2018: 2nd Quarter Summary

"You get caught up thinking about the future, you lose sight of the present." Antonio Brown

The 2nd quarter of 2018 was a busy one on the policy front. U.S. interest-rate hikes continued, the ECB announced plans for its QE program, Italy began digesting the results of its March vote and global-trade tensions escalated. Investors in U.S. stocks and some real assets were pleased; other investors in non-U.S. stocks and high-quality U.S. bonds did not enjoy similar performance benefits. Most investors spend too much time trying to guess the effect of public policy when they should be focusing on the data. Following is a summary table of Q2 market results:

Index Returns
as of 6/30/2018

Index	YTD 2018	Q2-18	Q1 - 18	YEAR 2017	SINCE ELECTION
FIXED INCOME					
BbgBarclays US HY 2% Issuer Cap	0.16%	1.03%	<0.86%>	7.50%	9.56%
BbgBarclays Municipal	<0.25%>	0.87%	<1.11%>	5.45%	2.25%
BbgBarclays Global Aggregate	0.07%	0.19%	<0.12%>	3.04%	1.75%
BbgBarclays US Agg Bond	<1.62%>	<0.16%>	<1.46%>	3.54%	<0.28%>
U.S. STOCKS					
Russell 1000 [Large-cap Stocks]	2.85%	3.57%	<0.69%>	21.69%	31.64%
Russell 2000 [Small-cap Stocks]	7.66%	7.75%	<0.08%>	14.65%	40.54%
S&P 500	2.65%	3.43%	<0.76%>	21.83%	31.29%
INTERNATIONAL STOCKS					
MSCI ACWI Ex USA NR [All Stocks]	<3.77%>	<2.61%>	<1.18%>	27.19%	23.35%
MSCI EAFE NR [Developed Markets]	<2.75%>	<1.24%>	<1.53%>	25.03%	24.16%
MSCI EM NR [Emerging Markets]	<6.66%>	<7.96%>	1.42%	37.28%	22.85%
REAL ASSETS					
U.S. Dollar	2.73%	4.97%	<2.14%>	<9.87%>	<3.30%>
Morningstar US Real Asset Index	2.44%	4.49%	<1.96%>	3.41%	6.82%
Bloomberg Commodity	<0.00%>	0.40%	<0.40%>	1.70%	6.31%
S&P GSCI Crude Oil Spot	22.72%	14.18%	7.48%	12.47%	63.93%
S&P United States REIT	1.37%	10.37%	<8.15%>	4.33%	10.58%
S&P Global Ex US REIT	<0.91%>	0.12%	<1.03%>	16.72%	13.51%

Source: Morningstar, Inc. USD data with dividends and interest
Since Election' data from 11/09/16 through 6/30/18

"A person often meets his destiny on the road he took to avoid it." Jean de La Fontaine

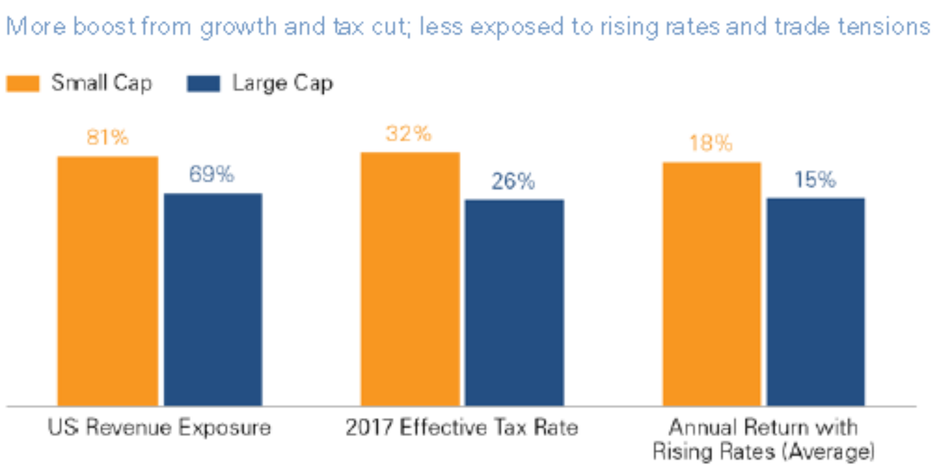
All of the data we reviewed in last quarter's update – leading economic indicators, the global PMI manufacturing composites, equity earnings, the yield curve, inflation and unemployment – still indicate continued growth. While we are in the later cycle of a growth phase, we see global policy uncertainty as the major issue clouding the near-term investing outlook.

Rising nationalist sentiment, the nascent 'trade wars' and a cold shoulder from the U.S. to its long-term trade and political allies have combined for an uncertain outlook for global growth. Inconsistent government policies around the globe have shifted investor focus from expansion to safety, and made the job of global central banks even more difficult. As a result, investors are trying to 'guess' when the next U.S. recession will occur to reposition portfolios, while simultaneously benefitting from the 'tech boom.' The early results of these changes have hurt some U.S. and non-U.S. stocks hard, especially in emerging markets.

Recession fears and a steepening yield curve do NOT imply a very near-term equity correction. As this graph below indicates, stocks have done well for the 12 months following an increase of 100 basis points (one percentage point, or 1.0%) in the U.S. Treasury 10-year yield:

Source: FactSet, GSAM. As of March 2018. **Past performance does not guarantee future results, which may vary.** If any assumptions used do not prove to be true, results may vary substantially.

We also observed that the current U.S. policy cocktail of tariffs, taxes and trade uncertainty promotes opportunities in other market segments beyond U.S. large-cap stocks. This graph below illustrates this theory: U.S. smaller-cap stocks have more exposure to domestic U.S. growth (i.e. higher revenue exposure), paid more in taxes than larger-caps (i.e. more benefits from the recent tax legislation) and have performed better when U.S. interest rates have risen in the past:



Source: BEA, BAML, Credit Suisse, Russell, S&P Capital IQ/ClariFi, Compustat as of Dec 2016, Factset, GSAM as of Mar 2018. Small caps calculated using Russell 2000 index, large caps calculated using S&P 500 index.

Many investors often overlook non-S&P 500 segments of the market, but all stocks are not the same. A brief analysis of the differences between U.S. large-cap and small-cap stocks (represented by the S&P SmallCap 600) is detailed below. Note that the tax and trade issues mentioned above contributed to the strong sector returns in the S&P SmallCap 600 index, which does not have securities overlap with the S&P 500 index.

	Index Data			Sector Data			No. Positive Sectors	
Index	YTD 6/30/18	Q2 Return	Q1 Return	No.	Q2 Avg, Return	Q1 Avg. Return	Q2	Q1
S&P 500	2.65%	3.43%	(0.76%)	11	3.22%	(2.10%)	7	2
S&P SmallCap 600	9.39%	8.77%	0.57%	11	10.76%	(2.86%)	11	4

Source: Morningstar, Inc. All data INCLUDE dividends and are in USD.

Another way to view the Q2 market dynamic is by reviewing the performance of the utilities and real estate sectors. Both sets of these two large- and small-cap sectors had negative performance in Q1, and both rebounded strongly in Q2 to post positive returns for the year through June 30. These sectors are more insulated from the ongoing tariff, currency fluctuation and overseas revenue issues discussed above than other companies, such as global conglomerates.

	Index	Total Ret YTD June 2018	Q2 18 Total Return	Q1 18 Total Return	Diff. from Q1 to Q2
Real Estate Sector	S&P 500	0.81%	6.13%	(5.02%)	11.15%
	S&P 600	0.79%	12.31%	(10.25%)	22.56%
Utilities Sector	S&P 500	0.32%	3.74%	(3.30%)	7.04%
	S&P 600	1.96%	7.92%	(5.52%)	13.44%

Source: Morningstar, Inc. All data INCLUDE dividends and are in USD.

"Planning is bringing the future into the present so that you can do something about it now." Alan Lakein

Our outlook hasn't shifted from the prior quarter. We still find political and trade issues looming larger in driving market sentiment. Certainly, the data we have been reviewing is strong, but emotions often dictate market moves. We believe stocks, while a bit rich in some areas, still offer compelling value compared to bonds. The U.S. Treasury 10-year bond ended the quarter at a 2.85% yield, just above the Q1 yield of 2.74%. A falling unemployment rate and slowly rising inflation have not prompted the Fed to radically alter its course, and stocks posted another excellent earnings quarter. We still see value in stocks given where we are in the growth cycle and with the valuation changes in international equities.

Our deepest concern is the future nexus when 10-year Treasury yields break through the 3.50% rate and stock earnings and revenue growth begin to slow. While we believe this event is a ways away, the amount of corporate and government debt necessary to satisfy the next three years refinancing needs may hasten a trigger event to cause volatility in the markets. Despite this prediction, we still expect a cautious Fed to continue raising rates with a few years of a steady 'one hike per quarter' pace ahead.

Finally, we are relieved by the return of more 'normal' volatility in the bond and stock markets, which should afford more opportunities to active investment managers. Active management is a substantial component of our diversified portfolios, and market environments such as these are excellent hunting grounds for managers to add value in our portfolios with discriminate stock selection.

As always, we implore our clients to take a long-term outlook on their investment portfolios. Having an appropriate and well thought out asset allocation is the best way to achieve your investment goals.

We welcome your comments and questions.
-Your Wealth Management Team at JJ Burns & Company

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 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.