FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

July 2018

Second Quarter Market Update

After a tumultuous start to the year, domestic markets defined as the S&P 500 slowly recovered their momentum throughout the second quarter of the year and finished up 3.4%. International markets defined by the MSCI EAFE index continued their slide in the second quarter, ending down just shy of 1%, and are now down 2.4% for the year. As the Federal Reserve continued to raise interest rates, fixed income remained under pressure and ended the period down slightly at -.2%.

Is this real life? Is this just FANGtasy?

As noted, domestic markets ended the period up 3.4%, despite headlines regarding threats of trade wars. While trade wars or skirmishes are not good for economic activity and will likely have some negative impact on the economy, the scale of that impact is difficult to quantify, with industries, companies and eventually consumers feeling the impacts in different ways. While the phrase *trade wars* is catchy, it is important for long term investors to not overly focus on the news; as with any headlines, it may end up being only noise in the end.

When evaluating the underlying fundamentals of the US economy it is hard not to be impressed with the growth that is being achieved, most notably in the technology sector. Looking back to the first quarter of 2018, S&P 500 earnings grew 24.8% year-over-year, which was the highest year-over-year growth since Q3 2010, according to Factset. As of this writing, we are entering the Q2 2018 earning season, during which analysts are projecting the S&P 500 to produce 8% revenue growth translating to 20% earnings growth. If this materializes, the 20% earnings growth figure would be the second highest quarterly growth rate since Q3 2010. Looking forward to the second half of the year, analysts are currently projecting double-digit earnings growth in both Q3 and Q4, coupled with revenue growth in each period as well. This continued strength is a positive sign that the market may be able to continue its winning ways.

Unlike their domestic counterparts, international markets, measured by the MSCI EAFE, continued to stumble, declining 1% in the period. Emerging markets had the toughest period relative to other asset classes declining 7.86% in the period. Beyond the headwinds of trade tensions, emerging markets could face additional unfavorable impacts from the strong US dollar which strengthened against many other currencies during the quarter.

Another sign of strong economic growth beyond the figures noted above is the low unemployment rate, which is around 4%. Given these signs the Federal Reserve has continued its forecasted plan of raising rates and increased rates again.25% in June. It is likely we will see at least one, and possibly two, more rate hikes by the end of the year. This is a notably hard environment for bond investors because rising interest rates put pressure on the prices of bonds. As we have noted in the past, in our opinion, any well-balanced portfolio has some bond exposure, even long-term investors. While they may be a lagging asset class today, bonds can act as a good ballast for a portfolio when equity markets correct.

While the length of the post-Great Recession S&P 500 bull market is approaching being the longest ever and the forward P/E multiple is at 16.2, which is above the 10-year average of 14.4 according to Factset, the strong underlying fundamentals outlined give us confidence that the market can continue to appreciate and have a modestly positive year. We don't believe bull markets die of old age, but it is important to remember that corrections do happen and can happen quickly. While it is comfortable to be invested when markets are going up, it is important to remember that volatility is inherent in capital markets and that eventually we will go through another correction. With this understanding it is important to rebalance portfolios to targeted allocations on a regular basis so that the investment returns, and more importantly the risk assumed, match what was originally called for in the financial plan.

We are always ready to assist you and answer any questions regarding this newsletter or any other financial matter that may come up. If any changes to your situation have occurred, please contact us at your convenience.

Index	Closing Price: 6/29/2018	Closing Price: 3/30/2018	Q2 2018 Return	2018 YTD Return
S&P 500	2,718.37	2,642.31	3.43%	2.65%
S&P 500 Value	1,088.21	1,080.05	1.40%	-2.22%
S&P 500 Growth	1,633.76	1,557.68	5.25%	7.28%
Russell 2000	4,083.44	3,801.01	7.75%	7.66%
Russell 2000 Value	7,157.76	6,639.44	8.30%	5.44%
Russell 2000 Growth	6,284.85	5,869.99	7.23%	9.70%
MSCI EAFE	1,958.64	2,005.67	-0.97%	-2.37%
MSCI EM	1,069.52	1,170.87	-7.86%	-6.51%
BBgBarc US Agg Bond	2,013.28	2,016.48	-0.16%	-1.62%

Written by Finity Group