ASHDON
Investment Management

The year has been volatile, but the broad US stock market ended higher for the second quarter and is now modestly positive for the year. International markets, under pressure from a recently strengthening dollar, ended the quarter in the red. The S&P 500 index was up +3.42% for the second quarter and +2.63% for 2018. International markets fell -2.54% (MSCI EAFE Index – USD) for the quarter and have returned -3.00% for the year. The rising interest rate environment put pressure on bonds. The Barclay's Aggregate Bond Index was flat for the quarter (-0.16%) and is down -1.85% for the year. The recovery in stock prices is welcome. The selling in the first quarter was unnerving for investors. Our confidence in the quality our positions, as well as having portfolio allocations appropriate for each investor, made it easy to hold the investments.

With the year now half through, US stock indexes have moved in a narrow price range and remain near the all-time highs set in January. The economic environment remains stable and growth for Q2 is expected to show an accelerating economy. During the June meeting the FOMC reported that the simulative effects of the tax cut and increased spending are expected to persist for several quarters ahead, providing support for growing corporate earnings. Trade policy changes that are increasingly seen as disruptive – the term "Trade War" is used easily these days – for the global supply chain and the multinational companies that depend on it. So far, the economy has been able to power through the uncertainty. While we expect that to continue, we are aware of the risks (see linked article).

The chart to the left shows that US markets have moved ahead (S&P 500 Index – black line), but that foreign markets have been held back (MSCI EM Index – red line) by what we judge to be temporary factors: e.g. EU politics, EM fears, temporary dollar strength. But the underperformance of international and emerging markets offer prospective growth at a relatively low price – the cyclically adjusted price-to-earnings ratio of Emerging Market stocks are about one half that of the US markets. We are taking this opportunity to rebalance portfolios to a full weight in international stocks. Additionally, we are making a modest allocation to emerging markets stocks for investor portfolios where appropriate. In addition to good pricing for growth, international markets have a potential currency tailwind behind them and will help to further diversify portfolio allocations.

As always, please contact us if you have any questions. Thank you for your confidence.

214 East Grundy Street Tullahoma, TN 37388
Phone: 931 461-5733 Fax: 931 461-5735
INFO@ASHDON.COM