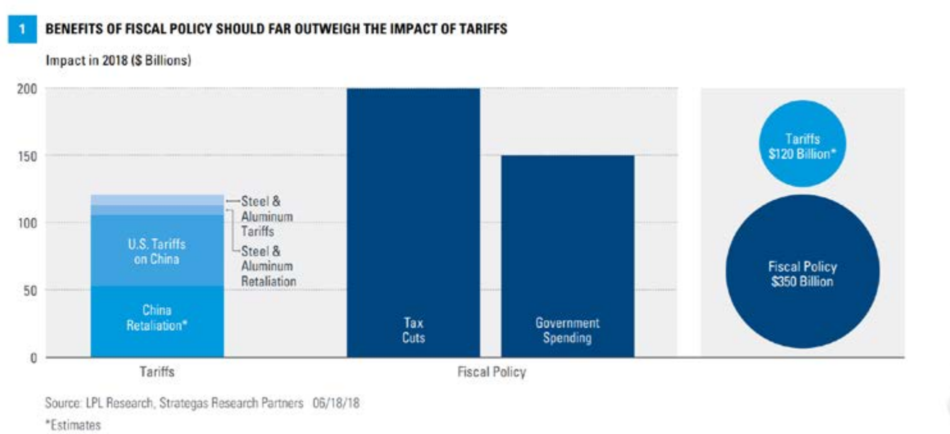
NATIONAL WEALTH
MANAGEMENT GROUP, LLC
Your Independent Investment Advisor

The first half of 2018 brought investors mixed results and signaled the return of market volatility which came as a shock to those who grew accustomed to 2017s abnormally tranquil investment environment. Momentum trades in the tech sector pushed valuations ever higher, rewarding those betting on the perpetuation of aggressive innovation in IT and healthcare. From a fundamental perspective, the results have been more of a mixed bag as certain sectors of the market, such as financials, have failed to break out while others have performed as expected. In some ways, 2018 resembles 2015 in that growth stocks have significantly outperformed their value counterparts with international stocks lagging behind. The diverging correlation between valuations and performance results, we believe, has created dislocations in US markets a prudent investor would be wise to recognize. Challenges persist overseas, enough so that we have moderated our outlook and changed our recommended portfolio weightings in developed international equities.

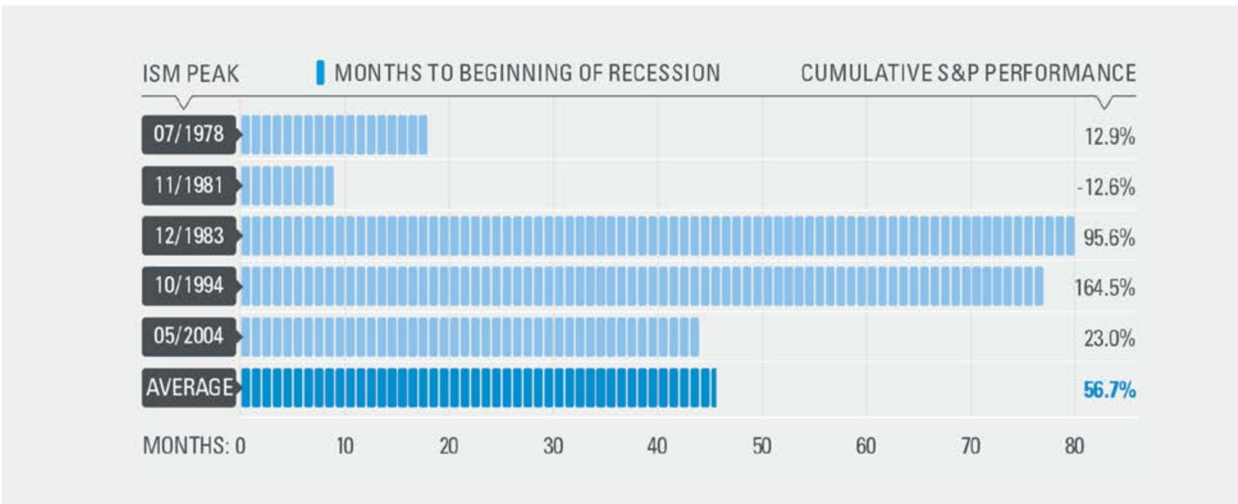
We believe that the global growth story will continue, with an expectation of 3.8% GDP growth for the world economy, thanks to new fiscal policies and improved business vitality. We continue to expect the U.S. economy to remain a primary driver, aided by the anticipated higher growth trajectory of emerging markets, while international developed markets may lag. Primary risks to our global and U.S. economic forecasts include an unexpected rise in inflation, a substantial increase in trade friction, or a policy mistake. Threats of a looming "Trade War" are persistent in the main stream media, however the likely worst-case scenario is more than offset by the newly adopted business-friendly fiscal policy.



Source: LPL Research Mid-Year Outlook 2018

Economic Developments

A theme that may garner more attention this year is that certain economic and market indicators may have peaked, and that we may have seen the best out of this expansion. However, the context is critically important here. Reaching these points with a strong economic backdrop is expected and indicates the potential for continued growth; in addition, historically, we've seen an average of four more years of stock gains after triggering these market signals. So, although we are in the later stages of the economic cycle, it does not appear that a recession is looming.

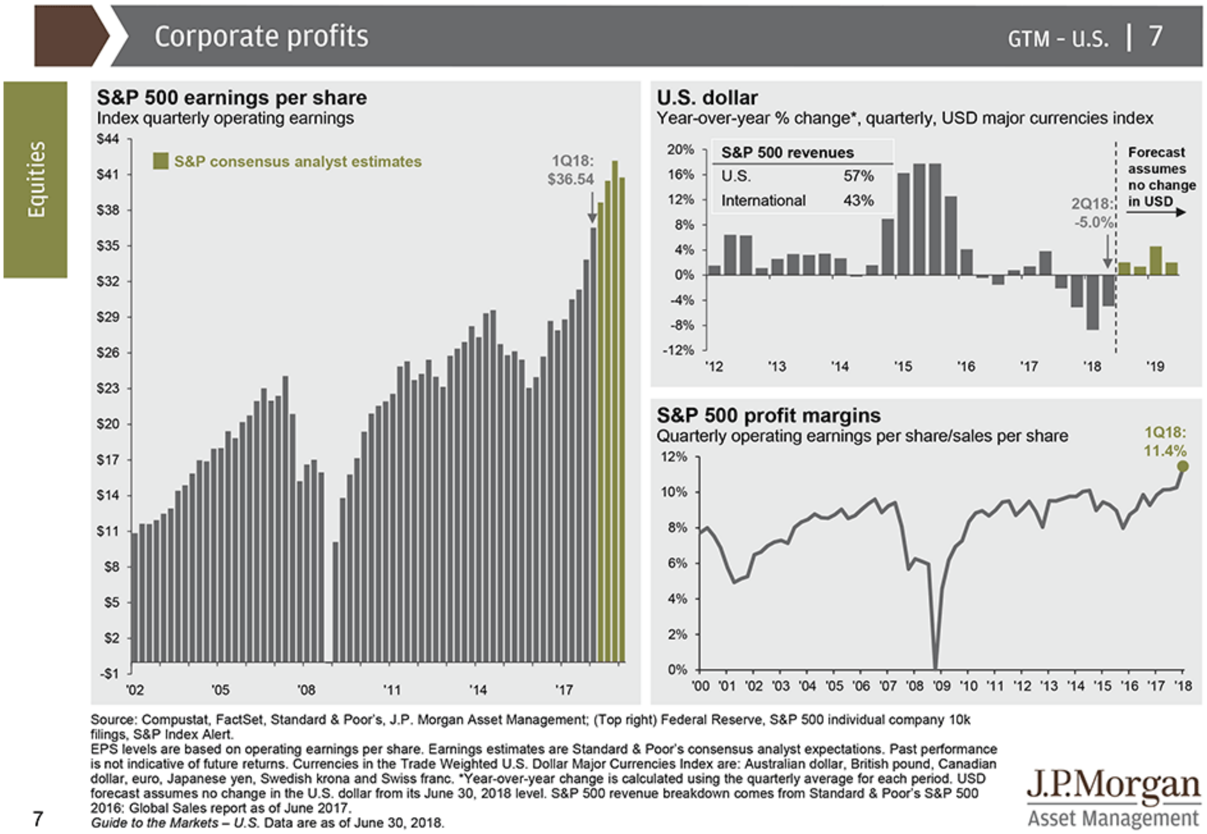


Source: LPL Research Mid-Year Outlook 2018

Expectations are for 3% gross domestic product growth for the U.S. economy, with tax cuts, government spending, and deregulation measures providing support. As expected, accelerating economic growth and rising interest rates continue to pressure bonds; thus, flat to low-single-digit returns are projected for bonds (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index). However, it's prudent to note that high-quality bonds may provide diversification benefits for investors' portfolios.

Domestic Equities

Strong earnings are expected to remain the key driver of stock gains, thanks to the benefits of the new tax law. Consensus estimates are calling for a 21% year-over-year increase in S&P 500 Index earnings for the quarter, setting up a second-straight quarter of 20%+ growth. With 87 S&P 500 companies having reported, the season is off to a good start: 84% of companies have exceeded earnings estimates. This momentum is likely to fuel equity markets through the end of the year and may continue into 2019.



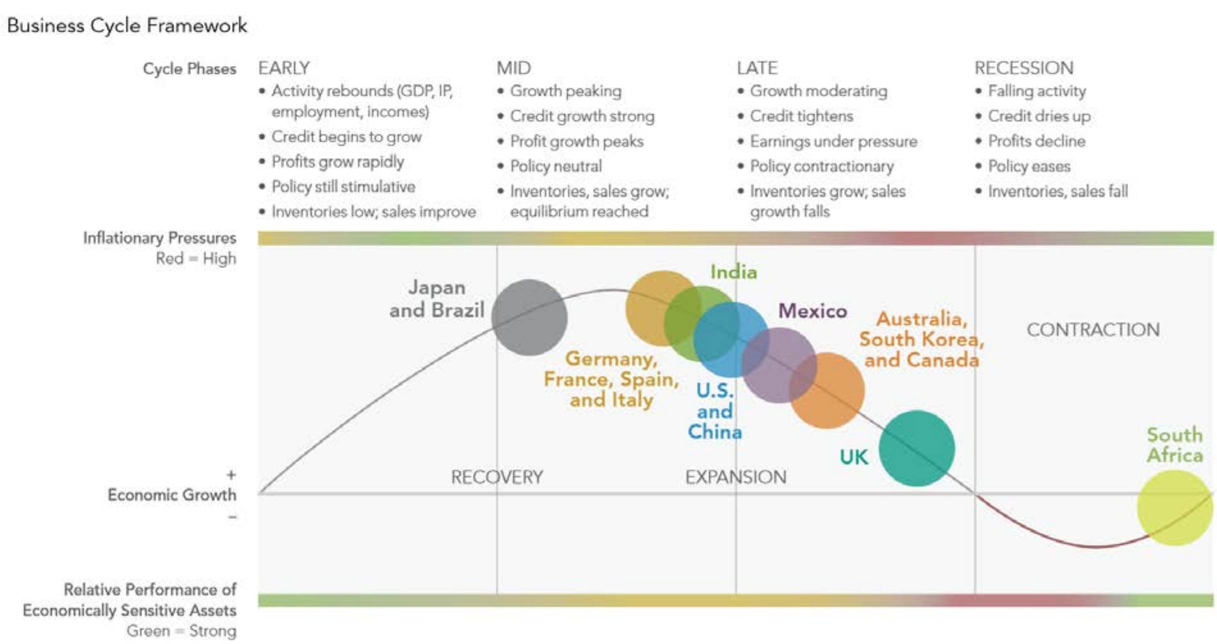
Source: JPMorgan 2018 Q2 Guide to the Markets

Given that we are in the later stages of this economic cycle, with factors such as increased trade tensions and geopolitical uncertainty at play, greater market volatility may be ahead. But it's important to remember that experiencing these ups and downs is a normal aspect of our market environment. Also, within the context of steady economic growth and strong corporate profits, there is the potential for stock gains of 10% or more (as measured by the S&P 500 Index). We favor mid and small caps as they benefit most from the corporate tax rate reduction and are less impacted by international trade tensions. We are beginning to shift or tilt from an overweight in growth to a neutral balance between growth and value as valuations become stretched in select growth stocks.

International Markets

Challenges persist overseas as slower economic development, pollical disruptions, and the threat of US Tariffs weigh on investor sentiment. While valuations continue to be well below their 20-year averages in developed international markets, overseas equities have significantly underperformed domestic stocks so far in 2018. Given the trajectory of overseas manufacturing momentum, European political turmoil and the likelihood that trade negations will favor the US, we believe developed international equities could be the weak link in a diversified portfolio in 2018. From an economic perspective, most developed and emerging international markets are behind the US in the economic cycle, making it likely that momentum will shift to international markets at some point in the future. However, we do not believe this happen in 2018 due to recent developments.

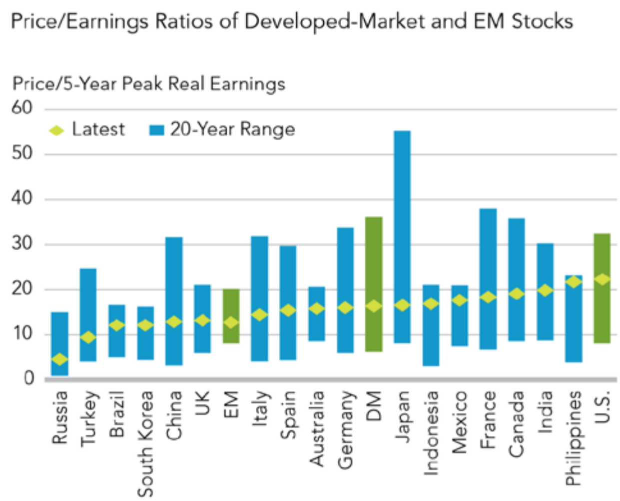
The world's largest economies are in expansion, though at various phases of the business cycle:



Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of January 31, 2018.

Source: Fidelity Investment white paper," Still a Good Time for International Equities? "

Over time, there is a strong correlation between valuations and equity performance. Many of the overseas developed markets maintain price-to-earnings ratios below their historic 20 year averages. This makes international markets look cheap relative to US stocks, however we caution that these relative valuation differences may be justified in light of heightened levels of risk. In the short-term, we favor US stocks over developed international stocks as we scan the horizon for emerging opportunities overseas. Despite these risks, a healthy exposure to international equities is critical for the long-term oriented investor as timing recoveries is notoriously difficult.

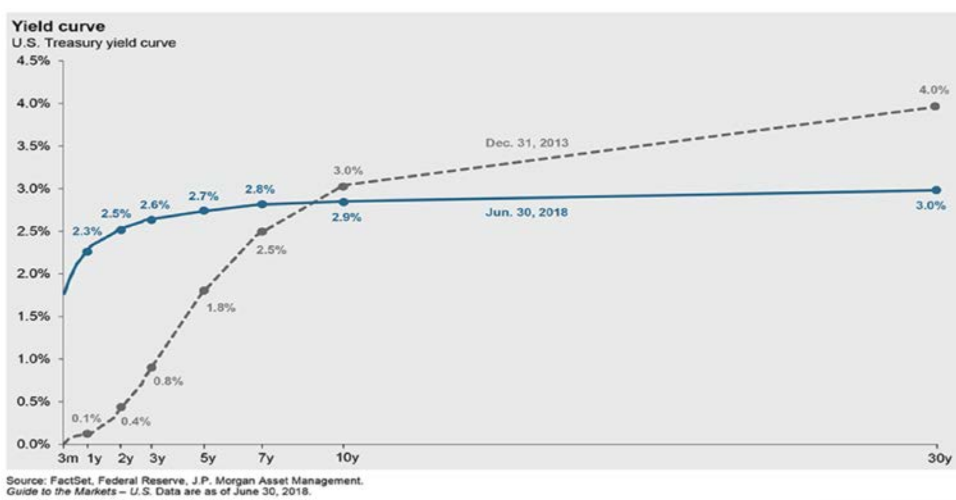


Past performance is no guarantee of future results. Price-to-earnings (P/E) ratio (or multiple): stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Five-year peak earnings are adjusted for inflation. Source: FactSet, countries' statistical organizations, Haver Analytics, Fidelity Investments (AART), as of Nov. 30, 2017.

Source: Fidelity Investment white paper," Still a Good Time for International Equities? "

Fixed Income & the Fed

Under the leadership of new Chair Jerome Powell, the Fed has remained consistent in its intentions to both gradually raise interest rates and reduce the size of its balance sheet. At its most recent meeting in June, the Fed raised its target for the federal funds rate by 0.25% (or 25 basis points), to a range of 1.75–2.0%. Though we expect the Fed to raise rates a total of three times in 2018 (so one more additional hike), the possibility exists for a fourth given Chairman Powell's hawkish tone in recent testimony given to congress; we maintain our confidence that this gradual approach is unlikely to result in a policy mistake.



Source: JPMorgan 2018 Q2 Guide to the Markets

We maintain our forecast of flat to low-single-digit returns for the Bloomberg Barclays U.S. Aggregate Bond Index. However, we want to emphasize that fixed income continues to play an important role in a diversified portfolio. Bonds can provide income and liquidity and may serve to help manage portfolio volatility during periods of stock market turbulence. We advise investors use actively managed bond strategies with the goal of reducing interest rate risk in their portfolios.

In Summary

2018 was off to a rocky start but it appears domestic markets have gained a footing while bond and international equity markets look to be paddling upstream. We continue to see the potential for economic and market growth in 2018 and beyond, and will strategize accordingly should volatility ramp up as we expect. Your interests, investment objectives and tolerance for risk will always be front of mind when considering tactical reallocations in response to changing market views. It is in this spirit that we remind you that market weakness can mean a chance to take advantage of lower stock prices, or to reallocate to a portfolio so that it's more aligned with an updated investment objective. We encourage you to contact us if you have any question or to provide additional insightful market commentary.

Sincerely,

Gary Mathews, CFS
Managing Director
Wealth Manager

Benjamin Jones
Managing Partner
Wealth Manager

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Investing in specialty market and sectors carries additional risks such as economic, political, or regulatory developments that may affect many or all issuers in that sector.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

A portion of this research material has been prepared by LPL Financial LLC.