Market Musings

July 16, 2018

Diplomacy is the art of telling people to go to hell in such a way that they ask for directions."

― Winston S. Churchill

As the second quarter of 2018 came to a close, I cannot help to feel that we are close to peaking economically. Our strong economy, job growth that appears close to full employment, the stimulus of President Trump's *Tax Cut and Jobs Act of 2017*and(what I am sensing is) an economic euphoriaall leads me to feel a bit more defensive.

One would think that with that economic backdrop that the equity markets would be on fire. However, the S&P 500'stotal return was 3.43%. Globally, the MSCI-EAFE index returned-.97% for the quarter and emerging markets returned -7.86%for the quarter. The Barclays U.S. Aggregate Bond index had a quarterly return of -.16%and the Barclays Global Aggregate Ex-US bond index had a return of .48% (data courtesy ofMorningstar Direct 2018). Why is there such a divergence from an economy that is doing well and markets that are not behaving as anticipated?

There are a variety of issues that are simmering beneath the surface and I think it's important for you to know why I am feeling defensive. Irrespective of whether you love our President of do not, his brand of diplomacy is far different from one of my favorite historical figures, Winston Churchill. (I do hope you enjoy the quote). While he appears to use the stock market averages as an administration success barometer; his trade and tariff policies seem to whack-a-mole the market in a blindsiding fashion. Only time will tell if his brand of diplomacy will prove successful. Historically the market does not like surprises.Below is a quote from by 4th quarter 2017 Market Musings – I think it's worth reading again:

There will be a lot of "noise" coming from the President and it's important to watch his actions, not his words nor tweets. His bombastic approach appears to stem from an approach of aggressive negotiation tactics – reaching for the stars before coming back to earth. Hence moving the other party closer to where he wants. For the most part, he has a business friendly approach. It's anyone's guess if this will translate to a further bull market.

Overseas what was viewed as a synchronized global recovery appears to be wobbling. Trade and tariff issues have taken their toll along with several European centric issues. In no particular order: Germany's economy appears to be slowing, Italy is openly talking of exiting the European Union (not sure that happens quickly), their own migrant issue and Brexit, to name a few. China is clearly in the administration's crosshair.

Emerging markets have really been hurt by the strong US dollar and the trade & tariff talk. It is hard to ignore the dynamic demographic that emerging markets offer, but for now it's time for patience.

I suspect that we are in a slowing growth story and I continue to believe that we will have a positive 2018. I feel that returns could be positive but below historical averages.We will continue to maintain our multi asset, globally diversified portfolios based on our perception of your risk tolerance. As always, please do not hesitate to contact us.

Thank you for the confidence and trust you have placed with our firm.

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