Investment Strategy Update

Ascential Wealth Advisors
An Independent Practice

Market Report — Quarter 2 • 2018

Volatility Returns

After an abnormally quiet 2017, market volatility has returned in 2018. Stocks continued their rally into the beginning of the year, peaking in January before giving back gains due to concerns over wage inflation and tariffs. The S&P 500 broke a winning streak of 9 consecutive positive quarters. However, technology and emerging markets showed continued strength, closing the quarter in positive territory with the NASDAQ up 2.32% and the MSCI Emerging Markets Index up 1.28%. After a strong run in equity markets such as we have experienced, a pullback is not really surprising.

Market behavior aside, fundamentals and economic data remain strong. Global GDP growth is projected to remain stable, with developed economies growing 2.5%, emerging markets 4.9%, and almost ALL economies experiencing positive growth. (Bloomberg, March 31, 2018) Worldwide, corporate earnings are also up, so long as fears surrounding tariffs and potential trade wars can be assuaged, we feel there is room for further positive performance from stocks.

Volatility also shook the bond market in the first quarter, with interest rates moving sharply up. The 10-year US Treasury yield moved from 2.4% at the beginning of the year to above 2.9% in March before closing the quarter at 2.74%. Much of the upward movement occurred prior to the Federal Reserve increasing its benchmark rate again on March 21, attributed to signs of higher inflation and the unwinding of the Federal Reserve's bond portfolio. A new Federal Reserve chairman, Jerome Powell, took over in March, creating additional uncertainty surrounding future policy.

Index	*2018 (through 03/31)*
S&P 500	-0.76
DJIA	-1.96
EAFE (Int'l)	-1.70
BC Ttl Bond	-1.46

Dow Jones Relative Risk Benchmarks	
Conservative	+0.18
Moderate	-0.01
Aggressive	-0.25

2018 Outlook

FIXED INCOME — The threat of higher inflation moved rates upward in January and February, however market demand continues competing with inflation threats and the Fed's rate hikes for control over bond yields. US bonds remain attractive, with a 2-year US Treasury yielding 2.26% as compared to a 2-year German bond at -0.58% or a 2-year Italian bond at -0.02%. There are still approximately $8.6 trillion of negative yielding bonds worldwide as of 3/14/2018. (Raymond James & Bloomberg) We remain cautious about rising rates, but expect a long battle. We look to stay positioned for gradually rising interest rates and are monitoring conditions for signs that a strategy shift is needed.

Our View — *Remain positioned for gradually rising rates, monitor closely for further adjustments.*

US EQUITIES — Despite a rocky first quarter, and the prospect of tariffs or rising interest rates further disrupting equity markets, there remains a lot to like about US stocks. The US stock market now appears only modestly expensive based on forward earnings, with the S&P 500 now trading at about 16.4 times earnings as compared to its 25-year average of 16.1. Many earnings estimates were revised upward for US companies which stand to benefit from a significant reduction in taxes. Before the effect of tax cuts, 2017 earnings growth was strong at 11.5%, and in the wake of tax reform, consensus estimates are for earnings growth of 18.6% - the highest since 2010. (Raymond James, March 2018) We feel that there will be a compromise on tariffs, and it won't turn out as badly as the market has feared. In light of this, we remain cautiously optimistic and feel patience is in order while the tariff situation is ironed out.

Our View — *US equity fundamentals are strong, be patient with volatility.*

INTERNATIONAL EQUITIES — Foreign equities remain appealing from a valuation and growth perspective. Despite strong performance in 2017, after the recent correction the MSCI All Country World ex-US index has a forward price to earnings ratio of 13.3, compared to a 20-year average of 14.5. (JP Morgan, March 2018) Additionally, growth rates around the globe are in line with or higher than the US. Following years of underperformance, particularly from 2011-2016, foreign stock prices have not caught up to the US. With a foundation of global growth and continued monetary support from central banks, we feel there is opportunity in foreign stocks.

Our View — *Valuations and growth are attractive, maintain overweight.*

Bonds Matter

As of 12/31/17, the US stock market was worth $29.6 trillion. The US bond market was worth $40.8 trillion (including treasury, municipal, corporate, mortgage and asset backed debt).

(Source: Securities Industry & Financial Markets Assoc.)

Tariff Talk

President Trump announced steel and aluminum tariffs on 3/1/18. Six days later, the White House exempted Mexico and Canada from those tariffs, and by the time the tariffs took effect on 3/23/18, 32 additional countries were exempted and more exemptions are expected. *(Source: White House)* Canada was the #1 source of both US steel and aluminum imports in 2017. *(Source: US Commerce Department)*

Markets React to Tariffs...What's the fuss?

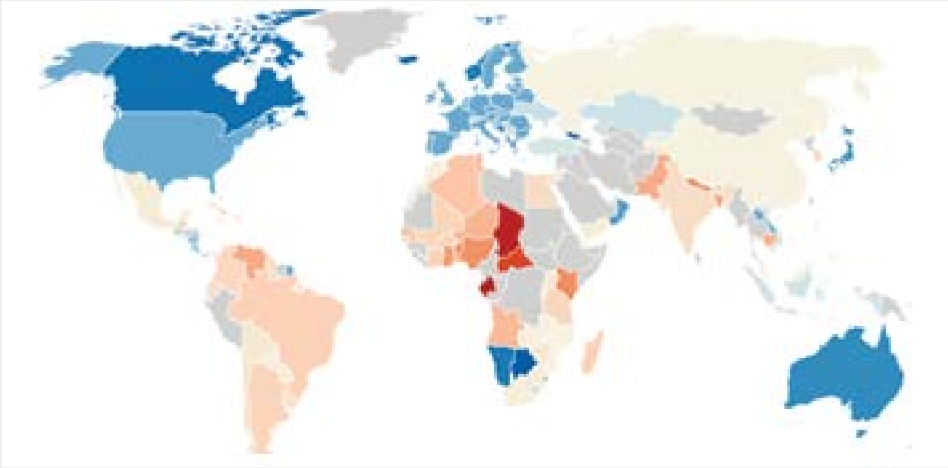
A tariff is a tax on goods coming into a country, designed to increase the price of foreign products, which in theory makes domestic items more attractive. The long-term goal is to protect an industry from competition. Tariffs are not new, dating back to the late 1700s in the United States. Since the 1930s, most developed countries have reduced tariffs to improve global trade, and today tariffs are most prevalent in less developed countries.

Investment markets often react negatively to tariffs as they can lead to higher operating costs for companies and retaliatory behavior or trade wars. Businesses that incur increases to their cost of goods due to tariffs can:

- Absorb the cost and decrease profits
- Cut costs in other areas to offset
- Pass the cost on to consumers

Free trade generally benefits consumers through reduced prices and increased options, however many countries continue to use tariffs as they attempt to balance the benefits of free global trade with a strong domestic economy.

Tariff Rates, 2016 (Average tariff rate, all products)



Dark Red = Highest Rates Dark Blue = Lowest Rates White = data undisclosed

Chart Source: World Bank/Investopedia 2016

ASCENTIAL WEALTH ADVISORS

Get there from here

11 East Superior Street, Suite 500
Duluth, MN 55802
218.336.2500 • 888.840.8299

ascentialwealth.com

Investment advisory services are offered through Raymond James Financial Services Advisors, Inc. Ascential Wealth Advisors is not a registered broker/dealer and is independent of Raymond James Financial Services. Securities offered through **Raymond James Financial Services, Inc.** *Member FINRA/SIPC.*

Disclosures

This material is being provided for information purposes only and is not a complete description, nor is it a recommendation. Any opinions are those of Ascential Wealth Advisors and not necessarily those of Raymond James. The information has been obtained from sources considered to be reliable, but Raymond James does not guarantee that the foregoing material is accurate or complete. Investing involves risk and investors may incur a profit or a loss regardless of strategy selected. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Past performance is not a guarantee of future results. Investments mentioned may not be suitable for all investors. Diversification does not ensure a profit or guarantee against a loss. Individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays Capital Aggregate Bond Composite Index (BC Ttl Bond) measures investment grade, fixed-rate, taxable bond markets of roughly 6,000 SEC registered securities with intermediate maturities averaging approx. 10 years. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. There are special risks associated with investing with bonds such as interest rate risk, market risk, call risk, prepayment risk, credit risk, reinvestment risk, and unique tax consequences. To learn more about these risks, please contact our office. Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Dividends are subject to change and are not guaranteed. Dividends must be authorized by a company's board of directors. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.