U.S. equity markets continue to reach all time highs as concerns from Brexit subside and focus shifts to corporate earnings. As long term investors, it is earnings, and the price multiple we pay to own stocks, that we care about most. Fundamentally, earnings should drive stock prices, but it appears that investors are willing to pay more for corporate earnings that, in many cases, have been stagnant. In a low interest rate world, we are seeing demand for income in yield sensitive sectors such as utilities. In normal interest rate environments, we do not typically see the appreciation that we have seen in these sectors.

EARNINGS:

As earnings season gets underway, we are reminded that many companies have been repurchasing their own shares. This is often an indication that management believes share price is undervalued. However, the more skeptical investor may say that this is simply a way for companies to decrease shares outstanding and increase the earnings per share number. We like companies that have management teams with a track record of generating superior return on invested capital and who pass excess earnings through to shareholders as dividends.

BREXIT:

There is still uncertainly around the implementation of Britain's departure from the European Union. More importantly, Britain's vote is representative of a larger trend signaling a shift from globalization to nationalization, which has broad implications for multinational companies and the global economy. We continue to monitor sentiment as elections approach in many systemically important countries. Even through the unrest and uncertainty, we continue to see value in European companies relative to other areas of the world.

RATES:

Interest rates remain low as central banks around the world continue accommodative monetary policy. Additionally, negative interest rates in other parts of the world cause yield hungry investors to purchase U.S. Treasury bonds, keeping our already low interest rates lower and increasing the price of bonds. We continue to believe that bonds are an important component of a diversified portfolio. We are, and have been, aware of interest rate risk which is why we are buying short term and intermediate term bonds. We have also started to diversify within fixed income by purchasing Treasury Inflation-Protected Securities (TIPS). TIPS adjust in value as inflation increases so that the real purchasing power of your investment is maintained.

We know that in this global market there are a myriad of concerns for investors. We take a long term view and try to construct portfolios that help you achieve your goals. If you have questions, concerns or just updates about your financial situation, please give us a call. The best part of our job is talking to our clients!

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