



QUARTERLY MARKET COMMENT Second Quarter 2018

The Markets in the U.S. and around the world had a roller coaster ride during the 2nd Quarter. In the domestic markets, small cap stocks outperformed large cap stocks by a large margin. This was somewhat anticipated with the tax law change and the talk of tariffs. However, we are still seeing growth outperform value, which suggests the markets still have room to run here. Given the Federal Reserve's steady increase in short-term rates we are now experiencing negative real returns in the fixed income markets as noted below. The strength in the dollar had a direct impact on the performance of the international equity and fixed markets which led to negative returns in these areas. Domestic real estate rebounded in the second quarter. Tangibles were a mixed bag with precious metals losing ground and natural resources in positive territory. This is where we are today. The general consensus is the markets will resume an upward trend. The expectation is that it will be very choppy and uneven with higher doses of volatility.

The U.S. economy has just completed one of its strongest growth quarters while the rest of the world has taken a breather. The expectation is that the 2nd quarter Gross Domestic Product (GDP) number, projected to be somewhere between 3.8% and 5.0%, will be the strongest since the 3rd quarter of 2014 when it was 5.2%. The numbers are confirming very strong spending in all areas of the economy -consumers, businesses and the government. This was not entirely unexpected with the new tax law fueling the embers of an already growing economy. The overall growth projection for 2018 is now somewhere between 2.75% to 3.3%. Greater demand has pushed unemployment numbers down too. The current rate of 3.8% is hovering at 18 year lows and new numbers out tomorrow could be lower still. Wage pressure has been somewhat absent for several reasons, but near-term there is some upward pressure. As a result inflation is heating up. Core inflation is at 2.2% with the expectation this is going to 2.4%. This is above the Federal Reserve's target rate. With strong growth, a tightening labor supply and higher inflation, the Federal Reserve increased rates last quarter and is expected to continue to increase rates at least two more times this year. A looming concern is a tightening labor force that may stall out the surge in productivity the economy is currently experiencing. Short-term the strength of the dollar has been a drag on international investments due to trade tariff issues and slowing economies in other countries. The long-term trend of the dollar is still projected to be down due to some larger economic forces in play, namely our growing deficit and a growing middle class in emerging markets.

The economic backdrop may look rosy, but that does not mean the markets are easy to navigate at this stage in the cycle. We are expecting more volatility as we move forward. The key is to try and remain focused on the long-term and to not be pulled emotionally by the short-term swings in the markets. Long-term we have found added value in rebalancing portfolios annually and maintaining all-weather diversified portfolios. We appreciate the opportunity to work with you and if you have any questions or concerns, please do not hesitate to let us know.

Although the information has been obtained from sources believed to be reliable, the information should be relied upon only when coordinated with individual professional advice. Past performance is not a guarantee of future results. Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as tax, legal or specific investment advice.

Asset Index Category	YTD 2Q 2018 %	YTD 2018 %	3-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	2.88	1.67	9.63	7.82
S&P 400 Index-Mid-size Companies	3.80	2.69	9.12	9.07
Russell 2000 Index-Sm Companies	7.43	7.00	9.43	9.07
Natural Resource Funds	3.67	-1.10	5.47	0.13
Gold	-5.54	-3.54	2.10	2.98
US Real Estate Funds	7.90	0.46	7.19	7.26
Global Real Estate Funds	2.67	-0.17	5.45	4.59
MSCI EAFE-Developed International	-2.34	-4.49	2.06	-0.04
MSCI EM Index-Emerging Markets	-8.66	-7.68	3.23	-0.16
Barclays U.S. Aggregate Bond Index	-0.16	-1.62	1.72	3.72
Long U.S. Government Bond Index	0.07	-2.66	2.46	5.33
Emerging Market Bond Index	0.62	1.27	5.02	4.69

Registered Investment Advisor

A Fee-Only Financial Planning & Investment Management Company

1621 W. First Ave., Grandview Hts., OH 43122 614-538-1600

www.alexanderfinancialplanning.com