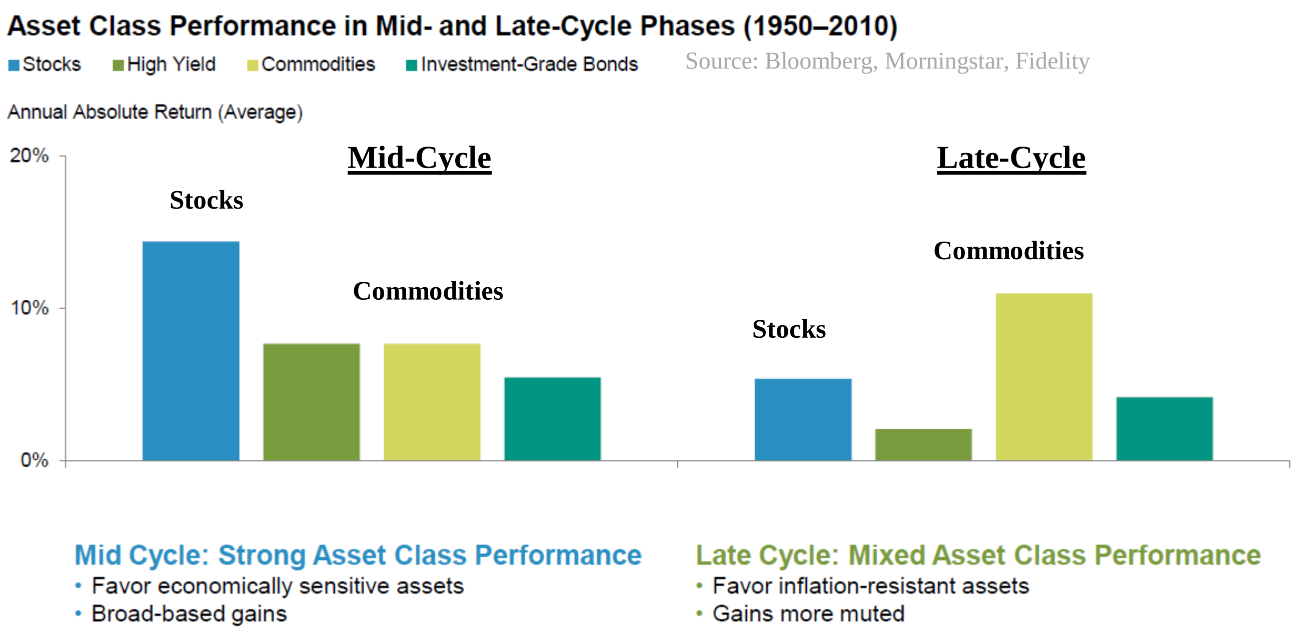
June 2018 Market Update

Monthly Highlights

- Global trade war concerns escalate
- US markets remain resilient while international and emerging markets decline
- Commodity performance was mixed, as oil sharply rebounded while metals and agriculture fell.
- Oil and energy stocks are top performers
- US economic backdrop remains strong, but…
- Drivers of US growth are peaking (i.e. stimulus from tax cuts and overseas cash)

Business Cycle Update

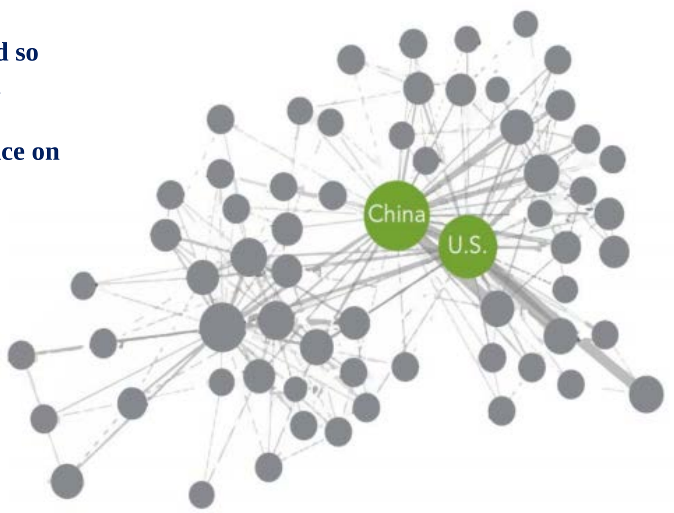
The phase of the business cycle can exert enormous influence on asset class performance. This is important to watch because the rotation of economic seasons cause the short-to-intermediate term risks and returns of asset classes to change. In the US, the current business cycle continues to transition into the late cycle or "*slowdown*" phase. Consistent with this part of the cycle, stock volatility picks up, inflation pressures build, short-term interest rate expectations rise, and inflation-seeking assets like oil and energy stocks tend to outperform. June was an excellent demonstration of these dynamics.



Beyond this natural business cycle rotation, each cycle also has its own set of idiosyncratic circumstances. For instance, June was brimming with trade war rhetoric. This political risk spilled over into global markets, and had a disproportionate impact on emerging markets stocks, currencies and select commodity markets like agriculture (especially soybeans, a major US export) and metals (like copper and aluminum). This negative non-cyclical risk overwhelmed the normal cyclically positive forces on these assets.

Global Trade Interdependence

Although the tariffs announced so far are expected to have only a modest impact on global growth…global interdependence on the US and China represents a potentially larger risk.

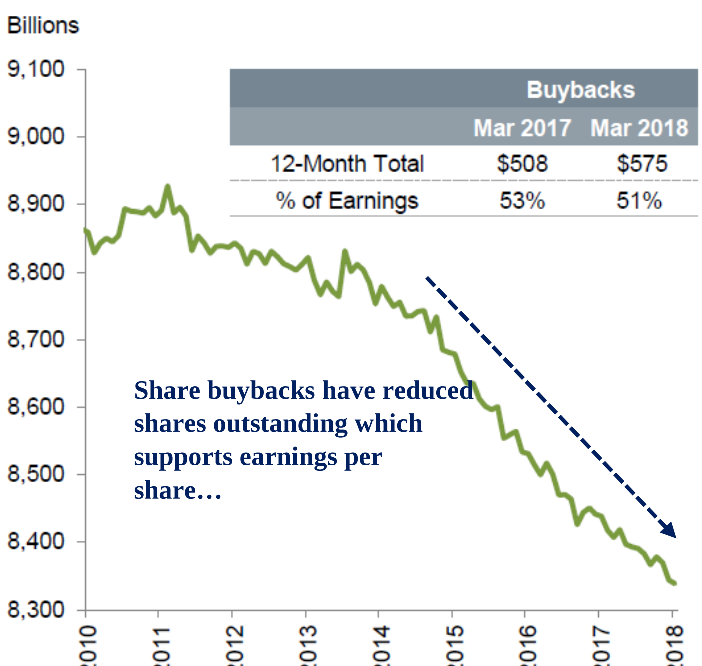


Source: IMF, Haver Analytics, Fidelity

Surprisingly, US stocks largely stayed above the trade war fray. While the Dow Jones Industrial Average closed modestly lower in June, most US stock indices were up slightly (led by energy stocks). Conversely, most other global assets declined. US stocks enjoyed continued support from one-time tailwinds in the form of 2017 tax cuts and the repatriation of overseas cash hordes. This temporary cash windfall allowed US companies to continue to support their stock prices through on-going buybacks. These growth drivers are now peaking. And as we look forward, the global economic situation, though still healthy, is expected to gradually slow and more normal cyclical forces to resume.

US Share Buybacks Have Supported Returns and Elevated Valuations

S&P 500 Share Count

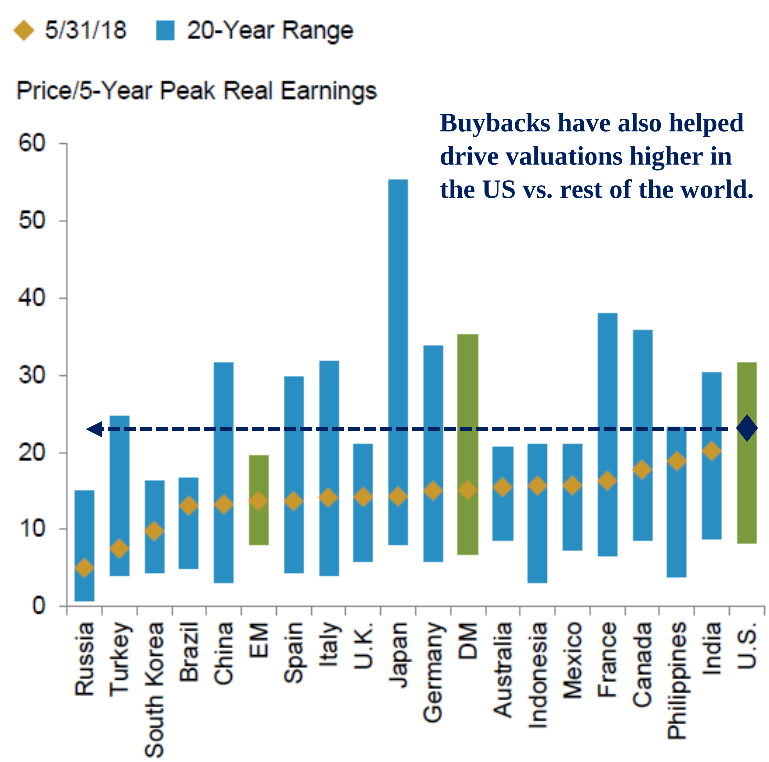


	Buybacks	
	Mar 2017	Mar 2018
12-Month Total	$508	$575
% of Earnings	53%	51%

Source: S&P, Fidelity

Cyclical P/Es

Source: Haver Analytics, Fidelity



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