Total Clarity
Wealth Management, Inc.

Weekly Market Commentary
July 9, 2018

Fundamentals Outweigh Trade Concerns

July 2 - July 6, 2018 Recap

• **It's all About Fundamentals.** Wall Street largely overlooked the latest escalation in the U.S.- China trade dispute after a solid gain in June payrolls and a subdued YoY gain in hourly wages sparked optimism and eased worries about inflation and more aggressive rate hikes. The S&P 500 finished broadly higher, snapping two consecutive weekly declines.

• **Small Cap Perform Best.** For the week, the S&P 500 gained 1.56%, the Dow Industrials added 0.82%, ending a three- week losing streak, and the tech-heavy Nasdaq Composite advanced 2.40%. Small caps outperformed last week, with the Russell 2000 rallying 3.12%.

• **Goldilocks Payrolls Report.** The U.S. economy added 213,000 new jobs in June, topping forecasts, while upward revisions added a further 37,000 jobs. The unemployment rate rose to 4% from 3.8%, but for a good reason, as 601,000 people returned to the workforce.

• **Only Energy Lagged.** Ten of the 11 major sectors posted gains last week, led by Healthcare (+3.14%), Utilities (+2.44%) and Technology (+2.34%). Financials (+0.40%) rose the least, while Energy (-0.33%) lagged.

• **Treasurys Edge Higher.** The U.S. Dollar retreated on three of the four days of the holiday-shortened week, while prices on Treasurys advanced. For the week, the yield on benchmark 10-year notes contracted by nearly five basis points, ending Friday at 2.823%. WTI crude oil prices slipped from a near four-year high, ending the week at $73.80/barrel.

What We're Reading

Brexit Resignations - Uncertainty

Oil Could Rise More This Summer

[Bond Liquidity Gets Tighter]

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Week's Economic Calendar

Monday, July 9: Consumer Credit;

Tuesday, July 10: Small Business Optimism, JOLTS Job Openings;

Wednesday, July 11: Producer Price Index, Wholesale Trade Data;

Thursday, July 12: Jobless Claims, Consumer Price Index;

Friday, July 13: Import & Export Prices, University of Michigan Consumer Sentiment.

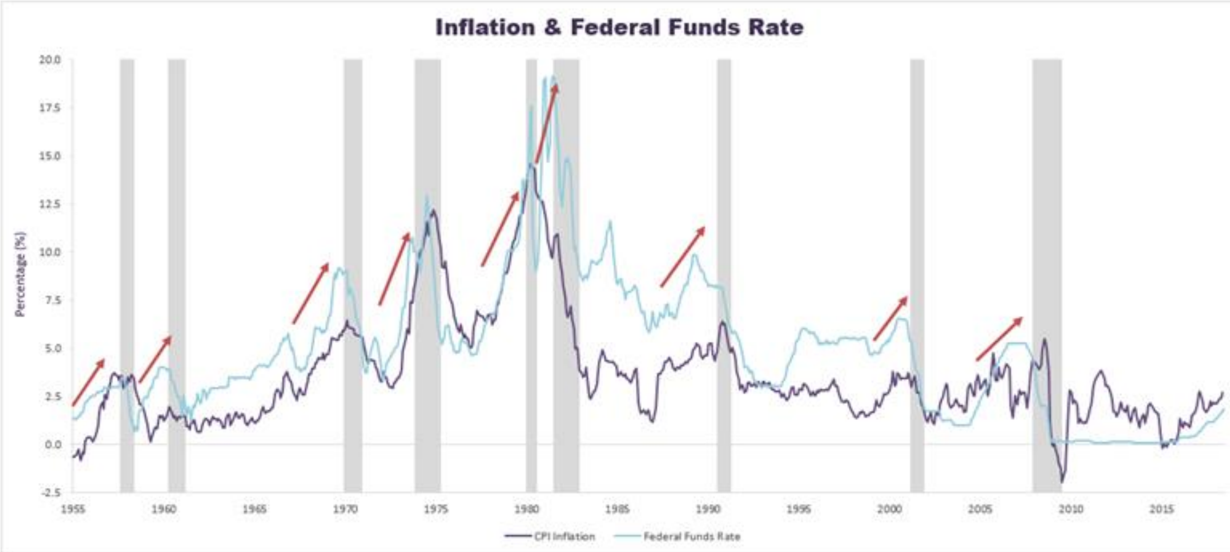
Market Watch

Stocks	1-Wk	MTD	3-Month	YTD	1-Year
Dow Jones	0.76%	0.76%	2.19%	-1.06%	14.72%
S&P 500	1.56%	1.56%	6.49%	4.25%	16.75%
NASDAQ	2.40%	2.40%	11.48%	11.99%	27.62%
Russell 3000	1.72%	1.72%	7.10%	4.99%	17.49%
MSCI EAFE	0.57%	0.57%	-1.14%	-2.20%	7.48%
MSCI Emerging Markets	-0.71%	-0.71%	-7.94%	-7.32%	7.73%
Bonds	**1-Week**	**MTD**	**3-Month**	**YTD**	**1-Year**
Barclays Agg Bond	0.24%	0.24%	0.13%	-1.38%	0.11%
Barclays Municipal	0.14%	0.14%	1.00%	-0.11%	1.83%
Barclays US Corp High Yield	0.01%	0.01%	0.75%	0.17%	2.67%
Commodities	**1-Week**	**MTD**	**3-Month**	**YTD**	**1-Year**
Bloomberg Commodity	-1.34%	-1.34%	-0.37%	-1.34%	6.13%
S&P GSCI Crude Oil	-0.47%	-0.47%	18.90%	22.14%	62.18%
S&P GSCI Gold	0.10%	0.10%	-6.01%	-4.09%	2.66%

Source: Morningstar

Chart of the Week

Fed Fund Rates Rising, But Not a Threat



Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, and Bureau of Labor Statistics. Inflation is measured by the YoY change in CPI. The area shaded in gray indicates a recession. Data as of 6/30/2018.

[View larger image »]

The elevated volatility experienced in equity markets this year is largely the result of rising inflation and an acceleration in Fed monetary tightening. This is a concern for investors because price increases and restrictive monetary policy are late-cycle signs, and similar conditions have preceded the last nine recessions. This is undoubtedly a market risk, but keep in mind that interest rates are still relatively low by historical standards and have not reached a level that will suppress economic growth in a meaningful way. The Federal Funds rate is currently at 1.91%, but has averaged 4.86% since 1955. It has risen to at least 3% ahead of the previous nine recessions and rose to 5.25% ahead of the last recession. At this point, we are not on alert for a recession. Eventually, interest rates -and potentially inflation- will rise to a level that slows the economy. When that happens, other recession indicators will begin to flash warnings, including a sustained rise in the unemployment rate, a slowdown in manufacturing and industrial production, weak retail sales figures, waning consumer confidence, and an inverted yield curve. Fortunately, none of these recession barometers are currently indicating slowdown signs.

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*The **Bloomberg Barclays US Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.*

*The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*

*The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the subindicies of the Municipal Index have historical data to January 1980. In addition, several subindicies based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.*

*The **Bloomberg Commodity Index** is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index; and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.*

*The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The **MSCI All-Country World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the Uninted States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Eygpt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.*

*The **MSCI EAFE Index** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

*The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.*

*The **MSCI Pacific Index** captures large and mid-cap representation across five Developed Markets (DM) countries in the Pacific region. With*

470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.*

*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

*The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*

*The **S&P GSCI Crude Oil Index**is a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market.*

*The **S&P GSCI Gold Index** a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold futures market.*

***West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.*

*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*