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A Beautiful View To Your Financial Future℠

Second-Quarter 2018 Market Review

Trade Tariffs: Tiff, Tussle or Tsunami?

July 2018 - Uncertainty about what may become the largest trade war in history set the tone for investors during the second quarter. On the first day, with tariffs looming, stocks had their worst April start since 1929. The Dow Jones Industrial Average, Standard & Poor's 500-Stock index, and the NASDAQ Composite index all sank into "correction" territory, defined as a drop of 10% or more from a recent high.

Despite the trade-war overhang, all three market barometers managed advances for the second quarter: the Dow Jones added 0.7%, the S&P 500 (total return) rose 3.4%, and the NASDAQ jumped 6.3%. If the outcome is a tussle, the tariffs would most likely represent a minor portion of the overall economy. Conversely, significant tariffs could result in a setback for the global economy. The question remains whether the disputes will escalate or result in a fairer and freer trade landscape.

Although tax cuts have fueled a double-digit expansion in corporate earnings, which also are exceeding analyst estimates by wide margins, stock prices are not being rewarded. For the first half of 2018, the Dow Jones shed 1.8%, while the S&P 500 (total return) gained 2.7% and the tech-heavy NASDAQ climbed 8.8%. It was the worst first half for the Dow Jones since 2010. The S&P 500 has increased the first half of the year for eight consecutive years, while the NASDAQ has been up the first half for seven of the last eight years.

The Federal Reserve met twice during the quarter, leaving interest rates unchanged at the first meeting, while raising its short-term target by a quarter percent at the second to a range of 1.75% to 2.0%. It was the second rate hike in 2018 and the seventh since the Fed began lifting rates off near-zero in December 2015. A majority of Fed board members forecast two more hikes in 2018, with the economy expected to expand by 2.8%, up from a previous estimate of 2.7%. Unemployment is projected to fall to 3.6% by year end, the lowest level since the 1960s.

Bond sector returns were mixed for the second quarter and first half of 2018. The biggest movers at mid-year were U.S. Aggregate, dipping 1.6%, and International Emerging Markets, sliding 3.8%. The yields on two and 10-year U.S. Treasury notes continued their ascent in the second quarter, rising by 26 and 12 basis points to 2.53% and 2.86%, respectively. During the quarter, the 10-year note rose above 3%, the first time since 2014. The yield curve continued to flatten, with the two-ten note spread dropping to 33 basis points from 47 at the start of the quarter.

On the next page are rates of return for selected market indices for the second quarter and first half of 2018, and the three, five, and 10-year compound annual returns as of December 31, 2017.

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	2Q:2018	YTD-2018	3-Year	5-Year	10-Year
Equity (Stock) Indices					
Domestic					
Russell 1000 - Large Cap	3.57%	2.85%	11.23%	15.71%	8.59%
Russell Midcap	2.82%	2.35%	9.58%	14.96%	9.11%
Russell 2000 - Small Cap	7.75%	7.66%	9.96%	14.12%	8.71%
Real Estate (FTSE NAREIT Equity REITs)	10.04%	1.02%	5.62%	9.46%	7.44%
Commodity (S&P Global LargeMidCap)	6.07%	2.97%	4.38%	0.09%	-0.53%
International					
MSCI EAFE Developed Large Cap	-0.97%	-2.37%	8.30%	8.39%	2.42%
MSCI EAFE Developed Small Cap	-1.38%	-1.06%	14.60%	13.23%	6.14%
MSCI Emerging Markets	-7.86%	-6.51%	9.50%	4.73%	2.02%
Global - MSCI All Country IMI	0.90%	0.12%	10.10%	11.58%	5.53%
Fixed-Income (Bond) Indices					
Bloomberg Barclays					
Global Aggregate - Unhedged	-2.79%	-1.46%	2.02%	1.24%	3.35%
Global Aggregate - Hedged	0.18%	0.07%	2.66%	NA	NA
U.S. Aggregate	-0.16%	-1.62%	2.24%	2.10%	4.01%
U.S. Treasury TIPs	0.78%	-0.02%	2.05%	1.54%	4.25%
U.S. Corporate High Yield	1.03%	0.16%	6.35%	5.00%	7.63%
Municipal	0.87%	-0.25%	2.98%	3.62%	4.76%
International Emerging Markets	-2.40%	-3.84%	6.38%	5.00%	7.59%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloombergindices.com

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