FAIRPORT
The Compass
Wealth management tips, trends and articles that provide confident navigation for high net worth clients.

June 2018
Thank you for your continued trust, loyalty and generous referrals. As always, we encourage you to share this newsletter with friends, family members and colleagues.

Mid-Quarter Commentary as of June 4, 2018
John M. Silvis, CFA
Chief Investment Officer

As schools let out and we head into the summer months, the equity markets have recorded muted returns as they near the half way mark in 2018. The S&P 500 Index has returned +2.02% through the first five months of the year and has virtually moved sideways since mid-March. After experiencing a correction of 10% earlier this year, the markets have gyrated back and forth with most of the gains coming in May, returning +2.4% for the recently completed month. On a global basis, markets have not fully recovered from the correction earlier in the year as the MSCI All Country World Index (ACWI) is just shy of break even, with a negative return of -0.83% so far this year. International markets have been struggling with a stronger dollar for most of the first five months, adding an additional headwind to already difficult conditions.

On the economic side, the U.S. economy is picking up steam after a slow first quarter of 2018 where Gross Domestic Product (GDP) grew at an annual pace of 2.2%. However, most economists feel the economy will rebound in the current quarter and see growth breaking above the 3% threshold, a pace it was on for most of last year. The Atlanta Fed's GDPNow econometric model (which is updated throughout the quarter) is predicting with one month to go that the economy is growing at an annualized basis at 4.8% in the second quarter. While that is likely to drift lower, it is a strong indication that the economy is on firm ground and is expanding as we head into the second half of the year. Jamie Dimon, CEO of JPMorgan Chase & Co., received a lot of press recently when he mentioned at an Investor Conference that the current economic recovery was probably only in the sixth inning. That would extend the current expansion into 2023, making it the longest expansion on record by a few years. As yields on the 10-year Treasury punch through 3.0%, the Federal Reserve will likely remain on course for raising the Federal Funds rate three times this year.

Consumer Confidence rose to a 17 year high in the month of May as workers are seeing the benefits of the recent tax cuts in the form of lower payroll taxes. Wages have begun to rise and certain skilled jobs are becoming hard to fill. Also bolstering confidence was the tightening labor market as shown by the decline in the unemployment rate to 3.8%, the lowest it's been since April of 2000.

On the corporate side of the economy, EvercoreISI's company survey has reached a 12 year high reading of 56.4 indicating corporate confidence is rising along with the consumer. Historically a reading at that level would correspond with the economic growth of 3.5% over the next year. Economic momentum is also being confirmed by the new high in the Conference Board Leading Economic Indicator (Source: Strategas).

Equity markets overseas are struggling for positive growth so far in 2018 as both the MSCI EAFE Index, which follows developed markets, and the MSCI Emerging Markets Index fell over -3.0% since the beginning of the year. Fears of an escalating trade war between the United States and China, the world's two largest economies, has weighed on international equity markets. While this is likely part of a larger scale trade negotiation between the two countries, the risks remains that a negative outcome could lead to higher trade tariffs and more protectionist policies from both in the future, hampering the ultimate goal of freer trade. The U.S. is also in discussions on revamping the North America Free Trade Agreement (NAFTA) with our neighbors to the north and south. Should a deal on NAFTA be reached in the coming weeks (that is the consensus view at the moment), it would help alleviate some of the uncertainty in the equity markets.

On the political front, the inability of the political parties in Italy to form a government had been adding to volatility in the global markets as fear grew that the nationalist party would use the new elections as a referendum on whether Italy should stay in the European Union. It seems, for at least the moment, that that concern has been avoided. Other geopolitical issues such as Iran and the upcoming meeting with North Korea will likely dominate the news in the coming months.

Even after a rough start to the year, emerging markets remain well positioned to take advantage of the global economic expansion. China's GDP grew 6.8% in the first quarter, in line with consensus view, staving off worries that the country was approaching a hard landing. As it negotiates with the U.S. over trade, it is in both countries interest to move to alleviate the large trade imbalance and strike a long term agreement on economic cooperation. India, another leader within emerging markets, continues to make strides opening its markets to outside investors and expanding trade overseas. We remain overweight emerging markets.

Domestic equity markets saw a shift in leadership as Small Cap equities outperformed through May with the Russell 2000 Index returning +6.39% beating both Mid and Large Cap equites during the time period. With issues on tariffs and trade looming over the markets, Small Caps benefit from having less exposure to overseas markets and being much more influenced by the domestic economy. Expect to see Small Cap equities lead the domestic market in the coming months as the current economic expansion picks up steam.

Within Large Cap equities, cyclical sectors remain dominant over the defensive sectors of the market so far this year. Information Technology has led the way for most of the year, outperforming the other sectors by a wide margin. Within the Tech sector, internet companies such as Alphabet (parent company of Google) continue to perform well. Consumer Discretionary, led by Amazon, was another sector that has performed well as consumer demand remains robust. Defensive sectors, represented by Staples and Telecom, continue to lag the overall markets. Corporate earnings for the most recent quarter have been stellar with earnings growing 24% versus the same period last year. Revenues are also showing strength with positive returns of 8% versus last year. We would expect earnings growth to lead the market in the next few quarters as companies reap the benefits of an improving economy and lower corporate tax rates.

We expect more volatility in the coming months as we head into what will likely be a contentious midterm election season and enter the historically slow summer months. Dating back to 1952, the period between June and August have seen muted returns with the long term average just under 1%. However, we still think earnings will be a bright spot with year-over-year growth continuing in the mid to low teens. Post-election returns following the last seventeen midterms have all been positive 12 months later and we would expect that trend to continue.

Fixed Income Commentary as of June 6, 2018

Rick D'Amico, CFA

Manager of Investments

At 2.91%, 10-year Treasury yields remain towards the middle of their current trading range (i.e., 2.70% - 3.10%). While 10-year Treasury yields briefly touched 3.11% on May 17th, they failed to decisively break through the key technical level of 3.10%. The Treasury yield curve is as flat as any point over the past decade, with the spread between 10-year and 2-year Treasury yields at just 42 basis points. The longer end of the yield curve remains extremely flat, providing investors little incentive to take on higher duration risk. For instance, 30-year treasury yields, at 3.06%, only yield 15 basis points more than 10-year treasuries, at 2.91%. As the yield curve continues to flatten, investors remain wary of dealing with the prospects of an inverted yield curve. While it is accurate that an inverted yield curve preceded the last 5 recessions, it is important to note that there is a great deal of variability between the time that the yield curve inverts, and the onset of the next recession. For example, the yield curve inverted in June of 1998, however, the economy did not enter the next recession until almost 3 years later in 2001. According to Cornerstone Macro research, the average lead time is 20 months, with a standard deviation of +/- 9-months. It is also important note that the S&P 500 has always appreciated between the time the yield curve inverts and the start of a recession, sometimes by a considerable amount. For example, when the yield curve inverted in December 2005, the S&P 500 appreciated 18% until the beginning of the next recession which started in December 2007.

As of June 4, 2018, the Barclays U.S. Aggregate Bond Index has posted a negative 2.02% return year-to-date; the Index is also negative over the last 1-year period, returning -1.10%. In addition, valuations still remain rich across most sectors of the fixed income market, providing very little margin of safety. For example, high yield corporate bond spreads, currently at 3.43%, are well below their historical median spread level of 4.71%. Given the rich valuations, Fairport is still cautious on fixed income going forward, favoring strategies that typically perform better in rising a rate environment such as floating rate investment grade bonds. Municipal bonds also appear reasonably attractive for clients in higher tax brackets.

Meet Dana and Amanda!

Dana Hastings, CFP®, ChFC®, RICP® has joined the firm as Advisor. With more than 30 years of experience in the financial services industry, Dana is focused on helping high net worth individuals and families achieve their wealth goals. Her loyalty and passion for her work plays into the meaningful, long term relationships she holds with clients.

Dana's significant experience in helping professional practice owners is a tremendous asset to our business owner group. She joins us from C2P Advisory Group/Prosperity Capital Advisors where she served as Advisor and VP of Business Development, helping Advisors create holistic financial plans for their clients.

She has a MBA from Baldwin Wallace College and a B.A. from Mount Union College. She earned her Certified Financial Planner™ (CFP®) designation and Masters of Science in Financial Planning from the College for Financial Planning.

Amanda Muscaro has joined Fairport as receptionist and brings 14 years of customer service experience to the firm. Amanda's smile and warm energy creates a welcoming atmosphere for Fairport's clients and guests.

Prior to Fairport, Amanda worked in the restaurant industry where she utilized her inherent positivity, organizational skills and a natural talent for customer service.

Amanda graduated from Cleveland State University in 2017 with a Bachelors in Marketing.

In her free time, Amanda enjoys spending time with friends, live music and the burgeoning Cleveland food scene.

Education & Events

Fairport continues to promote an active calendar, hosting events ranging from client education to internal teambuilding. Here are some highlights from the last three months:

Avoid Your Entrepreneurial Ceiling with guest speaker Jill Young

2018 Community Beacon Kick Off at the YWCA Greater Cleveland (Margaret Mitchell pictured)

Luma Wealth Solutions for Women (Michelle Taylor pictured)

Fireside Chat on Impact Investing with Katie Sheehan

Fairport Team Scavenger Hunt around Cleveland

Minding Your Business with Ted Motheral of Walter Haverfield and Andrew Connors

Fairport News

Kenneth Coleman continues on the Greater Cleveland Partnership Government Affairs Council for another term. He attended the HighTower Apex conference for principals around the country to share best practices and keep up-to-date on the latest industry trends.

Pamela Dagostino was honored as a Woman of Professional Excellence by YWCA Greater Cleveland. She celebrated with her family (left) and members of the Fairport team at the YWCA's annual awards luncheon on April 30th.

Heather Ettinger attended Investment News' Women to Watch event in March and their Women Advisor Summit in May.

Last month, **Heather** spoke on panels at the HighTower Apex conference in Chicago, Barron's Top Independent Women Advisors Summit in Palm Beach, CFA Society Cleveland in Cleveland and at Redbook & MFS' "Your Time is an Asset" luncheon in New York City (left).

Watch the "Your Time is an Asset" replay here.

Heather also graces the cover of the June issue of Financial Advisor magazine and is prominently featured in an article regarding the future of HighTower. Read the complete article here.

Mike Kalinoski attended the First Trust investment symposium and completed the CFA Institute Investment Foundations program covering the essentials of finance, ethics, and investment roles, providing a clear understanding of the global investment industry.

Kristen Lucas was recognized by the YWCA Greater Cleveland as a Distinguished Young Woman. New this year, the award is given to young women who are making a difference in Northeast Ohio through their career accomplishments, community involvement and commitment to YWCA's mission of eliminating racism and empowering women.

Rachel Margulis attended *The Tax Cuts and Jobs Act - Issues and Strategies* (The Tax Club of Cleveland), *So There is this New Tax Law, What Does an Estate Planner Do Now?* (Estate Planning Council), *U.S. Tax Reform - A Cross-Functional Overview* (Tax Club of Cleveland), *Dealing with Today's IRS – A Primer, War Stories, What's Changed, and Practical Suggestions* (Estate Planning Council/Tax Club of Cleveland) and *Year-Round Financial and Tax Planning Strategies for Your Clients* (AICPA webinar).

Rachel volunteered with the Cuyahoga Earned Income Tax Credit Coalition on several Saturdays during tax season. And she was a judge for the "We Solve Problems Essay Contest" sponsored by the Gertsburg Law Firm and the Chagrin Valley Chamber of Commerce.

Aaron Nuti attended the 2018 CFA Institute Wealth Management Conference in Los Angeles at the end of March.

David Rubis joined the Strongsville City Schools Business Advisory Council (BAC). The purpose of BAC is to afford the opportunity for local school personnel and business partners to discuss the many facets of employment.

Katie Sheehan passed the Level II Chartered Alternative Investment Analyst (CAIA) exam. CAIA is a professional designation offered by the CAIA Association to investment professionals who complete a course of study and pass two examinations. The two exam levels cover everything from the characteristics of strategies within each alternative asset class to portfolio management concepts central to alternative investments.

John Silvis attended the JP Morgan Wealth Management Conference (seen here with former U.S. Secretary of State Condoleezza Rice). He was named chairperson of the Investment committee for the Kelvin and Eleanor Smith Foundation.

In May, **Michelle Taylor** attended the Corgenius master class, HighTower Apex conference and Investment News Women Advisor Summit, all in Chicago. She also attended the Redbook & MFS luncheon in New York City.

Paul Zappala attended the Schwab Compliance conference in San Antonio in May.

Newsletter Disclosures

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