

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished June at 24,271, down -0.59% for the month and -1.81% year-to-date. The S&P 500 closed June 30 at 2,718, up 0.48% for the month and 1.67% so far for the year. The NASDAQ Composite gained 0.92% in June, up 8.79% so far in 2018. Small company stocks as measured by the Russell 2000 ended June at 1,643, gaining 0.58% for the month and 7.00% year-to-date. For the second quarter 2018, Energy (+12.69%) was the strongest performing sector, while Industrials (-2.27%) was the weakest.

"Meanwhile, volatility has been hammering investors' nerves: The S&P has notched 36 single-day swings this year of at least 1%, and the dips have been 20% bigger than the gains..." Barron's, [Things To Know](#) by Steve Garmhausen, July 2, 2018

Midyear Review and Outlook

Volatility returned in early 2018 and has persisted through the midpoint of the year. Fears such as inflation, rising interest rates, and trade barriers have been in a tug of war with strong economic indicators, historically low unemployment, and a 20%+ growth rate in corporate earnings. The market has seen both a 10% correction in February and new record highs for the NASDAQ and Russell 2000 indexes in June. Global trade tensions are the latest trigger of volatility in a year that has so far seen 36 trading days with a 1% or more move in the S&P 500, there were only eight such days in all of 2017.

The consensus forecast for the balance of 2018 is mostly positive, with growth in GDP and corporate earnings expected to continue through the year. Longer-term forecasts include more uncertainty, as rising interest rates and the diminishing effects of tax reform are expected to produce downward pressure on growth in 2019 and beyond. Investors are encouraged to continue to view developments in the context of their long-term goals, and to ensure investment allocations match risk tolerances, as volatility and uncertainty are expected to continue.

Fixed Income

The Federal Reserve voted to raise interest rates in June for the second time in 2018, and signaled that they may increase the speed of rate hikes in response to the strengthening economy. Personal Consumption Expenditures (PCE), the Fed's preferred gauge of inflation, hit 2% in May for the first time in six years. The rising rate environment has been challenging for bond returns in 2018, with the Bloomberg Aggregate Bond index down -3.09% year-to-date. In an environment like this it may be helpful to consider the diversification benefits bonds provide, especially high quality bonds, in times of stock market turmoil. This balancing effect makes bonds an important part of most long-term portfolios.

"There's no denying this one is getting long in the tooth. The average postwar bull market gained 161% over 1,821 days. This one, at 3,400 calendar days, is already the second-longest on record, lagging behind only the 4,494 days during the marathon run from 1987 through the peak of the tech bubble in March 2000. The S&P 500 has gained 302% since its bottom in March 2009, the second-longest run on record." (Barron's, [Why the Bull Market Could End in 2020](#) by Ben Levisohn, June 30, 2018)

Corporate Profits

According to FACTSET, Q2 2018 earnings are expected to grow at 20.0%. This would be the second highest growth rate since 2010, second only to Q1 2018's 24.6% growth. This would also mark the fourth straight quarter of double-digit earnings growth. The current expected revenue growth rate is 8.8%, which would exceed Q1's 8.5% and would be the highest revenue growth rate since 2011. Consensus analyst estimates forecast double-digit earnings growth through the end of 2018, with a 20.5% growth rate for all of 2018, according to FACTSET.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 05/31/2018	CLOSE AS OF 06/29/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	24,415.84	24,271.41	-144.43	-1.81%
S&P 500	2,705.27	2,718.37	+13.1	+1.67%
NASDAQ Composite	7,442.12	7,510.31	+68.19	+8.79%
RUSSELL 2000	1,633.61	1,643.07	+9.46	+7.00%
Fed Funds Rate	1.5% - 1.75%	1.75% - 2.0%	+0.25%	
2-Year Treasury	2.40%	2.52%	+0.12%	
10-Year Treasury	2.83%	2.85%	+0.02%	
Crude Oil \$ per Barrel	\$67.04	\$74.15	+\$7.11	+22.72%
Gold \$ per Troy oz.	\$1,304.70	\$1,254.50	-\$50.20	-4.19%
UK Pound in U.S. \$	\$1.3307US = 1£	\$1.3203US = 1£	\$ STRONGER	-2.40%
Euro in U.S. \$	\$1.1673US = 1€	\$1.1676US = 1€	\$ WEAKER	-2.77%
Canada \$ per U.S. \$	\$1.2972C \$1.00 US	\$1.3154C \$1.00 US	\$ STRONGER	+4.99%
Japan Yen per U.S. \$	108.645¥=\$1.00 US	110.765¥=\$1.00 US	\$ STRONGER	-1.67%



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