

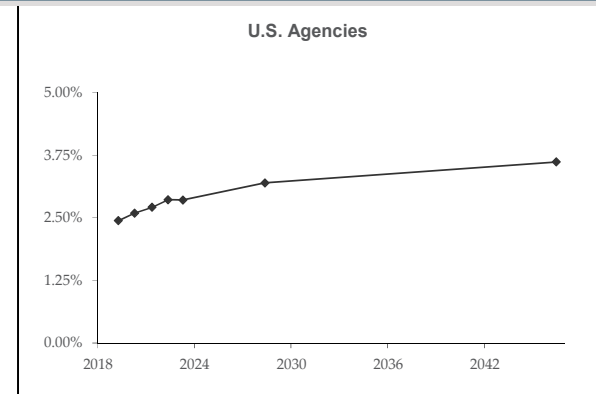
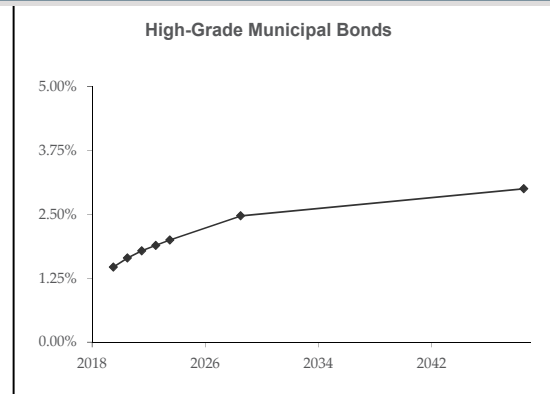
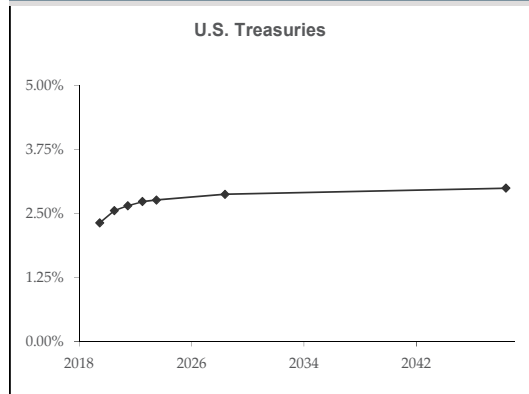
July 3, 2018

U.S. Treasury Yields		
Coupon	Maturity	YTM
0.000%	06/20/19	2.32%
2.500%	06/30/20	2.56%
2.625%	06/15/21	2.65%
1.750%	06/30/22	2.73%
2.625%	06/30/23	2.76%
2.875%	05/15/28	2.87%
3.125%	05/15/48	2.99%

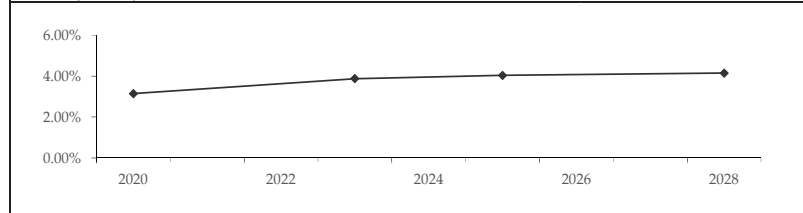
Municipal Bond Yields <sup>1</sup>		
Maturity	YTM	Tax-Equiv. <sup>2</sup>
07/02/19	1.47%	2.10%
07/02/20	1.65%	2.35%
07/02/21	1.79%	2.55%
07/02/22	1.90%	2.71%
07/02/23	2.00%	2.86%
07/02/28	2.47%	3.53%
07/02/48	3.00%	4.29%

U.S. Agency Yields - Active Bonds					
Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
FHLB	2.250%	04/26/19	\$99.83	2.44%	+34
FHLB	2.375%	04/16/20	\$99.60	2.59%	+24
FFCB	2.700%	05/10/21	\$99.95	2.71%	+16
FFCB	2.875%	05/25/22	\$99.81	2.86%	+15
FFCB	2.700%	04/11/23	\$99.25	2.86%	-0
FFCB	3.300%	05/17/28	\$100.85	3.20%	-33
FFCB	3.250%	06/28/46	\$93.46	3.61%	-67

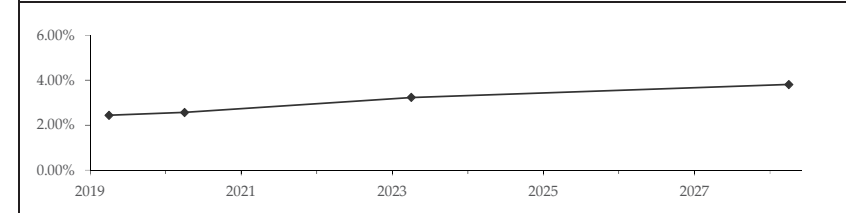
Current Yield Curves



Corporate Bond Yields			
Description	Price	YTM	To Treasury (bp)
C (Baa1/BBB+) 2.4% 2/18/2020	\$98.83	3.15%	+59
JPM (Baa1/BBB+) 3.38% 5/1/2023	\$97.80	3.88%	+115
MS (A3/BBB+) 4% 7/23/2025	\$99.77	4.04%	+128
BAC (A3/A-) 3.71% 4/24/2028	\$96.51	4.16%	+128



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FHLB 2.25% 4/26/2019	N/A	\$99.83	2.44%	2.44%
FFCB 2.5% 4/23/2020	04/23/19	\$99.84	2.57%	2.57%
FHLB 3% 4/17/2023	04/17/19	\$98.99	3.22%	3.23%
FHLB 3.75% 4/24/2028	04/24/19	\$99.53	3.81%	3.81%



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

Factual materials obtained from sources believed to be reliable but cannot be guaranteed. Part II of Form ADV is available upon request. For further information please contact FCI at (800) 615-2536.



July 6, 2018

## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
S&P 500	1.52	1.56	4.25
DJIA	0.76	0.82	0.09
Nasdaq	2.37	2.40	12.00
Russell 1000	1.57	1.60	4.50
Russell 2000	3.10	3.12	11.03
Russell 3000	1.69	1.72	4.99

FOREIGN (%)			
	WTD	MTD	YTD
MSCI ACWI	0.13	0.17	0.02
MSCI ACWI xUSA	-0.51	-0.45	-3.93
MSCI EAFE	-0.22	-0.21	-2.61
MSCI EM	-1.42	-1.21	-7.73

FIXED INCOME (%)			
	WTD	MTD	YTD
US Intermediate Gov/Cred	0.04	0.04	-0.94
U.S. Aggregate	0.13	0.13	-1.49
US Corp High Yield	-0.09	-0.09	0.07
Municipal Bond	0.08	0.08	-0.17

OTHERS (%)			
	WTD	MTD	YTD
DJ Eqty REIT TOT RE IDX	1.89	1.89	3.17
Alerian MLP Index	0.38	0.38	-0.25
S&P GSCI Index Spot Indx	-1.81	-1.81	8.18
Dollar Index Spot	-0.49	-0.49	2.05

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
Large	-0.43	4.50	9.31
Medium	8.38	11.03	13.50
Small	0.23	4.99	9.63

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
Trade Balance	-43.6b	-43.1b	0.5b
Change in Nonfarm Payrolls	195k	213k	18k
Change in Private Payrolls	190k	202k	12k
Unemployment Rate	3.8%	4.0%	0.2%
Monthly Avg. Hourly Earnings	0.3%	0.2%	-0.1%
Labor Force Participation Rate	62.7%	62.9%	0.2%

### COMMODITY PRICES

ALTERNATIVES			
	7/6/2018	6/30/2018	12/31/2017
Generic 1st CL Future	\$73.91	\$74.15	\$60.42
Generic 1st GC Future	\$1,256.00	\$1,254.50	\$1,309.30
Dollar Index Spot	\$94.01	\$94.47	\$92.12
Euro Spot	\$1.17	\$1.17	\$1.20

### S&P 500

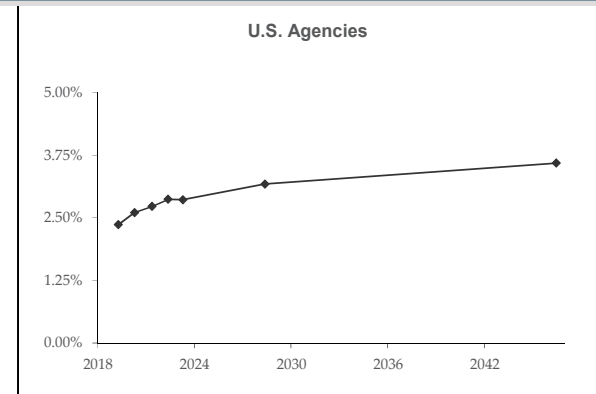
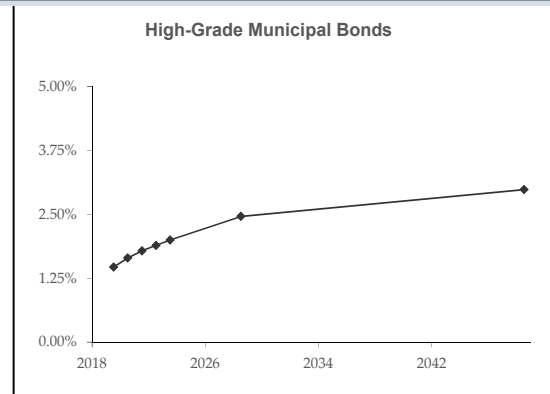
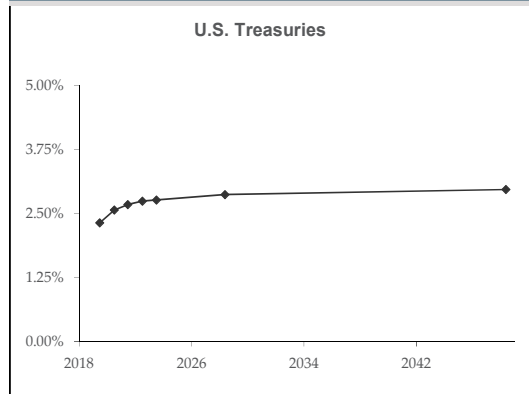
SECTOR RETURNS (%)	
	YTD
Discretionary	12.58
Staples	-7.24
Energy	6.45
Financials	-3.70
Health Care	5.03
Industrials	-4.00
Info Tech	13.46
Materials	-2.45
Real Estate	2.60
Telecom	-6.36
Utilities	2.76

U.S. Treasury Yields		
Coupon	Maturity	YTM
0.000%	06/20/19	2.32%
2.500%	06/30/20	2.57%
2.625%	06/15/21	2.67%
1.750%	06/30/22	2.74%
2.625%	06/30/23	2.76%
2.875%	05/15/28	2.87%
3.125%	05/15/48	2.97%

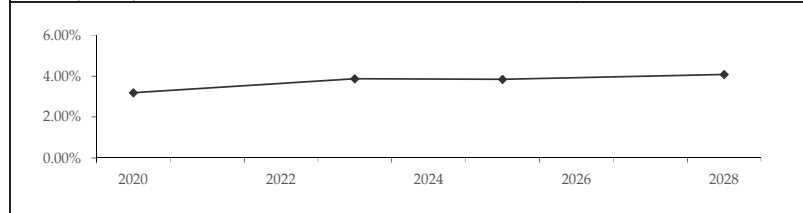
Municipal Bond Yields <sup>1</sup>		
Maturity	YTM	Tax-Equiv. <sup>2</sup>
07/09/19	1.47%	2.10%
07/09/20	1.65%	2.35%
07/09/21	1.79%	2.55%
07/09/22	1.89%	2.70%
07/09/23	2.00%	2.85%
07/09/28	2.46%	3.51%
07/09/48	2.98%	4.26%

U.S. Agency Yields - Active Bonds					
Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
FHLB	2.250%	04/26/19	\$99.91	2.37%	+26
FHLB	2.375%	04/16/20	\$99.58	2.60%	+25
FFCB	2.700%	05/10/21	\$99.90	2.73%	+18
FFCB	2.875%	05/25/22	\$99.78	2.87%	+16
FFCB	2.700%	04/11/23	\$99.23	2.86%	+1
FFCB	3.300%	05/17/28	\$0.00	3.18%	-34
FFCB	3.250%	06/28/46	\$93.85	3.59%	-67

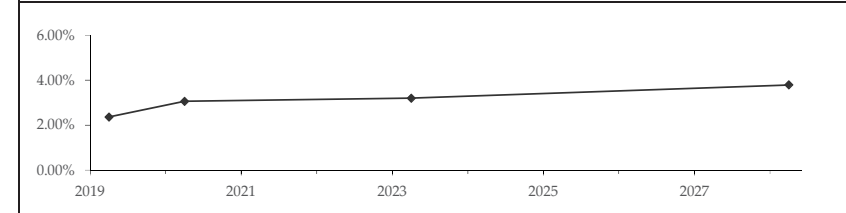
**Current Yield Curves**



Corporate Bond Yields				
Description	Price	YTM	To Treasury (bp)	
C (Baa1/BBB+) 2.4% 2/18/2020	\$98.77	3.19%	+62	
JPM (Baa1/BBB+) 3.38% 5/1/2023	\$97.84	3.87%	+113	
MS (A3/BBB+) 4% 7/23/2025	\$100.96	3.84%	+108	
BAC (A3/A-) 3.71% 4/24/2028	\$97.06	4.09%	+122	



Bullet & Callable Agency Bond Yields <sup>3</sup>					
Description	Call Date	Price	YTM	YTW	
FHLB 2.25% 4/26/2019	N/A	\$99.91	2.37%	2.37%	
FFCB 2.5% 4/23/2020	04/23/19	\$99.03	3.06%	3.06%	
FHLB 3% 4/17/2023	04/17/19	\$99.14	3.19%	3.20%	
FHLB 3.75% 4/24/2028	04/24/19	\$99.66	3.79%	3.79%	



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

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July 16, 2018

## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
<i>S&amp;P 500</i>	1.52	3.15	5.87
<i>DJIA</i>	2.30	3.16	2.41
<i>Nasdaq</i>	1.79	4.23	14.01
<i>Russell 1000</i>	1.43	3.09	6.03
<i>Russell 2000</i>	-0.40	2.72	10.60
<i>Russell 3000</i>	1.29	3.06	6.38

FOREIGN (%)			
	WTD	MTD	YTD
<i>MSCI ACWI</i>	0.83	1.87	1.71
<i>MSCI ACWI xUSA</i>	0.17	0.51	-3.00
<i>MSCI EAFE</i>	-0.18	0.40	-2.01
<i>MSCI EM</i>	0.97	0.50	-6.13

FIXED INCOME (%)			
	WTD	MTD	YTD
<i>US Intermediate Gov/Cred</i>	-0.02	0.09	-0.89
<i>U.S. Aggregate</i>	0.03	0.27	-1.35
<i>US Corp High Yield</i>	0.42	0.43	0.59
<i>Municipal Bond</i>	0.16	0.30	0.05

OTHERS (%)			
	WTD	MTD	YTD
<i>DJ Eqty REIT TOT RE IDX</i>	-0.91	0.97	2.23
<i>Alerian MLP Index</i>	0.75	1.14	0.50
<i>S&amp;P GSCI Index Spot Indx</i>	-4.01	-5.33	4.30
<i>Dollar Index Spot</i>	0.81	0.27	2.82

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
<i>Large</i>	0.29	6.03	11.74
<i>Medium</i>	7.55	10.60	13.50
<i>Small</i>	0.83	6.38	11.88

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
<i>NFIB Small Business Optimism</i>	106.9	107.7	0.8
<i>MBA Mortgage Applications</i>	N/A	2.5%	N/A
<i>PPI Final Demand YoY</i>	3.1%	3.4%	0.3%
<i>Wholesale Inventories MoM</i>	0.5%	0.6%	0.1%
<i>CPI MoM</i>	0.2%	0.1%	-0.1%
<i>U. of Mich. Sentiment</i>	98	97.1	-0.9

### COMMODITY PRICES

ALTERNATIVES			
	7/13/2018	6/30/2018	12/31/2017
<i>Generic 1st CL Future</i>	\$70.72	\$74.15	\$60.42
<i>Generic 1st GC Future</i>	\$1,241.60	\$1,254.50	\$1,309.30
<i>Dollar Index Spot</i>	\$94.72	\$94.47	\$92.12
<i>Euro Spot</i>	\$1.17	\$1.17	\$1.20

### S&P 500

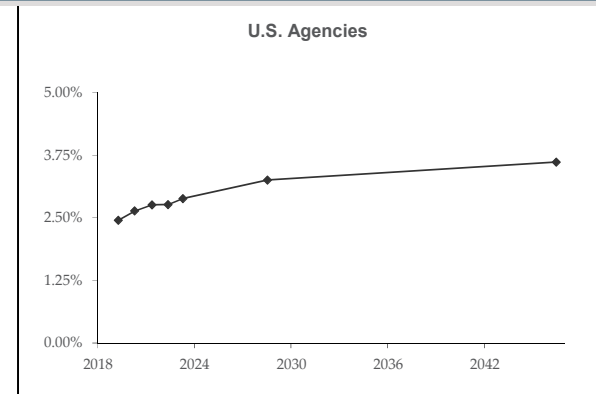
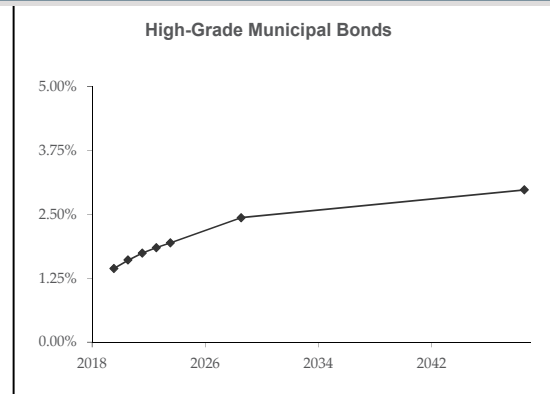
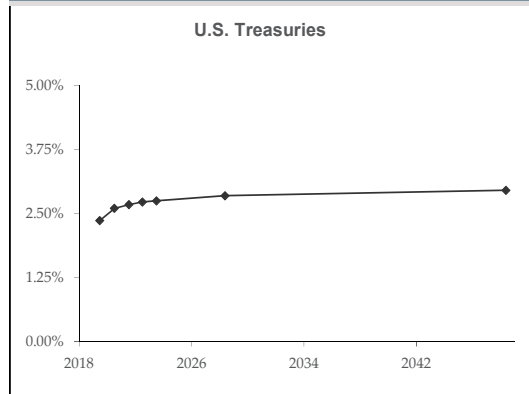
SECTOR RETURNS (%)	
	YTD
<i>Discretionary</i>	14.95
<i>Staples</i>	-6.33
<i>Energy</i>	7.29
<i>Financials</i>	-2.60
<i>Health Care</i>	6.77
<i>Industrials</i>	-1.84
<i>Info Tech</i>	16.10
<i>Materials</i>	-2.17
<i>Real Estate</i>	1.79
<i>Telecom</i>	-6.63
<i>Utilities</i>	1.54

U.S. Treasury Yields		
Coupon	Maturity	YTM
0.000%	06/20/19	2.36%
2.500%	06/30/20	2.60%
2.625%	07/15/21	2.67%
1.750%	06/30/22	2.72%
2.625%	06/30/23	2.75%
2.875%	05/15/28	2.85%
3.125%	05/15/48	2.95%

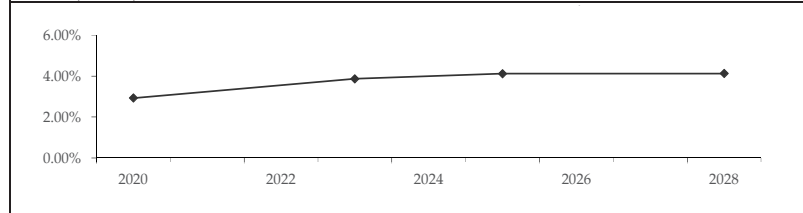
Municipal Bond Yields <sup>1</sup>		
Maturity	YTM	Tax-Equiv. <sup>2</sup>
07/16/19	1.44%	2.06%
07/16/20	1.61%	2.29%
07/16/21	1.74%	2.49%
07/16/22	1.85%	2.64%
07/16/23	1.94%	2.77%
07/16/28	2.43%	3.48%
07/16/48	2.98%	4.25%

U.S. Agency Yields - Active Bonds					
Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
FHLB	2.250%	04/26/19	\$99.83	2.45%	+39
FHLB	2.375%	04/16/20	\$99.54	2.64%	+34
FFCB	2.700%	05/10/21	\$99.82	2.76%	+27
FFCB	2.875%	05/25/22	\$99.81	2.76%	+12
FFCB	2.700%	04/11/23	\$99.14	2.88%	+11
FFCB	3.200%	07/12/28	\$99.46	3.25%	-22
FFCB	3.250%	06/28/46	\$93.50	3.61%	-64

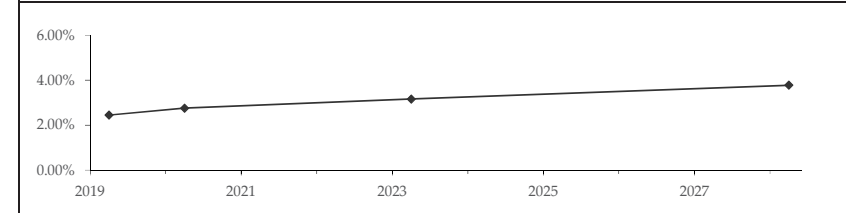
Current Yield Curves



Corporate Bond Yields			
Description	Price	YTM	To Treasury (bp)
C (Baa1/BBB+) 2.4% 2/18/2020	\$99.18	2.93%	+33
JPM (Baa1/BBB+) 3.38% 5/1/2023	\$97.85	3.87%	+115
MS (A3/BBB+) 4% 7/23/2025	\$99.24	4.13%	+138
BAC (A3/A-) 3.71% 4/24/2028	\$96.70	4.13%	+128



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FHLB 2.25% 4/26/2019	N/A	\$99.83	2.45%	2.45%
FFCB 2.5% 4/23/2020	04/23/19	\$99.56	2.76%	2.76%
FHLB 3% 4/17/2023	04/17/19	\$99.28	3.15%	3.16%
FHLB 3.75% 4/24/2028	04/24/19	\$99.76	3.78%	3.78%



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

Factual materials obtained from sources believed to be reliable but cannot be guaranteed. Part II of Form ADV is available upon request. For further information please contact FCI at (800) 615-2536.



## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
S&P 500	0.02	3.17	5.90
DJIA	0.15	3.36	2.61
Nasdaq	-0.07	4.15	13.93
Russell 1000	0.02	3.13	6.07
Russell 2000	0.58	3.31	11.23
Russell 3000	0.06	3.14	6.46

FOREIGN (%)			
	WTD	MTD	YTD
MSCI ACWI	-0.15	1.95	1.79
MSCI ACWI xUSA	-0.46	0.43	-3.08
MSCI EAFE	-0.09	0.65	-1.77
MSCI EM	-1.39	-0.33	-6.90

FIXED INCOME (%)			
	WTD	MTD	YTD
US Intermediate Gov/Cred	0.01	0.21	-0.77
U.S. Aggregate	-0.03	0.39	-1.23
US Corp High Yield	0.08	0.58	0.75
Municipal Bond	0.07	0.42	0.17

OTHERS (%)			
	WTD	MTD	YTD
DJ Eqty REIT TOT RE IDX	-1.57	-0.61	0.63
Alerian MLP Index	1.91	3.07	2.42
S&P GSCI Index Spot Indx	-1.77	-6.62	2.88
Dollar Index Spot	-0.23	-0.01	2.53

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
Large	0.31	6.07	11.80
Medium	7.93	11.23	14.38
Small	0.88	6.46	12.00

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
Empire Manufacturing	21	22.6	1.6
Retail Sales Advance MoM	0.5%	0.5%	0.0%
Industrial Production MoM	0.5%	0.6%	0.1%
Housing Starts	1320k	1173k	-147k
Initial Jobless Claims	220k	207k	-13k
Leading Index	0.4%	0.5%	0.1%

### COMMODITY PRICES

ALTERNATIVES			
	7/20/2018	6/30/2018	12/31/2017
Generic Crude Oil Future	\$70.46	\$74.15	\$60.42
Generic Gold Future	\$1,231.30	\$1,254.50	\$1,309.30
Dollar Index Spot	\$94.46	\$94.47	\$92.12
Euro Spot	\$1.17	\$1.17	\$1.20

### S&P 500

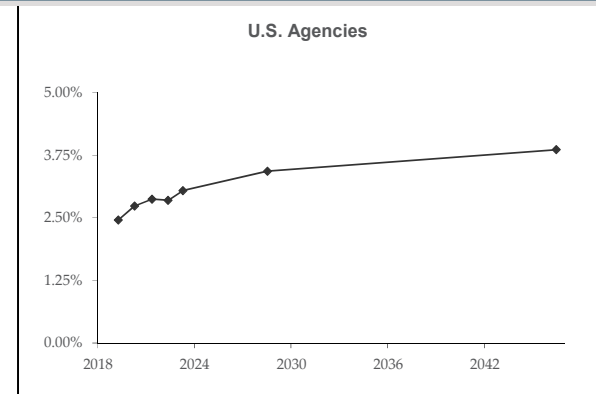
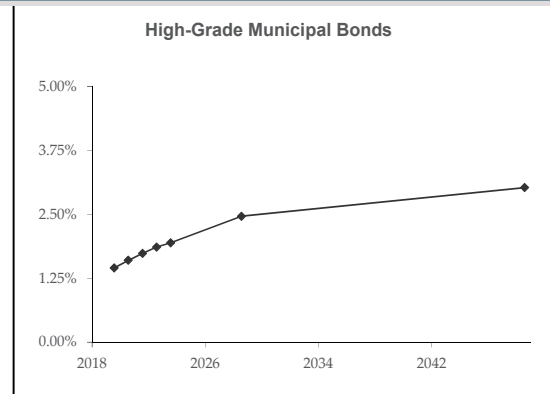
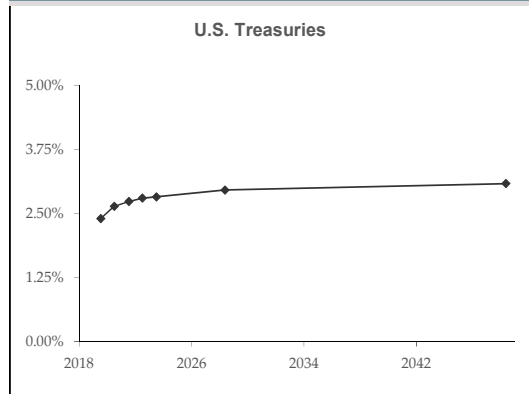
SECTOR RETURNS (%)	
	YTD
Discretionary	14.46
Staples	-6.13
Energy	5.30
Financials	-0.42
Health Care	5.89
Industrials	-0.95
Info Tech	16.22
Materials	-2.65
Real Estate	0.20
Telecom	-8.35
Utilities	0.99

U.S. Treasury Yields		
Coupon	Maturity	YTM
0.000%	07/18/19	2.40%
2.500%	06/30/20	2.64%
2.625%	07/15/21	2.74%
1.750%	06/30/22	2.80%
2.625%	06/30/23	2.83%
2.875%	05/15/28	2.96%
3.125%	05/15/48	3.08%

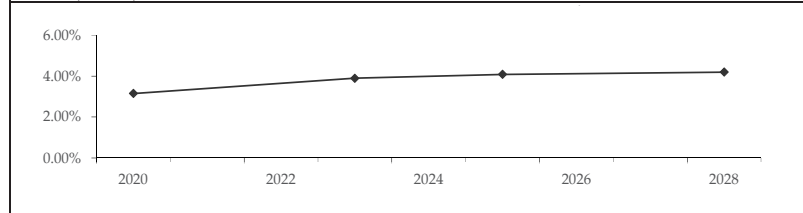
Municipal Bond Yields <sup>1</sup>		
Maturity	YTM	Tax-Equiv. <sup>2</sup>
07/23/19	1.45%	2.07%
07/23/20	1.60%	2.29%
07/23/21	1.74%	2.48%
07/23/22	1.86%	2.65%
07/23/23	1.95%	2.78%
07/23/28	2.46%	3.52%
07/23/48	3.02%	4.32%

U.S. Agency Yields - Active Bonds					
Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
FHLB	2.250%	04/26/19	\$99.83	2.46%	+38
FHLB	2.375%	04/16/20	\$99.37	2.74%	+45
FFCB	2.700%	05/10/21	\$99.52	2.87%	+39
FFCB	2.875%	05/25/22	\$99.49	2.85%	+20
FFCB	2.700%	04/11/23	\$98.45	3.04%	+26
FFCB	3.200%	07/12/28	\$98.00	3.43%	-9
FFCB	3.250%	06/28/46	\$89.48	3.86%	-46

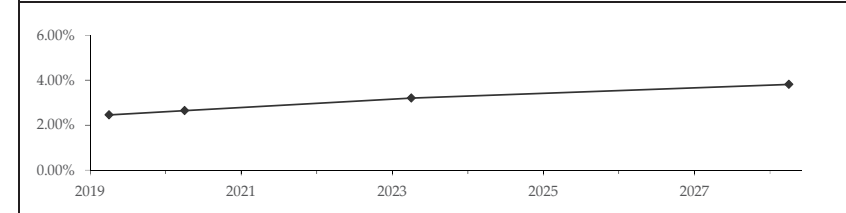
Current Yield Curves



Corporate Bond Yields			
Description	Price	YTM	To Treasury (bp)
C (Baa1/BBB+) 2.4% 2/18/2020	\$98.86	3.15%	+51
JPM (Baa1/BBB+) 3.38% 5/1/2023	\$97.75	3.90%	+110
MS (A3/BBB+) 4% 7/23/2025	\$99.48	4.09%	+126
BAC (A3/A-) 3.71% 4/24/2028	\$96.19	4.20%	+124



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FHLB 2.25% 4/26/2019	N/A	\$99.83	2.46%	2.46%
FFCB 2.5% 4/23/2020	04/23/19	\$99.70	2.65%	2.65%
FHLB 3% 4/17/2023	04/17/19	\$99.11	3.19%	3.20%
FHLB 3.75% 4/24/2028	04/24/19	\$99.49	3.81%	3.81%



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

Key: bp - basis points. One basis point is 1/100 of one percent. YTM - yield to maturity; YTC - yield to call.

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## MARKET STATISTICS

### INDEX RETURNS

EQUITIES (%)			
	WTD	MTD	YTD
S&P 500	0.61	3.80	6.55
DJIA	1.57	4.98	4.22
Nasdaq	-1.06	3.06	12.72
Russell 1000	0.40	3.55	6.50
Russell 2000	-1.97	1.28	9.05
Russell 3000	0.21	3.37	6.70

FOREIGN (%)			
	WTD	MTD	YTD
MSCI ACWI	0.94	3.23	3.07
MSCI ACWI xUSA	1.45	2.68	-0.90
MSCI EAFE	1.32	2.75	0.29
MSCI EM	2.08	2.73	-4.04

FIXED INCOME (%)			
	WTD	MTD	YTD
US Intermediate Gov/Cred	-0.19	-0.07	-1.05
U.S. Aggregate	-0.26	-0.11	-1.73
US Corp High Yield	0.28	0.87	1.04
Municipal Bond	-0.20	0.22	-0.03

OTHERS (%)			
	WTD	MTD	YTD
DJ Eqty REIT TOT RE IDX	-0.64	-1.25	-0.02
Alerian MLP Index	1.46	4.66	4.00
S&P GSCI Index Spot Indx	1.55	-4.67	5.02
Dollar Index Spot	0.20	0.21	2.76

### RUSSELL STYLE

RETURNS YTD (%)			
	VALUE	CORE	GROWTH
Large	1.64	6.50	11.22
Medium	6.52	9.05	11.40
Small	2.01	6.70	11.24

### ECONOMIC SCORECARD

SELECTED RELEASES			
	ESTIMATE	ACTUAL	DIFFERENCE
GDP Annualized QoQ	4.2%	4.1%	-0.1%
U. of Mich Sentiment	97.1	97.9	0.8
Existing Home Sales	5.44m	5.38m	-0.06m
Durable Goods Orders	3.0%	1.0%	-2.0%
Initial Jobless Claims	215k	217k	2k
Wholesale Inventories MoM	0.3%	0.0%	-0.3%

### COMMODITY PRICES

ALTERNATIVES			
	7/27/2018	6/30/2018	12/31/2017
Generic Crude Oil Future	\$68.69	\$74.15	\$60.42
Generic Gold Future	\$1,223.00	\$1,254.50	\$1,309.30
Dollar Index Spot	\$94.67	\$94.47	\$92.12
Euro Spot	\$1.17	\$1.17	\$1.20

### S&P 500

SECTOR RETURNS (%)	
	YTD
Discretionary	13.94
Staples	-5.20
Energy	7.74
Financials	1.61
Health Care	7.37
Industrials	1.11
Info Tech	14.88
Materials	-0.87
Real Estate	0.05
Telecom	-7.30
Utilities	1.69

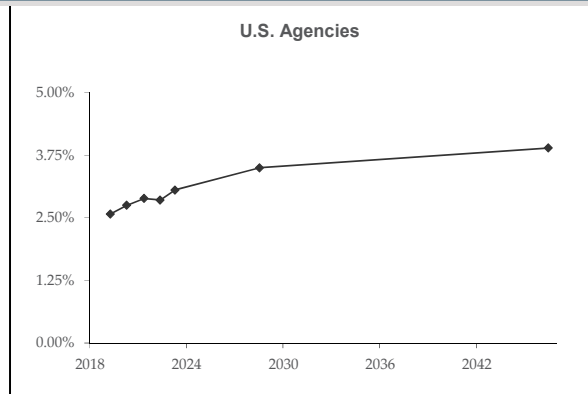
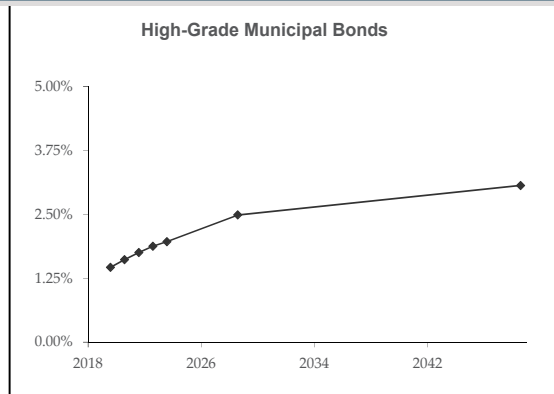
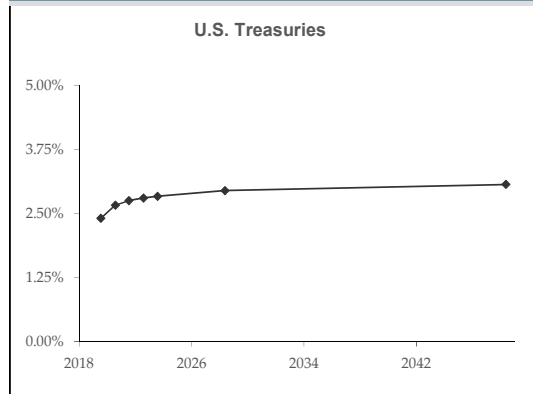


U.S. Treasury Yields		
Coupon	Maturity	YTM
0.000%	07/18/19	2.41%
2.625%	07/31/20	2.66%
2.625%	07/15/21	2.75%
1.875%	07/31/22	2.80%
2.750%	07/31/23	2.83%
2.875%	05/15/28	2.95%
3.125%	05/15/48	3.07%

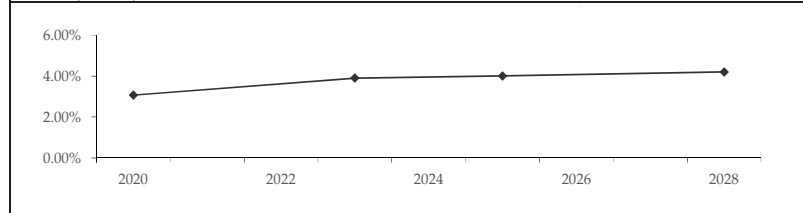
Municipal Bond Yields <sup>1</sup>		
Maturity	YTM	Tax-Equiv. <sup>2</sup>
07/30/19	1.47%	2.09%
07/30/20	1.62%	2.31%
07/30/21	1.76%	2.51%
07/30/22	1.88%	2.68%
07/30/23	1.97%	2.81%
07/30/28	2.49%	3.55%
07/30/48	3.06%	4.38%

U.S. Agency Yields - Active Bonds					
Agency	Coupon	Maturity	Price	YTM	To Muni (bp)
FHLB	2.250%	04/26/19	\$99.75	2.58%	+48
FHLB	2.375%	04/16/20	\$99.36	2.75%	+44
FFCB	2.700%	05/10/21	\$99.48	2.89%	+38
FFCB	2.875%	05/25/22	\$99.48	2.85%	+17
FFCB	2.700%	04/11/23	\$98.40	3.05%	+24
FFCB	3.200%	07/12/28	\$97.43	3.50%	-5
FFCB	3.250%	06/28/46	\$88.95	3.89%	-48

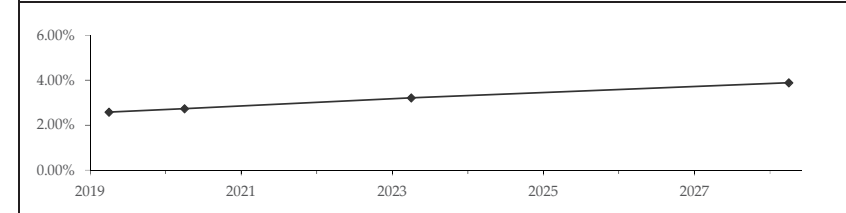
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MS (A3/BBB+) 4% 7/23/2025	\$99.95	4.01%	+117
BAC (A3/A-) 3.71% 4/24/2028	\$96.14	4.21%	+126



Bullet & Callable Agency Bond Yields <sup>3</sup>				
Description	Call Date	Price	YTM	YTW
FHLB 2.25% 4/26/2019	N/A	\$99.75	2.58%	2.58%
FFCB 2.5% 4/23/2020	04/23/19	\$99.56	2.73%	2.73%
FHLB 3% 4/17/2023	04/17/19	\$99.09	3.20%	3.21%
FHLB 3.75% 4/24/2028	04/24/19	\$98.90	3.89%	3.89%



(1) High-grade municipal bonds. (2) Based on a 30% marginal federal income tax bracket. (3) Graph displays yield to call.

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## ECONOMIC OUTLOOK

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### *Summary*

Earlier this year we mused that maybe 2018 would be the year for Main Street and not Wall Street. Well, the economy may post a high 3% or low 4% reading for Q2 2018, while the blue chip Dow Jones Industrial Average is down slightly year-to-date. Here are a few comments from the last Fed meeting; “economic activity has been rising at a solid rate”, “business fixed investment has continued to grow strongly” and “household spending has picked up and the unemployment rate has declined”. Pretty good for Main Street, but the Fed’s projected rate path over the next few years contains another five or six quarter point rate increases.

So, the Fed risks “taking the punch bowl away” before the average person gets to have a drink. Markets and the economy will need to ponder future Fed tightening with a higher degree of scrutiny than the prior seven rate increases. One of the main reasons for this is the shape of the yield curve as reflected by the difference between the 10-Year Treasury yield and the 2-Year Treasury yield, currently about .30%. One of our outside strategists, Tom Tzitouris at Strategas, notes “credit risk free curves should not invert, when they do, it’s a sign of a policy mistake”. With the Treasury yield curve the flattest in ten years and central bankers considering five or six more hikes, there is a real risk of short term rates exceeding long term yields, raising the risk of recession.

The fact that long term Treasury rates are pretty steady, at around 3.0% despite the Fed hiking short term rates meaningfully, is a sign that investors do not see sustained inflationary pressures over the intermediate term. Tariffs and trade disruptions are increasing prices, wages are moving higher and transportation costs have risen, but the “Market’s” collective wisdom is that these are

temporary cyclical pressures that will ease in quarters not years. The dollar is rising as U.S. rates are some of the highest in the developed world, while some major emerging market currency, stock and bond markets are being peppered. We believe that the Fed will heed the message of the market and scale back the timing and amount of future rate hikes. But, we must be vigilant about these outcomes, as our central bank has erred before.

### *Positives*

U.S household net worth increases \$1 trillion to \$100.8 trillion at the end of March

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Retail sales jumped 0.8% last month, 0.4% was expected

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Trade balance deficit lower by almost \$3 billion boosting Q2 GDP

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### *Negatives*

Consumer credit growth slowed last month to \$9.2 billion, \$14 billion was expected

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Industrial production declined 0.1% last month, 0.2% was expected

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MBA mortgage applications declined month-over-month continuing a weak trend

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## EQUITY OUTLOOK

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### *Summary*

Equity markets generally lacked direction in June as participants struggled to weigh rising global trade tensions against the backdrop of a fertile business environment. The S&P 500 finished the month up 0.7% though there was no clear leadership. Growth stocks once again outperformed value with the Russell 1000 Growth Index adding 1.0% relative to the Russell 1000 Value, which was up just 0.2%. However, from a sector standpoint the picture looks a little murkier. The all-important, growth-laden technology sector fell 0.4% and the best two performing sectors were real estate and staples, traditional value sectors, both climbed 4.5% in June.

Continued trade disputes seem to have weighed more heavily on international equity markets with the first round of tariffs between the U.S. and China taking place in early July. For the month of June, the MSCI EAFE Index declined 1.2% and the MSCE Emerging Markets Index fell 4.1%. A firming U.S. dollar, which rose 0.5% for the month, also contributed to international equity underperformance.

We continue to believe the markets will remain rudderless through the middle part of the year struggling to gain much momentum in either direction. The scale of stimuli such as the tax cuts and regulatory changes will overshadow the media-fueled trade concerns, which will eventually quiet down. Corporate earnings are expected to surge over the next several quarters and the conclusion of the election later this year (whatever the outcome) should provide a nice platform for equity markets to ascend.

### *Positives*

Strong outlook for corporate revenue and earnings

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Consumer and business confidence remain elevated

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### *Negatives*

Continued trade tensions

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Rising wages and input costs

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## FIXED INCOME OUTLOOK

### *Summary*

In a surprise to no one, the Fed increased the overnight lending rate on June 13th by another 25 basis points (bps). This was the seventh rate increase since December of 2015 and the second of this year. In anticipation, treasury yields moved about 10 bps higher across the curve since the end of May and recovered about one-half of the plunge experienced in mid-May when Italy once again exposed the fragility of the European Union. What did come as a surprise to the market was the release of the Fed's "dot plots" indicating their central expectation for four rate hikes this year, up from their previous expectation of three.

With the Fed moving rates higher and sooner, many would have expected yields to go up across the entire curve, but after the Fed's announcement there was a collective yawn, and rates began to trend sideways to slightly lower through the end of the month. The 2-year finished the month about 10 bps higher at 2.53% and the 5-year ended about 4 bps higher at 2.74%. The 10-year ended essentially unchanged at 2.86%, continuing the long curve-flattening trend, and the 30-year bond dropped 4 bps to end at 2.99%. By any measure the curve is the flattest since late summer 2007, about a year and a half after the Fed inverted the curve by increasing the overnight rate (by 25 bps at 17 consecutive meetings) and just before the financial crisis ensued and the Fed slashed rates to near zero.

Inverting the curve is seen as an ominous precursor to the economy stumbling and a recession ensuing. Yet is it the inverted curve that causes a recession, or do higher rates lead to tighter financial conditions which cause investors to anticipate a recession and, in turn, buy longer maturity bonds to hedge riskier assets? As with the classic "chicken or the egg" parable, in the end, it really matters little. More times than not, an inverted curve leads a contraction in the economy even though causality might not be there. Historically, bond investors have been pretty good at letting the Fed know when they have gone far enough with rate hikes, and we bet that the new market savvy Fed Chairman Jay Powell listens.

If there are no more than four more rate hikes over the next 12 to 18 months as we expect, then the 2-year is appropriately priced for now. It will still edge higher over time, but slowly. The 10-year had trouble holding above 3%, even with no evidence of a slow down on the horizon. It should eventually move just above that level, but we are not concerned that inflationary pressures will overshoot and cause long rates to move sharply higher. Corporate credit spreads continued to move higher in May, but at about 110 bps in aggregate, we still believe that investment-grade corporate bonds represent a good relative value.

### *Positives*

Emerging market and European weakness crack the synchronized global growth story

Trade wars could slow world demand

Inflation is back at the Fed's target, but not above

### *Negatives*

Trade wars could lead to higher inflation in certain industries

The Fed's rate hiking cycle will continue as long as the markets remain fairly stable

Another quarter of negative bond returns could spook investors into selling

### *Unknowns*

Mid-term elections could alter the ability of the administration to promote agenda

Relations with major trade partners remain fluid and could sour