WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Monthly Market Comment

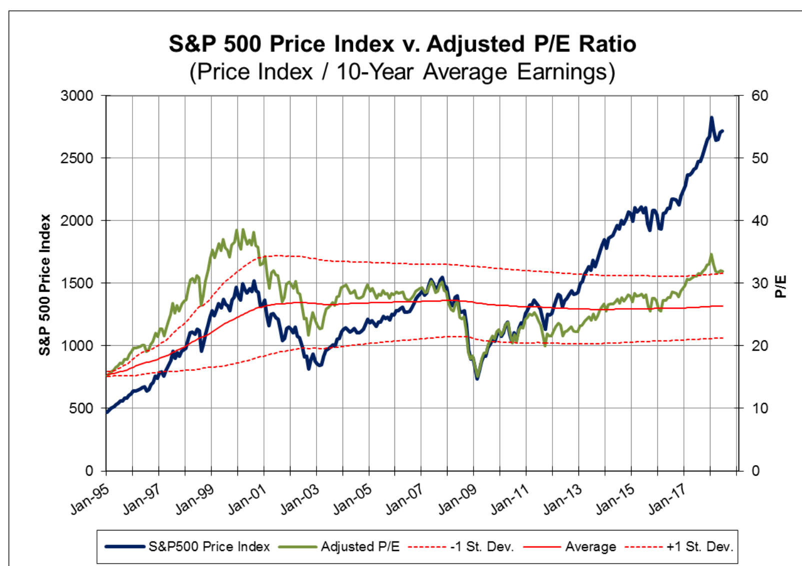
July 1, 2018

There was a lot of movement in the U.S. financial markets during June, but the experience was just like riding a roller coaster: Investors ended the ride pretty much where they started it. Returns were generally positive, but modest. Stock prices rose slightly, while bond prices fell just a bit. The only significant strength was among alternative assets like real estate and commodities.

Stocks

Good economic growth, recent tax cuts and government spending hikes, and an apparent cooling of tensions with North Korea helped buoy U.S. stocks in early June. However, similar to past episodes, a new round of tough rhetoric on international trade policy undercut stocks in the second half of the month. The S&P 500 stock price index ended June just 0.5% higher than at the end of May, although it was still up a healthy 12.2% from the end of June 2017. Taking into account dividends, the total return on the S&P 500 was 0.6% in the month of June and 14.4% over the last year.

Looking forward, we believe stocks will continue to receive support from the on-going economic expansion and the impact of the new tax cuts and government spending hikes, but we have noticed several yellow flags that suggest any upside from here may be limited. For example, soft spots seem to be developing in some sectors of the economy (such as existing home sales), and rising inflation pressures continue to present a risk that the Federal Reserve might start raising interest rates more aggressively. In addition, there are still big policy risks in national security and international trade. Fundamentals in the financial markets also present warning signs. Short-term interest rates have risen almost to the point where they are equal to long-term rates, which has historically been a negative sign for the economy and stocks, while corporate earnings have surged to extreme (and probably unsustainable) levels. The long bull market has pushed stock valuations very high, and if they now start to pull back, history teaches that stocks could well enter into a significant downturn. Signs such as these have historically shown up six months to a year before such a downturn gathered force. We are therefore not panicking yet, though we think it is a good time to start preparing to reduce risk.



© Wealth Management International, Ltd.

23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET

To find out how we use our research in an effort to build better investment strategies, see our website at www.wealthadv4u.com.
Advisory services offered through Wealth Management International, Ltd. (WMI), or AdvisorNet Wealth Management (AWM), SEC registered investment advisors. WMI and AWM are not affiliated.

Technical indicators have also become a bit less positive. For example, the S&P 500 price index has now slipped below its 20-day and its 50-day simple moving averages (SMAs), which suggests stocks have lost a lot of their previous upward momentum. The overall index remains above its all-important 200-day SMA, but in a sign that the remaining momentum has become relatively narrow, only about 55% of the stocks in the S&P 500 now trading above that marker. Finally, the Dow Jones Transportation Index has recently started to under-perform the overall market, which has traditionally been a negative indicator for stocks. One modestly positive indicator is that the main short-term momentum indicators (such as the "moving average convergence/divergence," or MACD) are simply neutral, as opposed to previous readings that suggested stocks were over-bought. Perhaps the most reassuring recent marker is the fact that a string of month-end record highs like the S&P 500 posted through January has historically been followed not by an abrupt, sustained downtrend, but by a continued uptrend where the record highs simply start to come less frequently. That suggests it would be extremely unusual for the market to now go into a sustained downturn rather than rebounding to at least another record high. All the same, we think the technical indicators are negative on balance. If the S&P 500 starts to trend downward from here, we think the next significant support level would be at approximately 2,690. If the index broke through that level, it might not find support again until it reached 2,635 or the strong support level of 2,581. If the index starts a continued uptrend, we think the next significant resistance level would be at approximately 2,786.

S&P 500 Stock Price Index + "MACD" Momentum Indicator

Source: BigCharts.com

Bonds

With the continued strength in the economy, inflation pressures have risen further, and policymakers at the Federal Reserve have started to sound somewhat more anxious to boost interest rates. At the same time, easing tension between the United States and North Korea has eliminated some safe-haven buying. The result has been significant headwinds for bonds. Bond prices fell throughout early June, pushing yields higher. Nevertheless, bond investors seemed to focus more on the economic and policy risks later in the month, driving bond prices higher and yields lower again. The yield on the benchmark 10-Year Treasury Note ended the month at 2.849%, only modestly higher than the 2.822% level at the end of May. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was 0.0% in June, and a negative 0.2% over the last year.

© Wealth Management International, Ltd.
23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET
To find out how we use our research in an effort to build better investment strategies, see our website at www.wealthadv4u.com.
Advisory services offered through Wealth Management International, Ltd. (WMI), or AdvisorNet Wealth Management (AWM), SEC registered investment advisors. WMI and AWM are not affiliated.

Looking forward, we still think solidifying inflation pressure and increased government borrowing will be a headwind for bonds in the near term, but we are not convinced that the selling will get too intense. Indeed, as shown in the second half of June, juicy yields and increased policy risks could well keep investors interested in the relative stability and safe-haven characteristics of fixed-income investments.

Real Estate and Commodities

Publicly-traded real estate investment trusts (REITs) often face headwinds when bond yields rise, but the flip side of that is that they also tend to benefit when yields fall. That happened dramatically as bond yields pulled back in the second part of June. As a result, the FTSE NAREIT Price Index jumped 3.5% by the end of the month, leaving it up 0.8% from June 2017. Because of their relatively high dividends, the total return on publicly-traded REITs was a positive 4.2% in June and 4.9% over the last year. Looking ahead, we believe the outlook for these REITs is modestly positive, so long as economic growth continues and bond yields don't rebound too much.

For commodities, the S&P GSCI Total Return Index rose 1.4% in June, marking its fourth straight monthly increase and bringing its gain over the last year to a whopping 30.0%. Energy commodities have been the main source of the uptrend, with prices for crude oil and refined products surging after investors realized that virtually all excess supply around the world has now been eaten up by constantly increasing demand and constrained production. Even though several key producing countries agreed in late June to boost output, investors seemed to focus more on the incessantly rising demand and the likelihood of export disruptions in Venezuela, Libya, and Iran. In contrast, gold and other precious metals prices fell sharply in the face of rising interest rates, a stronger dollar, and reduced international tensions. Finally, the threat of a worsening trade war that might undercut the global economy had a negative impact on prices for industrial metals and agricultural products. Going forward, we agree that rising demand and various supply disruptions could well keep energy prices on the upswing, which will likely produce further price gains for broad-based commodity baskets, even though the developing trade war will likely be a hurdle for most other major commodities.

Patrick Fearon, CFA
Chief Investment Officer

Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,718.37	0.5%	2.9%	12.2%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	289.52	-2.1%	-3.6%	4.6%
REITs	FTSE NAREIT All-Equity Price Index	677.57	3.5%	7.3%	0.8%
Commodities	S&P GSCI Total Return Index	2,821.65	1.4%	8.0%	30.0%
Bonds	S&P U.S. Aggregate Bond Index	190.85	0.0%	-0.1%	-0.2%

© Wealth Management International, Ltd.
23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET
To find out how we use our research in an effort to build better investment strategies, see our website at www.wealthadv4u.com.
Advisory services offered through Wealth Management International, Ltd. (WMI), or AdvisorNet Wealth Management (AWM), SEC registered investment advisors. WMI and AWM are not affiliated.