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Financial Market Commentary: 2nd Quarter 2017

Looming Russian Concerns

The Comey firing and fears of Russian tampering have hampered US politics. However, both the S&P 500 and NASDAQ have remained relatively un-impacted by these allegations. This does not mean nothing will happen. After Nixon fired Archibald Cox in Q3 1973, it took until end of Q4 for the economy to feel the impact with an 11% dip.

Bad News in the Retail Sector

Alvah Curtis Roebuck, Co-Founder of Sears Roebuck once said, "It was our constant desire to maintain our margin of superiority by means of improvements and new inventions." After over 100 years of innovation and rebranding, Sears will have to improve its practice once more. It is feared that the iconic department store may be forced to shut its doors. The giant will be closing 250 Sears and Kmart locations in the coming year. The company announced a 10% decline in sales since Q4 2016.

Sears is not the only retail company that has struggled in 2017. More than 14 other retailers have filed for bankruptcy and retailers such as Macy's and J.C. Penney have been forced to cut back on locations as well. Thus far, the labor sector is down over 60,000 jobs due to recent closures. The recent closures have left retailers questioning: 'What can we do to stop the decline?'

Consumer spending has been concentrated in the online sector. Amazon is coming off of its best year in 2016 and continues to grow. It has recently purchased Whole Foods and over the next 18 months plans to hire up to 100,000 more employees. The acquisition of Whole foods will aid in Amazon's venture on Amazon Fresh and their experiment with a cashier-less super market Amazon go. More bad news for retailers, Amazon has reportedly focused on acquiring BJs Wholesale Club to rival and match the infrastructure of Costco and reduce shipping time. In the meantime, it remains to be seen if the growth can be sustainable for the online super store. For now, the retail sector is left wondering how to remain relevant.

Even with the emergence of online retail giants and a year-to-date return of -7.07%, do not distress too much. The returns on the S&P 500 Retail Select Industry Index are still up 6.86% over the last 10 years. With the added competition, the retail industry has not given in to defeat. Major companies such as Sears and Macy's have stated they are working to turn their numbers around. It is still too early to pull the plug on the industry just yet.

Underperforming Domestic Expectations

The revised GDP growth rate was at an underwhelming 1.4% for Q1. This is well below the current goal of 3-5% growth. In fact, this has been the slowest quarter in the past three years. The lack of growth may be explained by a reduction in consumer spending, inventory investment, and state and local government spending. With a lack of apparent growth Q2 is expected to be low as well as results will be released July 28th.

Foreign Earnings Upswing

Inflation rates continue to climb in Europe and Asia. This trend is likely due to an increase in energy prices. However, a rising percentage of consumer price index components are hampering increases, this strengthens the assessment of momentum in the current progress. Amongst political uncertainty in Europe, the economy does not seem to be harmed. Britain has overtaken France as Europe's second largest economy. Policy uncertainty, such as Brexit, has caused for volatility in the European markets. However, the current general global recovery is sustaining the positive corporate earnings and the performance of non-U.S. stocks. This momentum is strong in Europe, Japan, and emerging markets. It is seen that bonds are acting as a buffer in portfolios in the long-term, but may be impacted in the short-term.

Newly Proposed US Tax Plan

In April, a proposed tax plan suggested the largest tax cuts since the Reagan administration in 1986. Markets hinge on economics, not political ramifications. However, paralysis due to political pushback could impact the implementation of this proposition.

The proposed plan would eliminate 4 tax brackets, reducing the number from seven to three. Although the ranges were not mentioned, the percentages would be 10%, 25%, 35%. This offers a 5% tax break to the top bracket. Also mentioned was a repeal of the inheritance tax –also known as the 'death tax'. The US currently has the 4th largest inheritance tax amongst developed nations. The goal of eliminating this tax is to aid small business owners and farmers. Also proposed was a reform to the corporate tax in order to entice businesses to return to domestic soil. The proposed plan would cut the corporate tax from 35% to 15%. The US currently has the largest corporate tax amongst industrialized nations. Globally, other industrialized nations have reduced their corporate tax over the last 10 years however the US has remained constant.

There are concerns that if the tax plan were to pass it would cause an increase to the US national debt and increases in business would not pay for the loss in tax revenue. It is hard to extrapolate these numbers in projections. But, this seems to be the route being taken in order to reach a 3-5% increase in national GDP.

A Global View

Corporate earnings growth is on the rise as the global economy grows. In Europe, German, English, and French continue to soar and emerging markets are up 6.4%. Even after US Federal Reserve rate increases, the US dollar has slightly weakened. The technology sector is up over 16% while retailers continue to lull. Global bonds are up 4.5% this quarter. The US continues to grow albeit a slow pace. Long term bonds remain a safe investment as yields are projected to increase. Cash has posted negative returns, while, long term bonds remain safe against market corrections. This increases the pertinence of diversification to alleviate long term risk in the global economy.

Sources: Newsweek, NY Times, CBS, BlackRock, Voya

Equity Performance

Equity Index	Style	YTD Return As of 6/30/2017	1 Year Return As of 6/30/2017	3 Year Return As of 6/30/2017	5 Year Return As of 6/30/2017	10 Year Return As of 6/30/2017
Russell 1000 TR	U.S. Large Cap Stocks	9.27%	18.03%	9.26%	14.67%	7.29%
Russell MidCap TR	U.S. Mid Cap Stocks	7.99%	16.48%	7.69%	14.72%	7.67%
Russell 2000 TR	U.S. Small Cap Stocks	4.99%	24.60%	7.36%	13.70%	6.92%
MSCI EAFE NR	Foreign Develop Stocks	13.81%	20.27%	1.15%	8.69%	1.03%
MSCI EM NR	Foreign Emerging Stocks	18.43%	23.75%	1.07%	3.96%	1.91%
DJ US Real Estate TR	Real Estate	5.89%	1.42%	8.33%	9.27%	5.15%
Bloomberg Commodity TR	Commodities	-5.26%	-6.50%	-14.81%	-9.25%	-6.49%

Fixed Income Performance

Fixed Income Index	Style	YTD Return As of 6/30/2017	1 Year Return As of 6/30/2017	3 Year Return As of 6/30/2017	5 Year Return As of 6/30/2017	10 Year Return As of 6/30/2017
BarClays US Aggregate Bond TR	U.S. Core Bonds	2.27%	-0.31%	2.48%	2.21%	4.48%
BarClays US Corporate High Yield Bond TR	U.S. High Yield Bonds	4.93%	12.70%	4.48%	6.89%	7.67%
BarClays Global Aggregate Bond TR	Foreign Developed Bonds	4.41%	-2.18%	-0.35%	0.78%	3.69%
Morningstar Emerging Market Bond	Foreign Emerging Bonds	4.96%	6.61%	4.21%	4.91%	7.60%
CitiGroup 3-Month T-Bill	Cash	0.30%	0.46%	0.20%	0.15%	0.51%

Source: Morningstar®