Dear Client,

In our last letter, we wrote about the sharp and unsustainable rise (up 5.2%) in the S&P 500 for the month of January. In February and March, the market gave that all back and then some more. Since the beginning of the second quarter, the market has been moving in fits and starts, rising a few percent and then pulling back, but the trend has generally been up. What likely caused the market to shudder back then was 1. An increase in wage inflation for January and 2. An unexpected policy shift regarding tariffs and trade. Since then, the economy continues to barrel along, producing 200K+ jobs per month, and wage inflation has moderated to below 3.0%.* All this is very good for the stock market. The news on trade has not been as good, from the market's perspective. After initially exempting our key trading partners like Canada and the EU from the steel and aluminum tariffs, the administration went ahead and slapped them on anyways. To me, the response was predictable, with Canada and the EU retaliating with their own tariffs on various U.S goods like catsup, whiskey, and hogs (the kind you ride down the road, not the bacon kind). The retaliatory response has been carefully directed at key swing states like PA (Heinz) and WI (Harley-Davidson) to maximize political pain for the administration. The bigger trade story is China. Steel and aluminum are only 2% of U.S. imports.** The initial round of tariffs against China, which went in to effect 7/6/18, are on $50B in Chinese imports, with the threat of another $50B to $200B. At the stroke of midnight on 7/6/18, China immediately slapped tariffs on a $50B of U.S. exports, like soybeans and other agricultural products.***

It is way too soon to see if these new taxes (tariffs are nothing more than import taxes) are going to slow down the U.S. economy to any great degree. Some economists are saying they will shave about 0.20% off of growth.**** Ironically, this may be a positive factor for the market because it means the Federal Reserve might not have to tighten monetary policy as quickly. Over the last month, the futures market (which often predicts changes in interest rates) has begun to discount one less hike in rates this year.

More importantly to the health of the economy and the market is whether or not this trade fight descends into a full-blown trade war between the world's two largest economies, the U.S. and China. The trade hawks of the administration are likely to get their way, right up to the point where public opinion turns against them. What could make this happen? If we start seeing factories close in the U.S. and relocate overseas to avoid the taxes, or if farmers begin to default on their loans that would likely bring enough political heat to change the policy. If neither side budges, and the trade war escalates, it will likely cause the next recession sometime in the next two years. As someone we know is fond of saying, "we'll see".

We like to review our clients' financial plans at least annually. If we have not reviewed yours in a while, or if we need to start a new one, please reach out to Tonya. Clients can access their financial plans via Investor Access. There are some neat features which allow you to model different scenarios, like an early retirement or an unforeseen medical expense. Tonya will be happy to demonstrate.

Regards,

Samuel Gross	Joseph Brady	Tonya Rasmussen
Sr. Vice President, Investments	Sr. Vice President, Investments	Financial Advisor

*https://www.whitehouse.gov/articles/job-growth-first-quarter-2018-remains-strong/
https://www.bls.gov/news.release/eci.nr0.htm
**https://www.cbsnews.com/news/president-trumps-steel-and-aluminum-tariffs-winners-and-losers/
***https://www.wsj.com/articles/china-plans-more-retaliatory-tariffs-as-trade-dispute-with-the-u-s-worsens-1531288198
****http://budgetmodel.wharton.upenn.edu/issues/2018/3/14/the-economic-costs-of-a-trade-war

Any opinions stated are those of Samuel Gross and not necessarily those of Raymond James. The S&P 500 is an unmanaged index of 500 widely held stocks. It is not possible to invest directly in an index. Indexes are unmanaged and individuals cannot invest directly in any index. Index performance does not include transaction costs or other fees, which will affect the actual investment performance. Individual investor results will vary. Past performance is not indicative of future results. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success.