.com/us/docs/sp0/145/LazardOutlook_EmergingMarkets_2015Q4.pdf?pagename=Outlook
(34) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf

stock market, for instance, trades at a P/E Ratio of just 6.9 times their companies' earnings, just a third of the S&P 500 Index' P/E/ Ratio of 19.34. Russian stocks trade at 7.7 times four quarters' trailing earnings. Mexico's P/E Ratio is 8.6 times trailing earnings, and China's stock market trades at 10.9 times its market's trailing earnings[35]. All these markets are "cheaper" than the U.S. and other developed economies' markets, which means that investors in "developed" markets like the U.S., Japan, and the Eurozone, are willing to pay two or three times per dollar of U.S. earnings than they would pay for a dollar of Emerging Markets' earnings. That disparity is unsustainable, and eventually, either U.S. stocks will have to come down in value, or Emerging Markets will have to rise in value, or both. And while we expect the Emerging Markets will continue to struggle until the U.S. Dollar stops appreciating, the exceptionally low stock valuations (per dollar of earnings) provides investors in these markets some downside protection.

COMMODITIES:

Like the Emerging Market economies, commodity prices tend to move in inverse relationship to the U.S. Dollar. The Bloomberg Commodity Index, a proxy for global commodity prices rose +0.4% in the second quarter of the year [36]. The price movements among them were a mixed bag. By far the best performing commodity sector was the Animal Protein sector, up +17.44% as a group, led by Lean Hogs, which posted a 44.7% gain for the quarter. The second-best sector for the quarter was Energy, up +8.21% as a group, led by WTI and Brent Crude, both up over 14% during the period. Other positively performing commodities included Nickel, up +12.76. So-called "soft" commodities (Sugar, Coffee, and the like) appreciated by 1.66% as a group. Precious Metals was the biggest losing sector in the quarter, declining (-3.37), due to losses in Platinum, Silver and Gold. The Grain sector moved (-2.38%) to the downside, as losses were incurred in Soybeans, Soybean Products, Corn, Wheat and Rice [37].

REAL ESTATE:

Following an (-8.15%) decline in Q1 2018, the S&P U.S. REIT Index, a proxy for the 160 publicly-traded REIT stocks, saw a dramatic rebound in Q2, rising +10.37% for the period, taking its Year-to-Date 2018 returns positive, to +1.37% [38]. Self-Storage REITs were the best performing sub-sector in the REIT market, appreciating by +15.10% in Q2 2018. They were followed by Health Care REITs, up +14.21%, Lodging/Resorts, up +14.14%, Specialty REITs were up +12.57%, and Shopping Centers, which appreciated by +12.18% for the period [39]. Laggards in the U.S. REIT sector included Residential, up just +2.00%, Retail REITs were up +3.90%, and Office REITs were up +4.10% for the quarter.

U.S. REITs are relatively "expensive" when compared to other sectors in the U.S. stock market. The REIT Index trades at a P/E Ratio of 35.26 times four quarters' trailing earnings (versus the 19.34 P/E Ratio the S&P 500 Index boasts) [40]. The Index' Indicated Dividend Yield is 4.25%, making REITs an attractive option for yield-seeking investors. The search for yield in a low yielding environment has led to the average trading daily volume of publicly-traded REITs to reach $8.8 Billion in June, up from $6.1 Billion in June 2013, and more than double the $3.1 Billion average daily dollar trading volume in June 2008.

(35) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf
(36) https://www.bloomberg.com/quote/BCOM:IND
(37) https://seekingalpha.com/article/4184965-commodities-second-quarter-overview-outlook-q3-2018
(38) https://us.spindices.com/indices/equity/sp-united-states-reit-us-dollar
(39) https://irei.com/news/reit-returns-double-sp-500-q2-2018/
(40) https://us.spindices.com/indices/equity/sp-united-states-reit-us-dollar

THE MARKET AT A GLANCE

FIXED INCOME:

Foreign Bonds, as represented by the S&P Global Developed Sovereign Ex-US Bond Index, a proxy for non-US Investment-Grade Bonds not hedged to the U.S. Dollar, declined by (-4.72%) in Q2 2018, and is now down (-0.51%) Year-to-Date through June 2018 [41]. Like their equity counterparts, the strength of the U.S. Dollar is a headwind to U.S. dollar-based investors in foreign fixed income securities. Non-U.S. bond investors who hedged their currency risk fared better, as the Bloomberg Barclays Global Aggregate ex-USD Bond Index (hedged to USD) rose slightly for the quarter, up +0.48%[42]. The Eurozone and Asian fixed income markets have lower bond yields than in the U.S., where rates are generally rising.

Here in the U.S, the benchmark U.S. Bond Index most often quoted, the Bloomberg Barclays Aggregate U.S. Bond index was down slightly, (-0.16%) in the second quarter of 2018, as investors speculated on the number of Fed Funds Rate hikes that are coming, and what the implications are for the economy, should the Fed push short-term rates higher than intermediate-term and longer-term interest rates. As mentioned previously, when short-term (0 - 2 years) rates are higher than longer-term (10 years to 30 years) rates, the yield curve is said to "invert" and historically, that has led to economic recessions.

Credit spreads, or the additional yield investors in lower-rated bonds demand for taking on the additional credit risk, are very tight today. The ICE BofA ML U.S. High Yield Master II Option-Adjusted Spread, an Index proxy for the additional yield non-investment grade bonds pay investors over their spot Treasury curve yields, started Q2 (March 31st, 2018) at 3.72%, and ended it (June 30th, 2018) almost exactly where it started, at 3.71% [43]. High Yield Municipal Bonds were the best performing sub-sector of the Global Bond markets in Q2 2018, delivering a +3.1% return. All other categories of Municipal Bonds were slightly positive for the quarter. U.S. Treasuries, Agencies, Mortgage-Backed and High Yield Bonds were all up between 0.1% and 1.0% for the quarter. Global Bonds as a group, declined (-2.8%) during the quarter, again, primarily due to the strength of the U.S. Dollar [44].

The Fed's long stated objective has been a 2% inflation target, and it has been reached, with Core Inflation reaching 2% in May of this year. On its face, it would give the Fed a green light to continue its slow, steady rate-hiking plan, but the bond market has been reflecting fears that a recession could be on the horizon, an obvious obstacle to the Fed's intentions. Generally speaking, bond investors would prefer to see accommodation removed through the reduction of the Fed's Balance Sheet, which is underway, rather than additional rate hikes. Jay Powell and his colleagues at the Fed face the challenging task of raising rates further, so as to have the stimulative "tool" of rate reductions available to them, should n economic recession appear upon the horizon, and the possibility of raising them high enough that they (the Fed) actually cause a recession. We see asymmetric risks in the bond markets today, and we are avoiding long-dated, fixed interest bonds as a result.

(41) https://us.spindices.com/indices/fixed-income/sp-global-developed-sovereign-ex-us-bond-index
(42) https://huberfinancial.com/2018-first-quarter-review-slides-2/
(43) https://fred.stlouisfed.org/series/BAMLH0A0HYM2#0
(44) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf

THE WORLD ECONOMY AT A GLANCE

The "synchronized global economic expansion" we discussed in last quarter's report remains intact, but stronger than expected yields, higher commodity prices, and higher geopolitical risk are threats to its continuation. In the U.S., economic growth may be peaking in Q2 2018, with 60 economists surveyed by the Wall Street Journal monthly calling for U.S. GDP to come in at +4.1% for the quarter ended June 30th [45]. Most countries expect to see continued economic expansion, but most are growing more slowly than the U.S. According to Focus Economics, Canada will see its economy grow by +2.1% in 2018, the Eurozone should expect its GDP to grow +2.2% this year, Japan will grow by +1.1%, and the U.K should expect GDP growth of +1.4% in 2018. China should see its GDP expand by +6.5%, and Russia will see +1.7% growth in its GDP this year [46].

More than at any time in recent history we can recall, global Central Bankers will have much to say about the continuation of this extended economic expansion, now entering its 121st month. Since 1957, the U.S. has experienced eight economic recessions, and more often than not, they were precipitated by tightening of monetary policy by the Fed [47]. The Federal Reserve Bank is signaling its intention to raise rates at least twice more this year, and three more times in 2019 and 2020. Given the Fed's inflation target has been reached after years of attempting to manufacture inflation, the global stock and bond markets will be closely watching the Fed's every pronouncement closely in the coming months and years, hoping they don't push this "mature" economic expansion off the cliff by overdoing the rate hikes.

(45) http://projects.wsj.com/econforecast/#ind=gdp&r=20
(46) https://www.focus-economics.com/countries
(47) http://financeandcareer.com/recessions-in-the-us-since-the-20th-century-and-what-caused-them/

THE U.S. ECONOMY IN FOCUS

GROWTH

Expected to be up +4% in Q2 2018. Healthy earnings, consumer and business sentiment to keep the U.S. expanding.

JOB CREATION

In the U.S. Non-Farm payrolls increased by 632,000 jobs in the second quarter of 2018. Unemployment Rate is 4.0% in June. Tight labor supply brings wage inflation. [49]

CORPORATE PROFITS

Continued record highs in Q2 2018. Consensus estimates for year-over-year growth in Q2 earnings of the S&P 500 Index constituents are they will be +27% higher [48].

INFLATION

The 12-month percentage change in the Consumer Price Index (All Items) is +2.9%, the largest 12-month increase in inflation since February 2012 [50].

INTEREST RATES

Interest rates are expected to rise, but more so on the shorter end of the yield curve, where the Fed is pushing rates higher. If inflation continues to accelerate, the intermediate and longer-term rates should rise as well. But if the yield curve "inverts", a recession is likely.

RISK TO CONTINUED U.S. ECONOMIC GROWTH

GDP Growth is stable to rising. The primary risk to continued expansion is an overly aggressive Federal Reserve Bank.

(48) https://us.spindices.com/indices/equity/sp-500
(49) https://www.bls.gov/ces/
(50) https://www.bls.gov/news.release/cpi.nr0.htm

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