TOTH FINANCIAL

# July 2018 Market Commentary

Despite the trade war fears and overall market volatility since late-January the upward trend remains intact, markets are holding up at key support levels, and the economy is showing accelerating growth. The Atlanta Federal Reserve is now forecasting 2018 Q2 GDP to come in at a very strong 4.7% in what is a traditionally weak quarter.

We believe the single most important factor to the equity markets today is the topic of *trade*. "*Trade war"* is quickly becoming a commonly used phrase. "*Trade wars"* are, in fact, bad for all parties because as the "*war"* lingers, conditions will worsen, and the involved economies are negatively impacted. We view the current climate as a public renegotiation of trade agreements; rather, than a "*trade war*". There are many trade imbalances around the globe. With our economy on very solid footing, and on the heels of the stimulus of tax reform, there would appear to be no better time than now to try to address those trade imbalances and renegotiate new trade agreements. However, this topic will merit close observation and its impact on short term equity markets over the coming months.

Switching gears, the corporate tax reform passed in late 2017 is estimated to be a large stimulus to our economy over the coming quarters if not years. The effects have not yet shown in the corporate earnings numbers but are anticipated to begin showing up over the next few quarters'. One positive statistic, due to tax reform, relates to the repatriation of overseas dollars. In 2018 Q1 the Bureau of Economic Analysis showed a record $300 billion repatriated over the 3-month span (nearly a 700% increase in the dollars returning during the same period a year prior). They noted the main reason was the change in tax laws no longer double taxing monies earned and taxed overseas. To put this number into perspective, the 2017 Q1 saw just $38 billion repatriated and for the past several years nearly all quarterly repatriation dollars remained well under $50 billion. This repatriation will bode well for the strength of the dollar as well as the overall economy.

A positive side effect of this economic recovery being the slowest in history is that it has likely extended the length of time that it will last. Mix in the additional stimulus of wide spread tax reform, near record high business optimism, and strong consumer confidence beginning to reflect increased spending and one can conclude that the growth trend may continue for at least the next couple years.

A bull market is said to "climb a wall of worry" and the current trade war headlines are just another step on this wall. Although volatility has been back nearly this entire year, we remain optimistic on the economy and anticipate continued long-term growth in the equity markets.

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