D. A. FLOWERS & COMPANY, LLC

FINANCIAL PLANNING • INVESTMENT MANAGEMENT

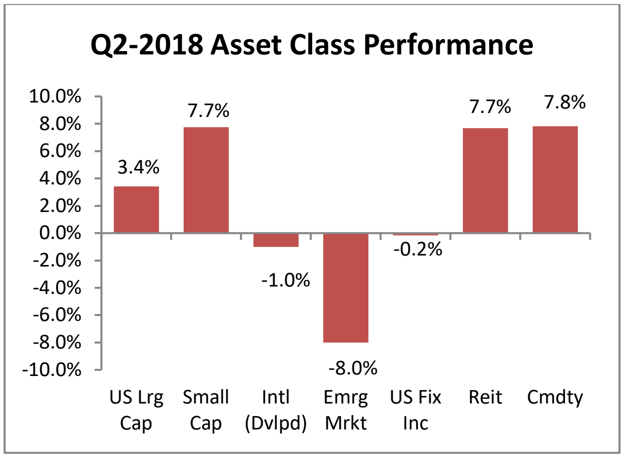
Market Commentary

Second Quarter, 2018

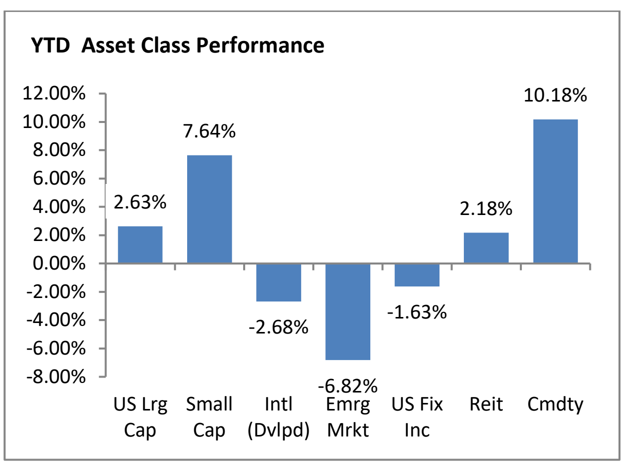
Q2 2018:

Markets

Another positive quarter for the markets in the end, but a fairly bumpy ride to get there. Following on the volatile and, ultimately lackluster performance in Q1, we ended the second quarter in a similar state of uncertainty but with better results for US stocks.



The US Large cap and Small Cap stocks were up 3.4% and 7.7% respectively for the quarter while International stocks were in negative territory, especially Emerging Markets which were down -8%. Commodities rose substantially on higher oil prices and real estate showed good returns as well.



Performance since the beginning of the year is somewhat better but really just tells us Q1 was flat, and Q2 was positive.

The hard part, of course, is teasing out the "why" of what happened and, more importantly, what will come next. The big culprits since the beginning of the year have been: (1)Rising Interest Rates,(2) Increased Volatility and (3) Uncertainty over a potential trade war

The last two (Volatility and Trade war)are probably related but that is not the whole story. Oil prices have been rising but they are offset by a stimulative tax cut and strong employment numbers. Wages are still flat but we are starting to see inflation. The Fed is moving to raise short-term interest rates but long-term rates remain stubbornly low.

For every positive bit of news there is a negative factor in opposition. This leads to uncertainty among investors. Uncertainty means caution and a refusal to bid up prices for stocks.

The real world result of this uncertainty is large swings up and down in the equity markets. The market uncertainty is further exacerbated by the prospect of a trade war with China and possibly Europe. Both are large trading partners with the US. Tariffs would have a very real impact on prices and consumer demand that could ultimately tip us into recession.

As long-term, diversified investors, day to day swings are mitigated by a long term outlook. Despite the ups and downs of late we expect continued strength in markets for the remainder of the year with the same bumpy trajectory we've seen of late.