BRIEF MARKET INSIGHTS

JUNE, 2018

Thoughts on Global Trade:

Back in March, the Trump administration began addressing trade policy, and we concluded at that time it was too early to judge the effects or magnitude that a shift in U.S. trade policy might have on global growth. A recent article by Bloomberg in early June outlined the potential negative effect - and according to JP Morgan, the threat of a trade war has already "yanked 1.25 trillion from U.S. Stocks" or approximately 4.5% out the S&P 500 market value.

Investors could attribute these market losses to the executive branch for the protectionist saber-rattling. On the other hand, we also received a very significant corporate tax cut at the end of last year, which offsets the bearish case for selling stocks against the potential backdrop of a global trade war. Certainly, this environment has elevated uncertainty and resulted in increased market volatility, since the start of the year.

On closer examination, we have observed that despite the trade uncertainty most of the cyclical sectors of the S&P 500 have significantly outperformed interest-rate-sensitive ones so far this year, with Information Technology, Consumer Discretionary and Energy leading the sector derby.

Just as value-oriented style investing appeared to have jumped into a leadership position in the second quarter, growth stocks again reasserted themselves in the past several weeks as global economic uncertainty gained some traction. *Yet the markets continue to move higher.* This suggests that tax cuts and coincident earnings have been far more influential to investor sentiment than the noise associated by protectionist policies. The result has been beneficial for cyclical and growth stocks versus weakness in interest-rate-sensitive stocks related to the Fed's ongoing normalization of monetary policy – one which has boosted the 10-year bond yield back to 3.00% rather quickly.

From our perspective, protectionism hasn't weighed on the market as much as the Fed has. Meanwhile, the global economy seems to be doing well enough to boost cyclical and growth stocks. It is interesting to note that this nationalist agenda is actually providing a tailwind for the stocks of some companies. They are the ones that have relatively little exposure to the global economy. This has shown up in the Russell 2000/small cap index doubling the returns of its larger cap counterparts so far this year. However, unless the large caps take a nose dive, the global economy should continue to grow and protectionism isn't likely to become a significant drag on growth.

We remain constructive on markets coincident with the U.S. economic expansion continuing, and we maintain our projection that tax savings on corporate earnings could lead to forecasts for 2018 higher than current consensus (+15% growth over last year). As long-term investors, we believe that in spite of significant volatility and global noise, we are still not overly concerned that these signal a fundamental shift in capital markets that would change our asset allocation bias.

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