Market Perspectives

A Glance at How the World Affects You

July 2018

Last week brought modest gains for stocks and volume was underwhelming. The Dow Jones Industrial Average rose 0.4% and the S&P 500 increased 0.1%, while the Nasdaq Composite was flat. Trade-war concerns surfaced again mid-week, as the Trump administration issued a new list of tariffs on $200 billion of Chinese goods, but the market was largely in rally mode ahead of second-quarter earnings. The Dow climbed 2.3%, the Nasdaq was up 1.8%, and the S&P 500 increased 1.5%. Year-to-date, the S&P 500 is up 4.8% and the Dow has also turned positive with a 1.2% rise.

The 10-year Treasury yield ended Friday at 2.83% and remains range bound. Last week's economic news was mixed and included a modest decline in the small business confidence index for June from May's strong reading. Finding qualified workers appears to be the culprit for lower optimism. The consumer price index moved higher by 0.1% in June and is now at 2.9% over the past year. Medical care and autos were among the largest gainers while housing costs were flat and energy prices moved lower. The takeaway, however, is that the inflation is running warmer than the Fed would like and it has justification to pursue its continuing rate hike campaign.

The second quarter of 2018 is in the rear-view and large banks opened earnings season last Friday. Results were mixed, but banks have finally seen a long-awaited recovery in commercial loan growth after several quarters of moderate activity. Weak commercial lending has been at odds with consistently strong measures of business confidence which makes this resurgence especially good for economic growth as corporations expand capital investment. The Fed's rate hike campaign, expected to continue during 2018, should continue to benefit most banks as net interest margins increase.

Finally, the U.S. Manufacturing index (focuses on supply in the U.S.) hit a cyclical high in February, while the slower-moving U.S. Project Management has reached a three-year high. Both have risen on the strength of new orders. In conjunction with lower corporate tax rates, the higher demand indicated by the Project Management Indexes should lift capital spending and employment. Meanwhile, Europe’s Project Management Institute index is down from cyclical highs recorded late last year but remains strong. Irregular weather, supply constraints and political factors are likely to blame for the recent slowing. Nevertheless, at 55.5 in May, it remains very strong.

Despite huge daily swings related to tariff and counter-tariff threats, July has proved to be a good month for stocks. In fact, as of midday on Friday the 13th, the S&P 500 was up around 3% for the month. The market hasn’t delivered monthly results this good since January.

The Bottom Line: The first six months of 2018 have been anything but normal. Volatility has increased along with headlines; trade-war concerns, economic data, new tax law, foreign affairs and the list goes on. Nevertheless, stocks have maintained their resiliency and markets seem poised to move higher. The federal reserve remains steadfast on their quest to normalize rates, underpinned by their promise of additional hikes before year-end. It should come as no surprise when investors become a little anxious.

A little nervousness is not unusual and, frankly, is to be expected. Still, this nervousness often exacerbates market fluctuations which are perfectly normal. Perhaps the best way to say this is, investing is not short-term and it requires discipline, particularly when things are not looking as encouraging as they did, say, a year ago.

As with any investment strategy, be it one of OmniStar's or any other, the most important thing to review during downtrends is whether the fundamental investment strategy has changed. Why is this so important? Well, when managers change a strategy or follow a different style, suitability must be reconsidered. Moreover, a thing called "chasing performance" becomes a threat. Yes, it may seem like the thing to do, after all, markets are down and your investment account lost some of its value. However, this chasing of return rarely provides improvement of performance.

Our clients have entrusted us with their assets and we are determined to deliver solid and consistent results. For those reasons, our strategies continue to follow a strict rules-based investment approach with transparency in both our buy and sell methodologies. We set these rules based on research and testing, they stay the same regardless of market fluctuations. In fact, they are rarely changed and it is unlikely to see them change going forward. Our approach removes the typical emotional biases associated with traditional investment methods and historically has performed very well when back-tested across the past 30 years.

As we move through the second half of 2018, we anticipate continued volatility. However, we are confident that staying true to a disciplined approach will ultimately lead to our client's financial success.

Best Regards,
Phillip L. Clark, RFC
President & CEO