2018 Mid-Year Update

The past few months have shown investors that not all market movements are influenced by underlying fundamentals. “Market noise” is the term used by many to describe the day-to-day price swings, as various news channels and headlines relate much of the recent price experiences around the various geopolitical events. These concerns are always a factor (even if they do not affect valuations), and as such should be watched to understand how changes could impact the future growth of the economy.

A few of the most impactful issues are as follows[1]:

- Trade tensions: Trade related headlines have been overwhelming over the past few months. The U.S. set tariffs on a wide range of Chinese goods, with the economic impact confined to specific sectors. China has retaliated with its own tariffs and added several roadblocks for U.S. businesses. While this has not yet developed into a full-blown trade war, trade spats have the ability to spook the markets.

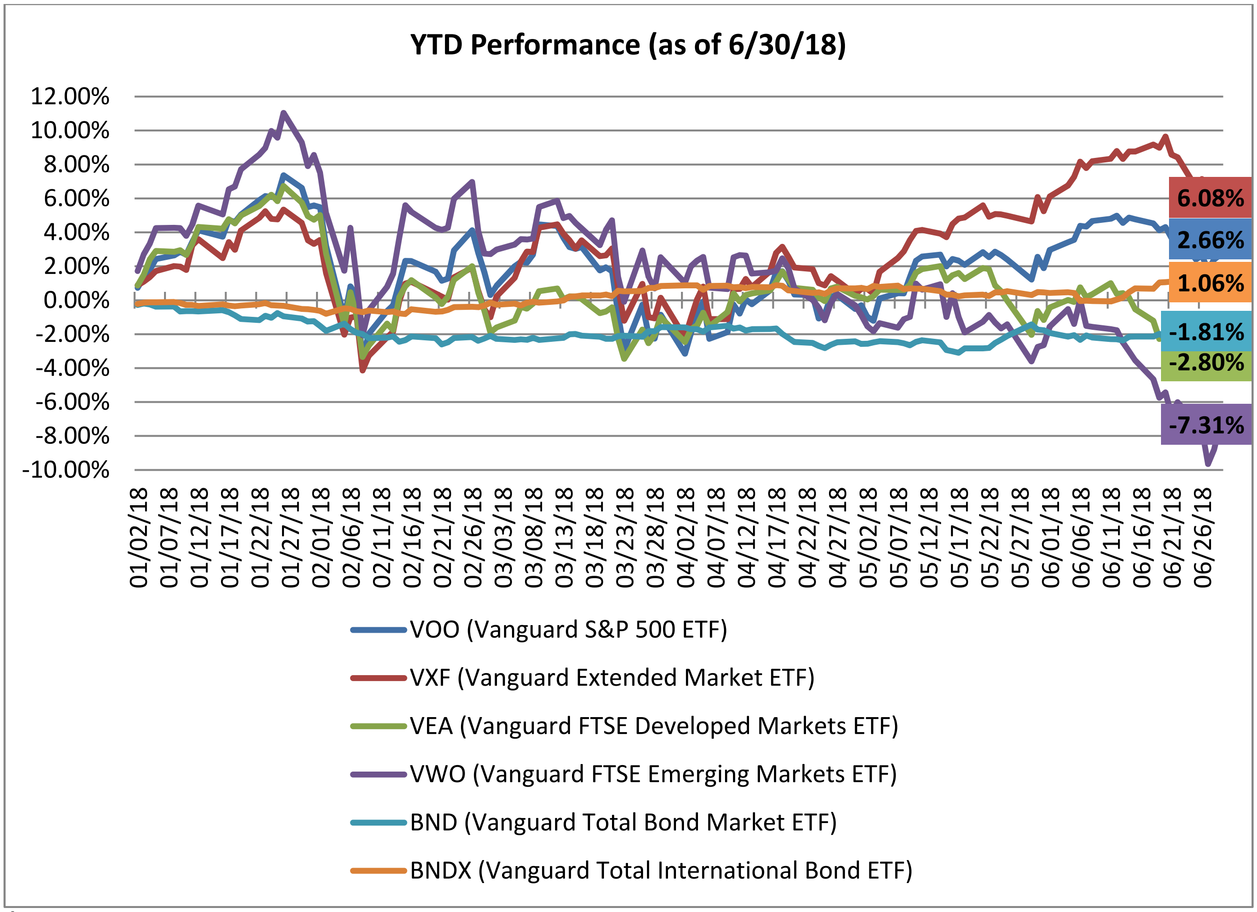
- Russian–NATO tensions: The recent clash between Russia and the West has once again reached uncomfortable terms and these concerns could increase further.

- European fragmentation: Italy’s new government is likely to continue to stir up worries with European partners, further slowing the momentum of deeper integration in the EU. These recent developments represent a break in the optimism experienced in 2017.

- North Korea conflict: In April, North and South Korea signed the Panmunjom Declaration, announcing a commitment to denuclearization and a peace treaty to officially end the Korean War. In June, Kim Jong-un and Donald Trump met and affirmed the same commitment, sharply decreasing risks for now, but lengthy implementation and verification may increase concerns.

On the economic front, 2018 is yet another example of how the U.S. economy continues to outpace the world – by producing superior corporate profits, solid economic growth, and steady policymaking (all things are relative). While global Purchasing Mangers Indexes (PMIs) continue to be in expansion territory, only the U.S. has improved on its late-2017 pace[2]. With consumers already spending freely and businesses investing more, government assistance was likely not required. However, the extra fiscal bump from Tax Cuts and Jobs Act of 2017 (TCJA) along with an increase in discretionary spending, it is likely that these additions will boost gross domestic product (GDP) growth to 3% in the first half of the year[3].

Below is a chart of various stock and bond indexes and year-to-date performance. One may note the lack of overall return and the increase of volatility, likely a result of a few of the geopolitical concerns noted previously.



[4]

Reviewing information such as this is a good reminder that short-term volatility is the price for long-term outperformance, and that as a long-term investor one must be willing to accept the occasional roller coaster ride. Daily account balances may start demonstrating larger fluctuations in price, but long-term investors should resist the urge of adjusting long-term plans, as historical data shows that over longer periods, investors have been compensated for holding riskier assets.

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[1] https://www.thinkadvisor.com/2018/05/31/blackrock-launches-geopolitical-risk-tool/
[2] https://ieconomics.com/undefined-manufacturing-pmi
[3] https://www.kiplinger.com/article/business/T019-C000-S010-gdp-growth-rate-and-forecast.html
[4] https://finance.yahoo.com/