

Market Currents

- **Volatility Returns.** After a prolonged period of relative market tranquility, volatility has returned to the market in 2018. U.S equities are slightly positive through May, although there have been sharp movements both to the upside and down along the way. Investors have enjoyed healthy corporate earnings, driven by tax cuts, but stock prices have not strongly responded. Due to higher rates in effect, the value of bonds declined slightly through May.
- **Robust Corporate Earnings.** As noted, overall earnings results are strong, with the S&P 500 reporting its strongest earnings gains in eight years. Companies are deploying their tax cut windfalls to higher capital expenditures, and another round of stock repurchases. In addition, a number of companies have paid one-time bonuses to their employees. Market valuations have improved, as stock prices have remained flattish, despite the higher earnings. As such, valuation is now lending some support to the overall level of stock prices.
- **Global Growth in Question.** Although the domestic expansion remains on solid footing, a key element of our outlook – that global growth will remain synchronized – is being challenged. The synchronized growth dynamic has turned uneven of late. Rising interest rates, renewed geopolitical risks, Eurozone political disruptions with Italy, and rising oil prices are lending uncertainty to our outlook.
- **US-China Call Truce on Trade War.** After months of battling back and forth with trade tariff threats, the White House and China have agreed to put the dispute “on hold.” While the situation is fluid and things can change on a dime, we are optimistic that the two nations will avoid a serious trade conflict. The world thrives on trade, and trade wars are counter to the interest of every country in the world.
- **Dollar Rising.** The U.S. dollar is currently trading near a 2018 peak against a basket of currencies, as investors increased bets that rising interest rates and stronger growth in the U.S. would boost the greenback. With over 40% of S&P 500 companies’ sales coming from overseas, the market has benefited from a weak dollar that had persisted over the past year or so. A reversal of this prior trend, to dollar strength, will have a dampening impact on corporate earnings.
- **We Expect Volatility, but Remain Cautiously Optimistic.** The current volatility will likely remain present. Rising rates, a more aggressive Fed, ongoing trade uncertainty, renewed geopolitical risks, and Eurozone political disruptions have all played a role in eroding investor confidence. However, strong earnings momentum, corporate tax cuts, deregulation, and fiscal stimulus underpin our net-positive outlook. The current expansion is aging, without question, but for the moment, we maintain our view that any pullback is a healthy correction within a bull market. Risks to our outlook would arise from inflation overheating, labor force bottlenecks, or an unexpected pullback from the domestic consumer.

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