



PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, July 2018

This is a summary of our views on the economy and markets as shared with discretionary clients.¹

ECONOMIC OUTLOOK

- We expect steady GDP growth in 2018, continuing between 2.5% and 3%. Tax cuts and tight labor markets will provide a tailwind to consumer confidence.
- The Federal Reserve increased the Fed Funds rate again in June. This was the second increase for 2018 with the target range raised by 25 basis points to 1.75% to 2.00%. We expect the Fed to be vigilant and poised for at least two more rate hikes in 2018.
- Core inflation has peaked above 2.0%, which is the Federal Reserve target for removing monetary stimulus. Headline inflation (including energy prices) has shown a more noticeable jump to 2.8% due to stronger oil prices in the quarter. A growing economy will continue to put upward pressure on prices.
- The U.S. dollar strengthened versus other currencies during the second quarter of 2018. We expect the dollar to consolidate into a longer term trading range in 2018.

MARKET OUTLOOK

- Fixed Income: The Federal Reserve will continue to raise short term rates. Bonds across many sectors posted negative returns in the second quarter due to an increase in interest rates. Our expectation is for rates to increase throughout 2018 due to improved economic activity and inflation pressures.
- Equities: The domestic large cap stock market appears to be fully valued and has priced in an anticipated earnings rebound. Small cap stocks outperformed other equity classes in response to the tax cut and to their relative smaller exposure to “trade war” headlines compared to large cap stocks, international and emerging market stocks. The markets have been vulnerable to headline risk, and we expect that to continue throughout 2018.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:

Asset Allocation	Positioning	Fixed Income Class & Style	Positioning
Total Equities	<i>Overweight</i>	Intermediate vs. Short Term	<i>Short Term</i>
Total Fixed Income	<i>Underweight</i>	Domestic vs. International	<i>Domestic</i>
Total Alternatives	<i>Overweight</i>	High Yield vs. Inv. Grade	<i>High Yield</i>
Cash and Cash Alternatives	<i>Underweight</i>	Cash vs. Ultra Short	<i>Ultra Short</i>
Equity Class & Style	Positioning	Alternatives Allocation	Positioning
Domestic vs. International	International	Real Estate	Overweight
US Large vs. Small	Small Cap	Commodities	Equal Weight
US Growth vs. Value	Equal	Hedge Funds	Equal Weight
Int’l Developed vs. Emerging	Emerging		
Int’l Europe vs. Asia	<i>Asia</i>		

If you would like to receive more detailed information on our discretionary consulting services, please contact Tom Woolwine, President, at (913) 384-4994 or twoolwine@demarche.com.

¹ provided by our affiliate, Discretionary Management Services, LLC.