

Market Review and Outlook—September 10, 2018

US Stocks Shine The table below shows that in the past three months, US stocks of all stripes have done well, earning between 5 and 7%. They have one-year returns of 16½% to almost 22%. The Healthcare and Technology stock sectors have been even stronger. Analysts expect several more quarters of record profits, partially due to the corporate tax cuts in the December tax law.

International Stocks Disappoint In the past three months foreign stocks fell, with the worst losses in emerging market stocks which fell over 5½%. The free-fall of the Turkish lira this summer hasn't helped, and the decline of 10-30% in the currencies of the rest of the 'Fragile Five' emerging market countries has heightened the concerns.

Valuations Matter, as does the Dollar The recent gains in US stocks have largely been matched by profit gains, and so US stocks do not appear unduly expensive. However, to the long-term investor, foreign stocks appear to offer bargains. Complicating the decisions, foreign stock results are directly impacted by the movement of the US dollar, which has surprised most analysts with its rebound this year. We find it most likely that the dollar over the next year or two will decline in value, and that this will unlock the benefits of buying/holding foreign stocks now.

Bonds vs Cash The table shows that in the past year quality bonds lost about 1%, while money markets gained over 1%. We would not be surprised if this continues over the coming year. However, we do note that opportunity bonds generally gained almost 1% in the past year, and high yield taxable bonds in particular gained over 2½%. We continue to fine tune client bond money to strive to minimize exposure to those sectors most at risk of loss.

Whenever there is red in the 3- and 12-month columns in our trailing returns table, there are opportunities to rebalance, aiming to sell some assets high and buy others low. That time appears to be now.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+ 0.40%	+ 1.16%	+ 0.52%	+ 0.31%	+ 0.31%
Intermediate Term Bond	+ 0.57%	- 0.95%	+ 1.88%	+ 2.44%	+ 3.99%
Intermediate Muni Bond	+ 0.50%	+ 0.14%	+ 2.21%	+ 3.40%	+ 3.60%
Large-Cap Stock	+ 6.80%	+ 17.70%	+ 13.95%	+ 12.62%	+ 9.75%
Mid-Cap Stock	+ 5.41%	+ 16.69%	+ 11.75%	+ 11.07%	+ 9.52%
Small-Cap Stock	+ 5.96%	+ 21.89%	+ 13.96%	+ 11.48%	+ 9.87%
Foreign Large-Cap Stock	- 1.40%	+ 3.10%	+ 7.01%	+ 5.34%	+ 3.47%
Foreign Small/Mid Cap Stock	- 2.74%	+ 4.14%	+ 9.83%	+ 7.63%	+ 6.89%
Diversified Emerging Markets	- 5.59%	- 2.79%	+ 9.40%	+ 4.06%	+ 3.10%
Financial	+ 2.62%	+ 15.37%	+ 13.49%	+ 12.06%	+ 8.05%
Health	+ 11.25%	+ 21.05%	+ 9.45%	+ 15.54%	+ 14.03%
Real Estate	+ 6.89%	+ 5.75%	+ 8.88%	+ 9.81%	+ 7.23%
Technology	+ 6.58%	+ 28.51%	+ 24.26%	+ 19.82%	+ 13.98%
Moderate Allocation (50-70% stocks)	+ 3.20%	+ 8.31%	+ 8.05%	+ 7.28%	+ 6.74%

The data in this table comes from Morningstar and is as of August 31, 2018

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