DNB FIRST Wealth Management

Investment Commentary Q3 2018

The U.S. equity markets rose during the third quarter of 2018 as global investors shifted assets to the U.S. equity markets due to stronger U.S. economic performance. Large, Mid, and Small Cap stocks grew 7%, 5%, and 4% respectively, during the quarter due to higher corporate earnings and stronger consumer and government spending. For the 12-month period ended September 30, 2018, Large, Mid, and Small Cap stocks rose 18%, 14%, and 15% due to lower corporate taxes, fewer regulations, lower inflationary pressures, and higher global consumer demand. The healthcare, industrials, and telecommunications sectors grew 14%, 10%, and 9% respectively during the quarter as global investors favored growth-oriented companies. Large, Mid, and Small Cap stocks fell 10%, 10%, and 14% during October as fears about higher interest rates, political uncertainty in the U.S. and abroad, and tariffs triggered a correction in the global equity markets.

International Developed-Market stocks grew only 1% during the third quarter as Brexit concerns continue to loom over Eurozone countries. Emerging Market stocks fell 1% during the quarter and 17% since January 1st due to higher U.S. interest rates, a stronger U.S. dollar, political unrest, and lower capital inflows.

U.S. bonds were flat during the quarter as global investors continue to seek value in a higher interest rate environment. International Developed-Market and Emerging Market bonds were also flat during the quarter due to higher U.S. interest rates and sovereign debt issues in emerging market countries.

The U.S. economy grew at an annualized rate of 3.5% during the third quarter of 2018 due to higher consumer and government spending, including local, state, and federal spending, and non-residential fixed investments. U.S. corporate earnings are projected to have grown over 20% when compared to the third quarter of 2017. The U.S. labor market continued its growth during the quarter as the overall unemployment rate fell to 3.7%, its lowest level since 1969 as jobs were created in various industries such as healthcare, manufacturing, and construction. U.S. hourly wages also grew 2.8% in September as employers continue to seek highly skilled workers across the country. Consumer spending rose 5% but the Consumer Price Index rose only 2.3% (year-over-year) during September. The on-going question among analysts and economists is how long the U.S. economy can sustain this growth. Existing home sales fell over 3% due to concerns about higher interest rates and home affordability. U.S. companies, such as Harley-Davidson, 3M Company, and Apple, Inc. have stated that higher tariffs may impact material costs and profits in the near future. We believe that a trade resolution between the U.S. and China will have a large impact on U.S. corporate earnings and economic growth in 2019.

International-developed and emerging market countries continued to experience sub-par economic growth during the third quarter due to government debt issues, higher U.S. interest rates, a stronger U.S. dollar, and political unrest in Europe and South America. Since the Brexit vote in June 2016, there has been no agreement between the U.K. and the European Union to address the changes from Brexit. We believe a Brexit resolution will give clarity to global business and investors on the economic future of the United Kingdom. Emerging market economies have suffered this year due to political unrest, higher U.S. interest rates, and capital outflows to other areas of the world. According to Reuters, the International Monetary Fund lowered its 2018 GDP growth estimate for Brazil to only 0.4% due to higher U.S. interest rates and trade issues between China and the U.S. Emerging market countries such as Taiwan, Singapore, and South Korea are heavily exposed to tariff effects as they are large exporters to China. The Trump Administration and China are rumored to meet at the G-20 Summit later in November to discuss trade issues.

We increased our Long Short Equity position as we believe the domestic and international equity markets will continue to experience higher volatility throughout the remainder of 2018 and into 2019. We will continue to seek active investment managers that are focused on lower cost and lower portfolio volatility for our clients.

As always, we welcome your thoughts and concerns. Please contact your DNB First Wealth Management Advisor to discuss your portfolio in further detail.