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Q2 2018 – Market Overview Newsletter

Economic Update

During the first six months of 2018, we have seen exceptional economic growth in the United States. With anticipated lower taxes and low unemployment, consumers are feeling good and spending more which has contributed largely to current growth. There are now more job openings than workers which leaves very little room for further declines in unemployment. The current employment environment is now allowing workers to evaluate the quality of their jobs, adding pressure to wages and firming inflation.

Growth in the global economy has continued as well but at a more moderate pace. Trade continues to be a concern, but no one benefits from a trade war. The U.S imports far more than it exports and to date we have only enacted tariffs on a small portion of imports. It has been some time since the current terms of trade have been established so perhaps it is time to make some changes. With so much uncertainty, businesses won't want to invest but smart companies will find ways to benefit regardless of the outcome.

Despite a good earning season and continued growth in the U.S economy, average returns across equity markets have been fairly neutral, but average price to earnings ratios have come back to more reasonable levels. Of course, there are still select stocks out there with elevated valuations, primarily in the growth sector. Given the strong performance of growth stocks over the last 10 years and the current economic environment, this may provide a setting for value to pull ahead. Either way, we are now in the tenth year of a bull market for equities and selective investing will become increasingly important.

Flexibility and selectivity in fixed income investing will be equally important while trying to navigate low yields and rising interest rates. U.S. economic growth and healthy global growth should allow the fed to continue to raise interest rates and reduce its balance sheet. Of course, this could lead to an inverted yield curve, where long term interest rates are lower than short term rates. Historically, this has been seen as an indicator of a recession. However, it may not be the best indicator given the current environment nor is it the deciding factor in the direction of our economy. In fact, long-term rates remaining low would help the housing sector and higher short-term rates would give fixed income investors a pay increase which are both positive. Ultimately it will depend on how aggressive the fed is in raising rates.

We all know that a slowing of our economy could happen at some point. The word recession conjures up a guttural response in all of us as we recall the financial crisis of 2008-2009. Since the end of World War II there have been 11 recessions. The last two (the tech bubble and the financial crisis) resulted in a pull back in the market of roughly 50% but the average market correction of the other nine was 25%, roughly half. Of course, a 25% market correction doesn't sound like a walk in the park either. Even though we are late in the cycle, that doesn't mean there won't still be meaningful returns for portfolios. We believe it's important to be invested in a diversified portfolio, stay invested and not let emotions dictate portfolio decisions. -LS

For more market details, see the "IM&R Q2 2018 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries

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DISCLOSURE INFORMATION

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. Morgan Stanley Capital International **(MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. **Participation in a 529 College Savings Plan** (529 Plan) does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals. Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan. For more complete information, including a description of fees, expenses and risks, see the offering statement or program description. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.**A recession** is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession. **The value of a company** is closely associated with its expected future earnings. The stock of companies that are expected to have relatively faster earnings growth are considered **Growth** stocks. Stock of companies that are perceived as being undervalued relative to their expected earnings growth are considered **Value** stocks.