July 2018 Market Update

HUDOCK CAPITAL GROUP, LLC
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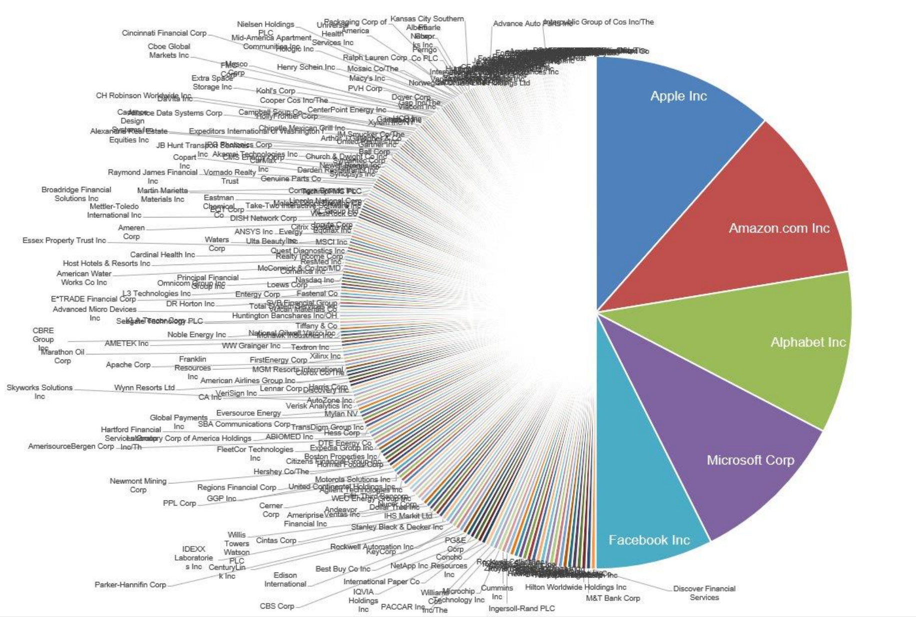
Monthly highlights

- US equities continued gaining ground in July despite tech reversal
- Emerging markets rebounded sharply in July despite Trump-tariff trade war fears
- Commodities flagged under concerns of slowing Chinese growth
- Signs of US stock market performance chasing

US equities gained ground in July despite big tech reversal

US equities gained ground in July on strong earning's season results. While S&P 500 growth in the first half of 2018 was driven mainly by big tech giants affectionately known as the "FAANG" stocks (Facebook, Amazon, Apple, Google etc.), this situation abruptly reversed when Facebook posted disappointing earnings, causing the largest single day value decline for a single stock in market history (FB lost $120B). Despite a FAANG stock decline of roughly 5%, the S&P 500 managed a 3.7% gain. Of the S&P 500 firms that reported results, 86% beat estimates. After a difficult June, financial and industrial stocks performed best. Other somewhat defensive sectors also did well, such as healthcare and consumer staples sectors. For a visual idea of the market cap value of the top five S&P 500 companies versus the bottom 282, consider the infographic below:

Value of the Top Five S&P 500 Companies vs. Bottom 282



Emerging markets rebounded despite ongoing trade war fears

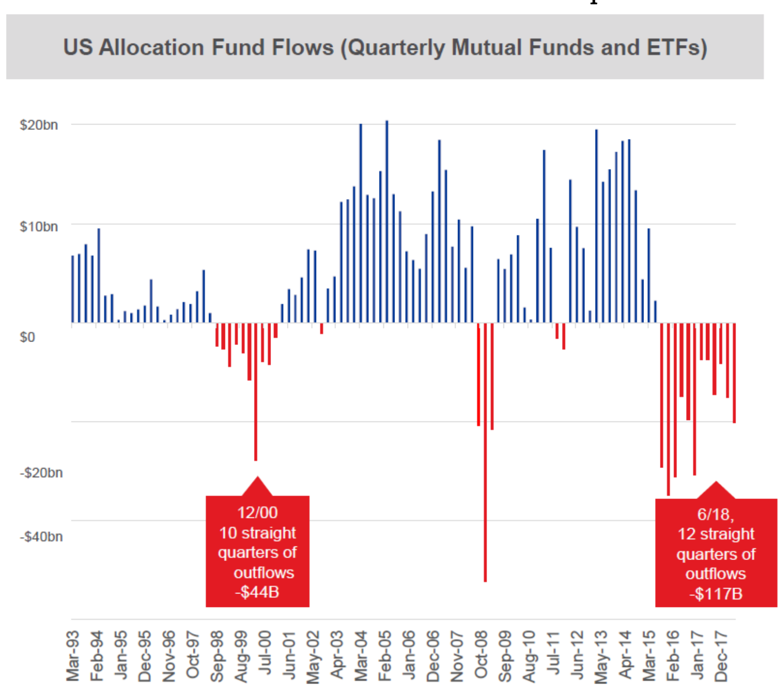
Emerging market (EM) equities rebounded in July +3.5% (MSCI), with Brazil and Mexico posting strong gains upon easing domestic political concerns. By contrast, China (nearly 25% of the index) continued to suffer from US-China trade uncertainties as the Trump administration declared another tariff. EM currencies also rebounded as USD strength abated.

Commodities flagged under OPEC supply increase and ongoing concerns about China

Commodities posted weak performance in July, with the Bloomberg Commodity index falling roughly 2%. Commodities, which are generally strong performers during this part of the business cycle, continued to be impacted by a series of idiosyncratic global events. Industrial metals fell over lingering concerns about a trade war induced slowdown in China (the world's largest consumer of metals). Oil dropped roughly 5% following a Russia / OPEC agreement to increase supply. Gold also dropped roughly 2% as the "risk-on" move into stocks continued.

Fund flows in 2018 show signs of classic performance chasing by investors

Behavioral studies have shown that investors tend to chase performance (especially at the end of bull markets) by concentrating in stocks following extended periods of good performance. Blackrock recently reported that 2018 investment flows into the top 100 equity funds reached $325B. Meanwhile, diversified allocation funds recently set their own record for *outflows*, with 12 consecutive quarters totaling -$117B. These flows harkened similar investor behavior from 2000 at the end of the tech bubble, when allocation fund outflows totaled -$44B over 10 straight quarters. Following that outflow stretch, allocation funds outperformed the S&P 500 approximately 20% over the next 3 years (2001- 2003).



Source: Blackrock

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