



TRADE WARS – “THE SAGA CONTINUES”

In our first quarter market commentary, we touched on initially proposed trade sanctions and the risks of an escalating trade war between the US and China. Escalation continued during the second quarter and broadened in geographic scope. Incredibly, the historical meeting between US President Donald Trump and North Korean Supreme Leader Kim Jong-Un was largely overshadowed by the G7 summit in Quebec. The summit was marked by pointed disagreement between the US and other members on tariff levels and ended with the President leaving early and declining to endorse the joint statement from the summit. Shortly afterward, the US declared tariffs on Canada, Mexico, and the European Union on steel, aluminum and other products. Concurrently, but for different reasons, the US also announced that it would be implementing tariffs on a wider list of Chinese products in response to concerns about intellectual property theft. The recipients quickly responded in-kind, with tariffs on approximately \$75 billion worth of American products.

The US exports roughly \$2.3 trillion worth of goods and services annually, over 30 times the value of the US products in question. Exports in turn are a relatively small component of GDP, which itself stands at roughly \$20 trillion in nominal terms. US personal consumption, the major component of GDP, has grown at an average annual rate of nearly \$500 billion. This is not to say that these trade impediments will not be harmful to some or ineffective on their targeted industries, rather their aggregate significance does not seem to have been given a proper context (\$75 billion being slightly less than the annual gross domestic product of the state of New Hampshire). Despite the recent escalation of trade sanctions, the US financial markets have largely shrugged off any concerns. This would seem to reflect the relatively modest size of current sanctions and the strength of the US economy.

History indicates that trade wars restrict long-term economic growth; the strength of the US economy provides the current administration with unique short-term leverage in its attempts to extract concessions from trading partners. The current administration looks poised to accept short-term pain, particularly in domestic agricultural production, in the pursuit of reduced long-term global trade imbalances, improved intellectual property rights and increased domestic manufacturing jobs. The current administration is also betting that the US economy can absorb the impacts of bilateral economic sanctions better than its trading partners. Economic figures would appear to back this up. The US economy is not only the largest economy in the world, it's also one of the most diverse and dynamic. US personal consumption represents more than 70% of \$20 trillion in domestic GDP while total exports represent just over 10% of the total. In short, the US is arguably economically positioned to better withstand the impacts of “tit-for-tat” trade sanctions. While that may be true from an economic position, it may be difficult for the current administration to survive extended protectionist policies. China would appear uniquely positioned to politically outlast any administration subject to public opinion/election. For now, the financial markets appear largely dismissive of the risk inherent in a long-term trade war and content to label the recent escalation as largely posturing.

GLOBAL ECONOMIC LANDSCAPE

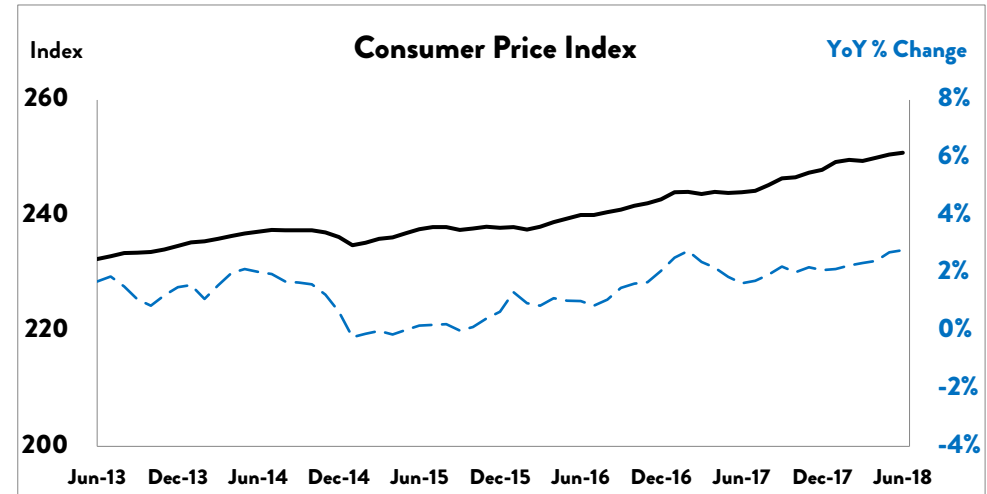
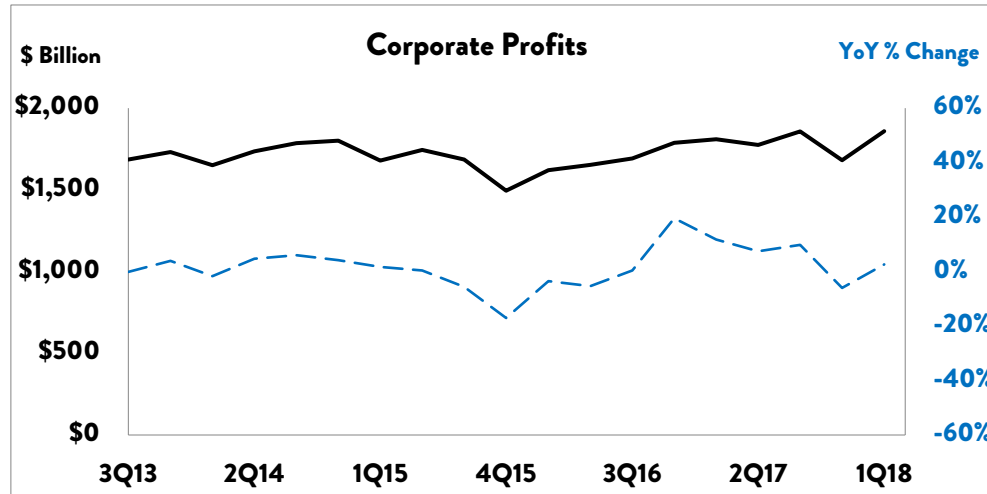
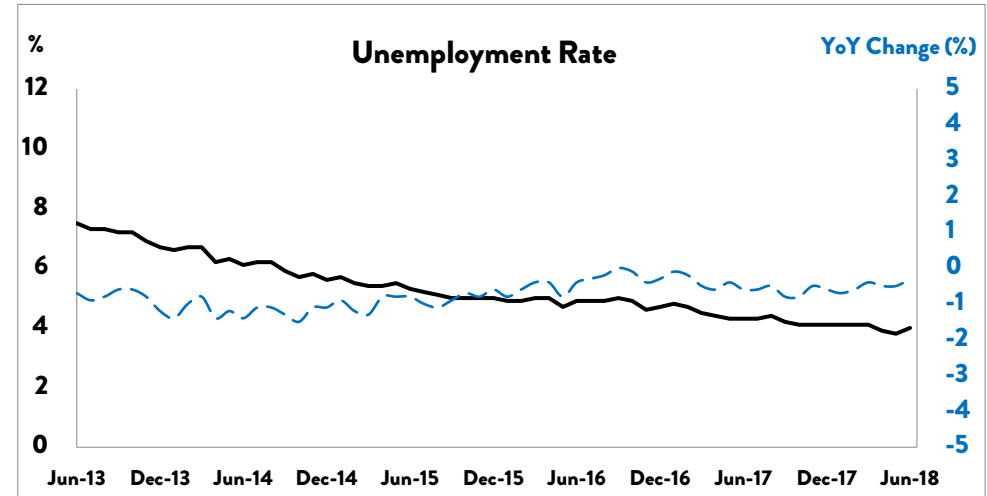
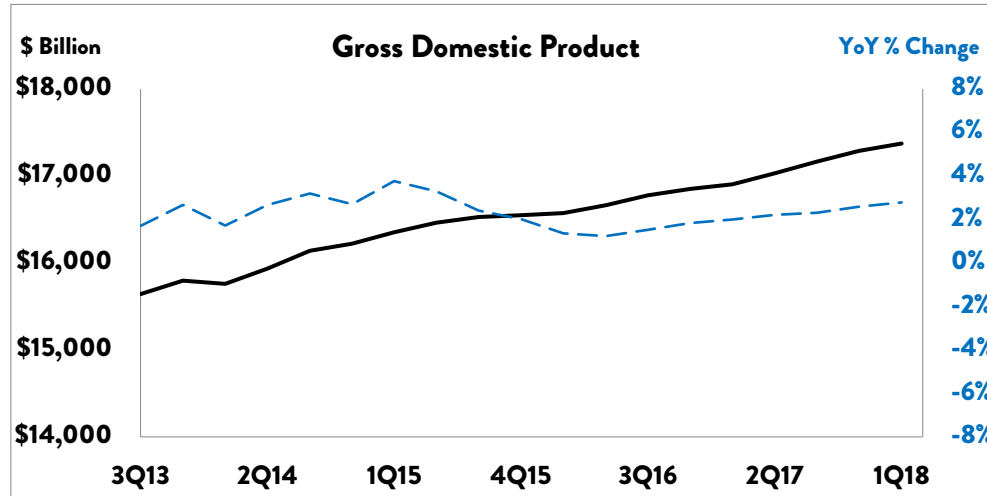
- The US economic expansion is entering its 10th year, the second longest on record.
- The domestic economy added 213,000 jobs in June, but an influx of new jobseekers saw the unemployment rate climb from 3.8 to 4.0 percent. Wage growth has been trending up modestly, but the current 2.7% growth rate remains well below the 6.2% 50-year average.
- In response to a continued strong labor market, the Federal Reserve increased the monthly rate at which its combined holdings of Treasury and Agency securities “roll-off”, from \$20 billion in March to \$30 billion in May to \$40 billion in June. The European Central Bank also announced on June 14th that it will reduce its monthly net purchases of €30 billion to none by year-end. These actions may reduce pricing pressure on conservative fixed income securities.
- Five-year US inflation expectations nudged up from 1.92% to 2.07% during the second quarter. Recent quarter-by-quarter fluctuations in expectations have generally been lower than in years past; suggesting the markets believe the Fed will keep annual price increases close to its 2% target.
- Eurozone growth topped 2.5% in 2017, the fastest growth rate in over a decade. However, the first quarter of 2018 saw a modest slowdown. While growth in the Eurozone and UK continues to be positive, the slower growth rates are tempering investor expectations for 2018.
- At the same time, Eurozone unemployment continues to tick down to the lowest levels (8.4%) in nearly 10 years.
- Growth in Asia is also showing signs of slowing. The Chinese government recently announced an annualized economic growth target of 6.5% for the remainder of 2018, down from 6.9%. This slowdown is set to coincide with efforts to reduce bad debt in the financial system while closing inefficient factories. The central government also intends to shrink its budget deficit to 2.6% of GDP from the current 3.0%.

GLOBAL FINANCIAL MARKETS

- The S&P 500 Index currently trades at 16.1x forward earnings, exactly equal to the 25-year average. Absolute earnings reached another high at the end of the most recent quarter, noting that 43% of those earnings are generated from outside the US. Profit margins remain at 20-year highs.
- Strong earnings and profit margins have led to high levels of cash on corporate balance sheets. Flush with cash, dividend payouts and share buybacks are at 20-year highs. In addition, capital expenditures and M&A remain at elevated levels.
- Small Cap stocks handily outpaced mid and large cap stocks for the quarter and year-to-date periods. Growth stocks continue to dominate value stocks.
- The domestic yield curve continues to flatten as the Fed increases short-term rates and the long end of the curve remains largely unchanged. The current 5-year Treasury yields 2.7% while the 30-year Treasury yields 3.0%. A flat yield curve suggests that investors are skeptical about the durability of the current late stage expansion.
- The global bond market has grown from just over \$10 trillion to over \$100 trillion in the last 30 years. The US bond market has gone from representing 61% of the total market to 36%. Other developed market exposure has held steady at just over 40% while emerging market debt has increased from nearly zero to over 20% of the global bond market.
- Global markets are increasingly struggling to interpret the impact of an escalating trade war. International developed equity markets broadly lagged US markets while emerging markets were particularly hard hit this quarter.

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2Q2018 Economic Data



Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	213,000	351,000	14,000	210,533	Jun-18
Unemployment Rate	4.0%	7.5%	3.8%	5.3%	Jun-18
Median Unemployment Length (Weeks)	6.6	18.4	6.6	11.9	Jun-18
Average Hourly Earnings	\$26.98	\$26.98	\$23.99	\$25.38	Jun-18

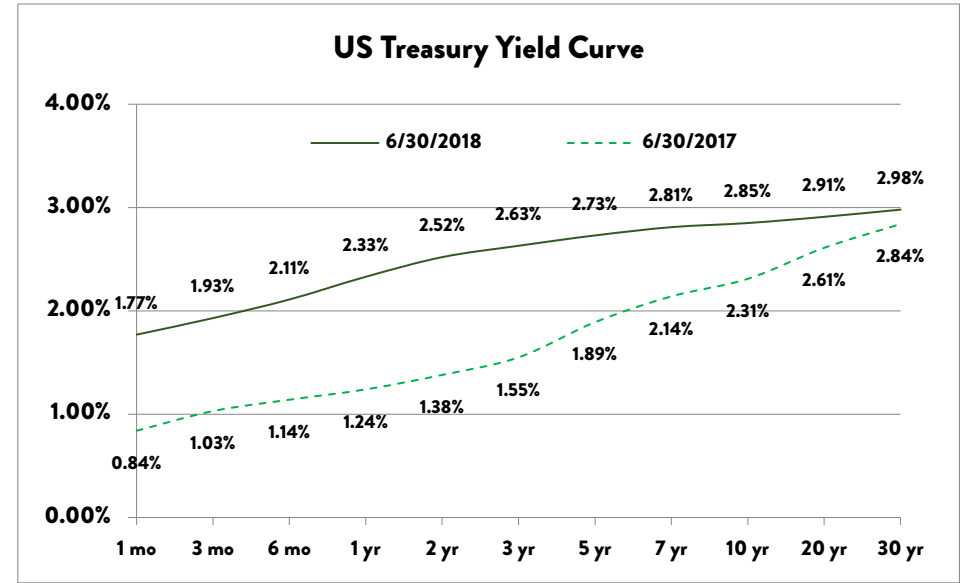
Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.86	\$3.70	\$1.79	-22.6%	Jun-18
Spot Oil	\$67.87	\$106.57	\$30.32	-36.3%	Jun-18
Case-Shiller Home Price Index	210.7	210.7	156.0	35.0%*	Apr-18
Medical Care CPI	486.3	486.3	425.0	14.4%*	Jun-18

Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

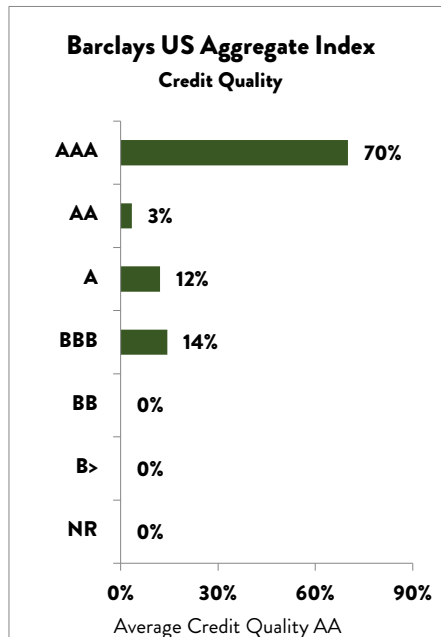
*% Off Low

2Q2018 Bond Market Data

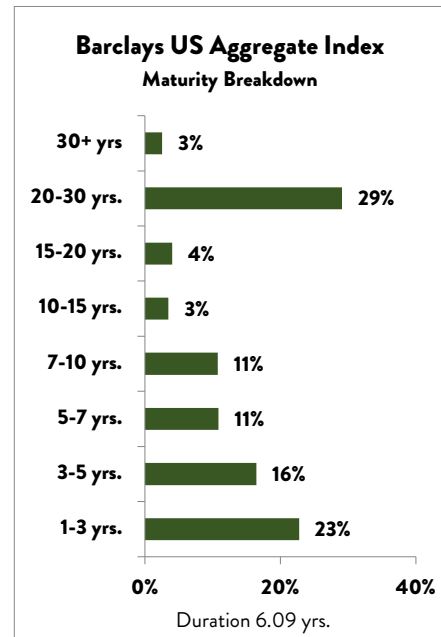
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.42%	0.73%	1.20%	0.57%	0.36%	0.32%
Barclays US Aggregate	-0.16%	-1.62%	-0.40%	1.72%	2.27%	3.72%
Barclays Short US Treasury	0.46%	0.78%	1.29%	0.72%	0.48%	0.49%
Barclays Int. US Treasury	0.06%	-0.69%	-0.76%	0.62%	1.03%	2.43%
Barclays Long US Treasury	0.31%	-3.00%	-0.13%	3.40%	4.55%	6.05%
Barclays US TIPS	0.77%	-0.02%	2.11%	1.93%	1.68%	3.03%
Barclays US Credit	-0.88%	-2.99%	-0.65%	2.86%	3.37%	5.15%
Barclays US Mortgage-Backed	0.24%	-0.95%	0.15%	1.46%	2.25%	3.54%
Barclays US Asset-Backed	0.42%	0.03%	0.44%	1.26%	1.44%	3.24%
Barclays US 20-Yr Municipal	0.93%	-0.60%	2.70%	3.71%	4.68%	5.36%
Barclays US High Yield	1.03%	0.16%	2.62%	5.53%	5.51%	8.19%
Barclays Global	-2.78%	-1.46%	1.36%	2.58%	1.50%	2.58%
Barclays International	-4.76%	-1.31%	2.78%	3.23%	0.88%	1.76%
Barclays Emerging Market	-2.40%	-3.84%	-1.04%	4.05%	4.46%	6.62%



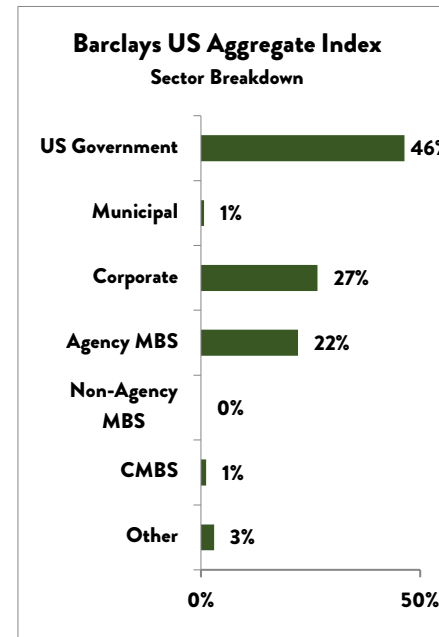
Source: Department of US Treasury



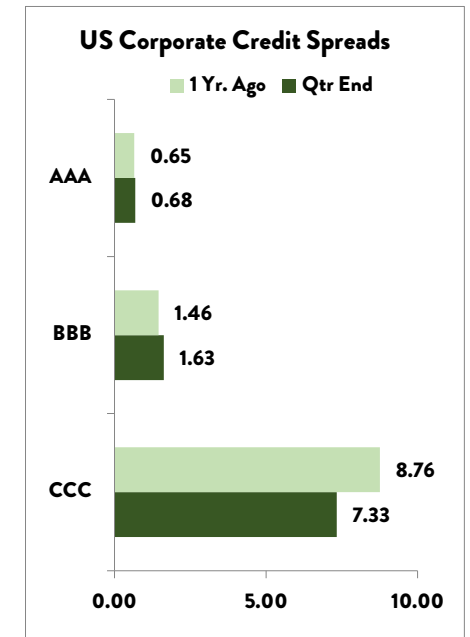
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

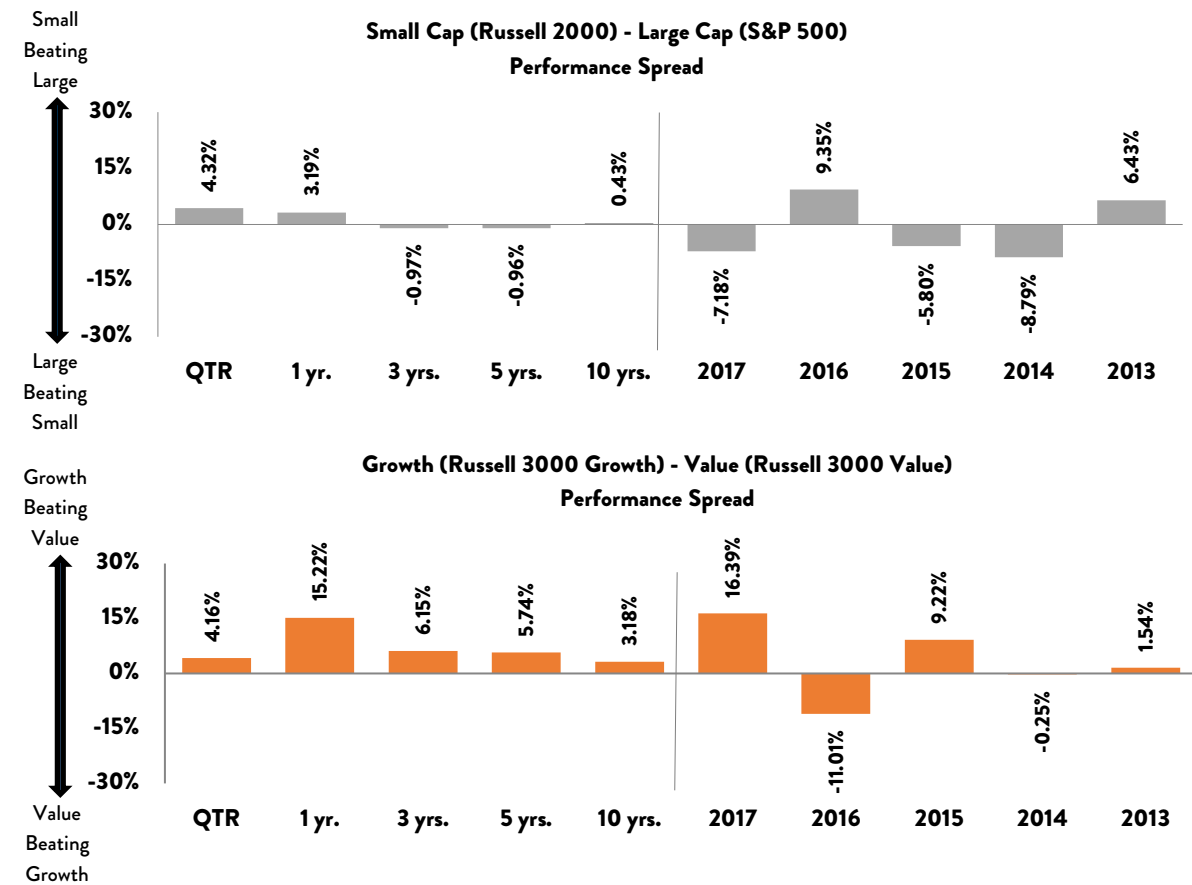
2Q2018 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

	Wgt.	Sector	QTR	YTD	1 Yr.
S&P 500 Index	6%	Energy	13.48%	6.81%	20.99%
	13%	Consumer Discretionary	8.17%	11.52%	23.55%
	26%	Information Technology	7.09%	10.87%	31.30%
	3%	Real Estate	6.13%	0.81%	5.02%
	3%	Utilities	3.74%	0.32%	3.41%
	14%	Health Care	3.09%	1.83%	7.11%
	3%	Materials	2.58%	-3.08%	9.90%
	2%	Telecom Services	-0.94%	-8.35%	1.39%
	7%	Consumer Staples	-1.54%	-8.55%	-3.93%
	14%	Financials	-3.16%	-4.09%	9.65%
10%	Industrials	-3.18%	-4.69%	5.34%	
S&P Midcap 400 Index	5%	Energy	25.73%	16.69%	40.21%
	10%	Real Estate	12.61%	5.29%	6.70%
	9%	Health Care	11.87%	18.71%	18.92%
	5%	Utilities	7.92%	4.16%	9.15%
	13%	Consumer Discretionary	4.59%	0.91%	13.11%
	3%	Consumer Staples	4.48%	0.90%	6.05%
	7%	Materials	2.92%	-1.45%	9.80%
	16%	Information Technology	1.35%	5.45%	17.79%
	15%	Industrials	-0.70%	-3.26%	11.60%
	0%	Telecom Services	-1.60%	-0.22%	-14.62%
16%	Financials	-2.01%	0.08%	10.46%	
S&P Smallcap 600 Index	4%	Energy	22.47%	10.15%	28.20%
	1%	Telecom Services	16.38%	11.54%	10.91%
	12%	Health Care	15.43%	30.47%	46.63%
	3%	Consumer Staples	12.83%	6.20%	19.86%
	6%	Real Estate	12.31%	0.79%	3.39%
	15%	Consumer Discretionary	10.53%	8.65%	21.86%
	2%	Utilities	7.92%	1.96%	12.10%
	15%	Information Technology	6.16%	7.68%	11.57%
	19%	Industrials	5.38%	5.44%	20.88%
	17%	Financials	4.89%	6.98%	16.49%
5%	Materials	4.03%	1.86%	13.84%	

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	3.43%	2.65%	14.37%	11.93%	13.42%	10.17%
Russell 1000 Value	1.18%	-1.69%	6.77%	8.26%	10.34%	8.49%
Russell 1000 Growth	5.76%	7.25%	22.51%	14.98%	16.36%	11.83%
Russell Mid Cap	2.82%	2.35%	12.33%	9.58%	12.22%	10.23%
Russell Mid Cap Value	2.41%	-0.16%	7.60%	8.80%	11.27%	10.06%
Russell Mid Cap Growth	3.16%	5.40%	18.52%	10.73%	13.37%	10.45%
Russell 2000	7.75%	7.66%	17.57%	10.96%	12.46%	10.60%
Russell 2000 Value	8.30%	5.44%	13.10%	11.22%	11.18%	9.88%
Russell 2000 Growth	7.23%	9.70%	21.86%	10.60%	13.65%	11.24%
Russell 3000	3.89%	3.22%	14.78%	11.58%	13.29%	10.23%
DJ US Select REIT	9.99%	1.82%	4.23%	7.71%	8.29%	7.63%



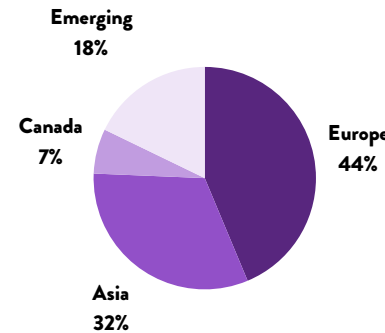
2Q2018 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	-2.61%	-3.77%	7.28%	5.07%	5.99%	2.54%
MSCI EAFE	-1.24%	-2.75%	6.84%	4.90%	6.44%	2.84%
Europe	-1.27%	-3.23%	5.28%	4.22%	6.21%	2.36%
United Kingdom	2.95%	-1.05%	10.02%	3.09%	4.94%	2.66%
Germany	-3.95%	-7.39%	2.55%	5.26%	6.41%	2.53%
France	-0.46%	-0.13%	9.85%	8.66%	8.23%	2.33%
Pacific	-1.35%	-2.02%	9.91%	6.37%	6.93%	3.96%
Japan	-2.84%	-2.03%	10.51%	6.25%	7.37%	3.54%
Hong Kong	-1.18%	-2.53%	9.18%	6.45%	9.80%	7.69%
Australia	5.20%	-1.27%	8.73%	7.10%	4.96%	3.50%
Canada	4.67%	-3.02%	9.12%	4.54%	4.08%	0.66%
MSCI EM	-7.96%	-6.66%	8.20%	5.60%	5.01%	2.26%
MSCI EM Latin America	-17.75%	-11.15%	-0.16%	2.00%	-2.39%	-3.68%
MSCI EM Asia	-5.85%	-5.06%	10.09%	7.31%	8.26%	5.62%
MSCI EM Eur/Mid East	-8.80%	-7.15%	4.89%	1.94%	-3.04%	-5.20%
MSCI ACWI Value ex-US	-3.84%	-5.28%	4.64%	3.51%	4.75%	2.03%
MSCI ACWI Growth ex-US	-1.42%	-2.28%	9.90%	6.56%	7.18%	3.01%
MSCI ACWI Sm Cap ex-US	-2.60%	-2.94%	10.57%	7.94%	8.98%	5.77%

Regional Exposure

MSCI ACWI ex-USA

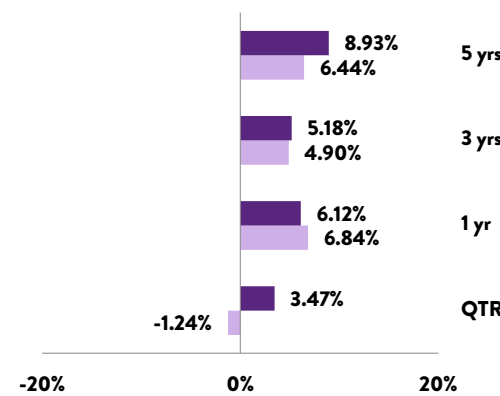


Top 10 Countries (MSCI AC World ex-USA)

Japan	17%
UK	12%
China	9%
France	7%
Germany	7%
Canada	6%
Switzerland	5%
Australia	5%
South Korea	4%
Taiwan	3%

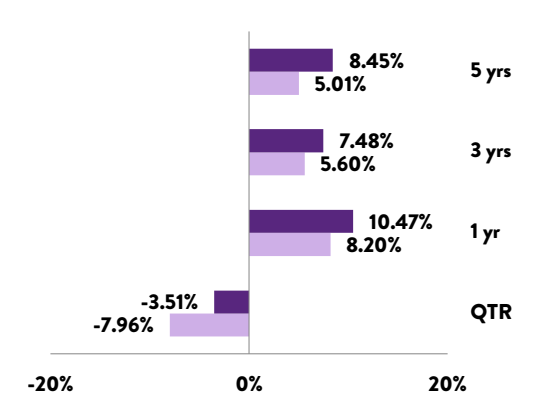
MSCI EAFE Index Return

Local US\$



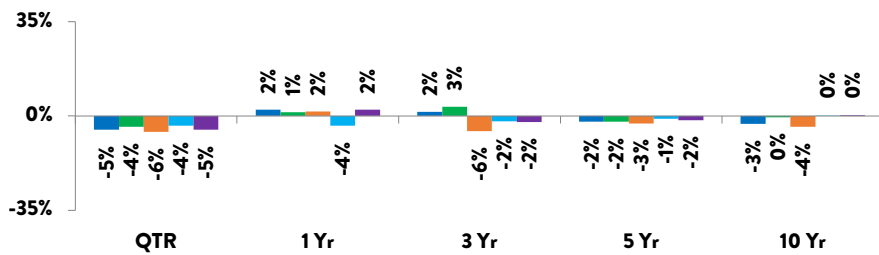
MSCI Emerging Index Return

Local US\$



Foreign Currency v. US\$ Returns

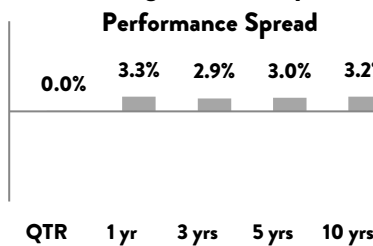
Euro Japanese Yen Pound Sterling Swiss Franc Chinese Yuan



Exchange Rates	QTR	4Q17	3Q17	2Q17	1Q17	4Q16
Japanese Yen	110.71	112.69	112.64	112.40	111.41	116.80
Euro	0.86	0.83	0.85	0.88	0.93	0.95
British Pound	0.76	0.74	0.75	0.77	0.80	0.81
Swiss Franc	0.99	0.97	0.97	0.96	1.00	1.02
Chinese Yuan	6.62	6.51	6.65	6.78	6.88	6.94

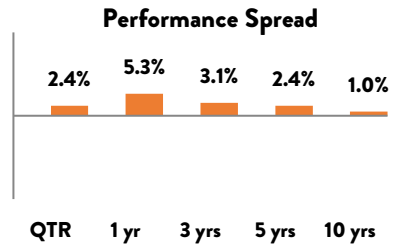
MSCI ACWI Ex US Large v. Small Cap Performance Spread

Small Beating Large Large Beating Small



MSCI ACWI Ex US Value v. Growth Performance Spread

Growth Beating Value Value Beating Growth



Historical Market Returns

Ranked by Performance

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	2Q18
Emerging Markets 55.82%	Emerging Markets 25.55%	Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Small Cap 7.66%	Small Cap 7.75%
Small Cap 47.25%	Intl 20.91%	Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Core Real Estate 3.83%	Large Cap 3.43%
Intl 40.83%	Mid Cap 20.22%	Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	Large Cap 2.65%	Mid Cap 2.82%
Mid Cap 40.06%	Small Cap 18.33%	Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Mid Cap 2.35%	Core Real Estate 1.82%
High Yield 28.97%	Global Balanced 12.18%	Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	Cash 0.73%	High Yield 1.03%
Large Cap 28.68%	Core Real Estate 12.00%	Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	High Yield 0.16%	TIPS 0.77%
Global Balanced 24.27%	High Yield 11.13%	Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Commod. 0.00%	Cash 0.42%
Commod. 23.93%	Large Cap 10.88%	Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	TIPS -0.02%	Commod. 0.40%
Global Bonds 12.51%	Global Bonds 9.27%	Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Global Balanced -0.19%	Global Balanced 0.09%
TIPS 8.40%	Commod. 9.15%	TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	Global Bonds -1.46%	US Bonds -0.16%
Core Real Estate 8.28%	TIPS 8.46%	High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	US Bonds -1.62%	Intl -2.61%
US Bonds 4.10%	US Bonds 4.34%	US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -3.77%	Global Bonds -2.78%
Cash 1.03%	Cash 1.44%	Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	Emerging Markets -6.66%	Emerging Markets -7.96%

Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills.