Better than last quarter! The DJIA was up +1.3% and the S&P 500 was up +3.4%. The NASDAQ was up a healthy +6.6% reflecting strong small company performance (less susceptibility to trade wars). Despite positive results for the indices, significant volatility is still around. The bond markets were relatively stable (the Barclay’s Aggregate Bond Index was down .2% for the quarter) although an additional ¼ point interest rate increase took place in June.

The economy is in good shape. Leading economic indicators remain positive and the unemployment rate is lower than it has been in quite a while. The number of unemployed workers is dropping (there are shortages in some areas) and wages are slowly rising. A good indication of economic direction is corporate earnings and 2nd quarter data will begin to come out in the next few weeks. A couple of things to watch: the impact of recently imposed tariffs is uncertain (at least in the short term); and the effect of the Federal Reserve rate increases. In June, the Fed announced the 7th interest rate increase since 2015 and signaled that two more rate hikes are likely this year. The concern is inflation and its control.

International markets did not have a good quarter. All the major averages were down. Latin America led the way down -22.4%, China was down -5.5%. The escalating trade war is putting pressure on markets globally, however, the impact has not yet fully appeared in financial data. The North Korea denuclearization talks are continuing. There will be a summit meeting in July between President Trump and Russia’s Putin – at least they are talking. Venezuela has failed, Iran is facing increasing unrest, Mexico has a new president who could be a problem for the U.S. and finally the Mid-East remains a hot spot! Unfortunately, oil prices are rising, not good in the summer.

Market results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2018** | **12 MONTHS Ending**  **6/30/2018** | **THREE YEARS Ending**  **6/30/2018** | **FIVE YEARS Ending**  **6/30/2018** |
| **DJIA** | 1.3% | 16.3% | 14.1% | 13.0% |
| **S & P 500** | 3.4% | 14.4% | 11.9% | 13.4% |
| **NASDAQ Composite** | 6.6% | 23.6% | 16.0% | 18.5% |
| **Barclay Agg. Bond** | -0.2% | -0.4% | 1.7% | 2.3% |
|  |  |  |  |  |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | 5.1% | 20.6% | 12.2% | 14.4% |
| Value | 1.6% | 9.1% | 8.4% | 9.9% |
| *Small Cap* |  |  |  |  |
| Growth | 8.5% | 22.6% | 11.0% | 12.7% |
| Value | 6.6% | 12.4% | 9.1% | 9.8% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2018** | **12 MONTHS Ending**  **6/30/2018** | **THREE YEARS Ending**  **6/30/2018** | **FIVE YEARS Ending**  **6/30/2018** |
| International |  |  |  |  |
| Europe | -1.0% | 5.0% | 5.1% | 6.8% |
| Latin America | -22.4% | -0.2% | 3.4% | -3.7% |
| Japan | -1.8% | 10.6% | 7.5% | 10.4% |
| Pacific ex Japan | -4.8% | 9.0% | 6.2% | 7.4% |
| China Region | -5.5% | 13.4% | 4.4% | 10.4% |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | -1.3% | -0.1% | 4.4% | 5.1% |
| Intermediate | -0.2% | -0.4% | 1.7% | 2.2% |
| Short | 0.3% | 0.5% | 1.2% | 1.3% |
| Government Bond |  |  |  |  |
| Long | 0.4% | -0.5% | 3.2% | 4.4% |
| Intermediate | 0.0% | -0.8% | 0.7% | 1.4% |
| Short | 0.2% | 0.0% | 0.3% | 0.5% |
| Municipal Bond |  |  |  |  |
| Long | 0.9% | 1.8% | 3.0% | 3.8% |
| Intermediate | 0.8% | 1.1% | 2.3% | 2.9% |
| Short | 0.5% | 0.6% | 0.9% | 1.0% |

**Market Outlook**

Volatility will continue. As mentioned during the first quarter, a trade war over tariffs with China and some of our trading partners is possible. The longer that the uncertainty regarding the trade situation persists the greater the risk for the economy and the markets. Domestic and International political concerns are ongoing and may precipitate a crisis at any time. Hopefully, they will continue to muddle along. But our economy appears in good shape and we will keep our eye on second quarter corporate earnings.

We continue to recommend target stock allocations be maintained. If you are in any way uncomfortable with your allocation, please let us know.

**MSM FINANCIAL STRATEGIES**

**7/6/2018**

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