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Monthly Market Commentary

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US Economy

The US labor market is currently the strongest in decades. We continue to see lower initial jobless claims and unemployment rate, along with still solid payroll gains. These reports continue to support further gains in the labor market and economic growth. The strong labor market supports continued household spending currently driving the US economy. We expect this trend to continue as both US and global growth remain steady.

A strong labor market is very positive for the economy. When consumers are comfortable with their job prospects, they tend to spend more freely. Wage growth at current levels (2.9%, as of this writing) is a positive for US equities. Accelerating wage growth approaching 3.5% will begin to increase costs significantly for corporations and consume a larger share of earnings. Overall, we view the labor market as strong and likely to stay that way in the foreseeable future. Eventually, the labor market will likely tighten further, prices will rise driving wages higher, corporate profits will decline, and the cycle will approach an end. In the meantime, having a large number of working Americans with steady wage growth is not a bad problem to have.

US Markets

US equity markets ticked higher in August as trade-related concerns eased among investors (see our discussion below). Looking ahead, we are entering election season which, historically, can be a choppy time for the markets, due to the uncertainty surrounding them. As such, we would not be surprised to see volatility pick up as we draw closer to Election Day. That being said, after the elections, we anticipate the markets could trend higher into year-end as we enter into the Holiday shopping season, in which we typically see the markets perform well. Barring any unforeseen events, we anticipate the markets could follow this historical trend in 2018.

Fixed Income

The Federal Open Market Committee (FOMC) met in August and, as anticipated, opted to leave the range for the federal funds target rate unchanged at 1.75% - 2.00%. The FOMC reiterated that it expects economic conditions to evolve in a manner that will warrant gradual increases in the federal funds rate. The Federal Reserve (Fed) will continue reducing its balance sheet by $40 billion this month and over the near future.

The FOMC cited strong job gains, low unemployment, increased household and business spending, and moderate inflation as reasons for maintaining their current path. Market expectations of future rate-

hike probabilities for September increased slightly on the announcement, suggesting that a September rate hike as of this writing is fairly likely (with a probability of more than 90%). Our current outlook is for one more rate hike in 2018 (for a total of three rate hikes this year), though we acknowledge that a fourth rate hike is possible in December.

International Markets

Until recently, the prospect of a full-blown trade war between the US and its trading partners (namely, China) was almost palpable to the financial markets, and uncertainties surrounding trade-related headlines arguably led to higher levels of volatility in global financial markets. In late-August, an announcement was made that the US administration had made significant headway in its efforts to broker a renegotiated deal on NAFTA (North American Free Trade Agreement) with Mexico and Canada. This latest announcement marks another positive turning point in the ongoing global trade narrative. Earlier in August, representatives from the EU and the US first announced that preliminary talks had begun on an effort toward "zero tariffs" between the two trading partners. At the same time, the US announced that it was shelving plans to introduce additional tariffs on auto imports from the EU.

We believe the administration's intent with respect to the use of tariffs has been to introduce nontraditional measures that would incentivize its trading partners to come to the table and renegotiate their trade relationship with the US. While there have been some fits and starts, low-level talks between the US and Chinese trade representatives have resumed even as the US moved forward with implementing tariffs on Chinese imports. Taken together with the earlier-noted EU and NAFTA developments, we believe that the advancement in trade talks helps to underscore a vital point of the administration's position on trade – progress, not protectionism, is key to its trade agenda.

Commodities

Most commodities have had a rough year, particularly since May. Since May 23, the average commodity in the Bloomberg Commodity Index has dropped -9.9% (as of this writing). Not coincidentally, this was right before the US-China trade dispute escalated. Since then, the US dollar has strengthened nearly 3%, versus a basket of the world's most traded currencies, and 9% versus the Chinese yuan. We should note that Wells Fargo Investment Institute (WFII) believes the dollar's strength likely will fade into year-end.

This matters because commodity prices tend to move opposite the US dollar, primarily because most commodities are priced globally in US dollars. A strong US dollar often makes commodity purchases more expensive for a country that has its own currency. If the dollar strengthens too much, the result can be fewer commodity purchases. Commodity markets appear to be worried about such a demand slowdown, particularly from the massive commodity importer, China. Investors already were worried about slowing Chinese growth, but WFII believes that those fears may be overblown. As noted above, WFII also believes that the dollar rally is likely to stall. We anticipate these developments could help commodity prices recover into year-end.

What Does This Mean To Me?

Despite concerns surrounding tariffs and trade wars, the US economy continues to expand and consumer confidence continues to improve. As such, despite the potential for near-term market volatility due to the elections, we anticipate that the US equity markets could improve as we move past the elections and into 2019. As always, we continue to recommend investors remain vigilant through periods of market volatility and maintain a focus on their long-term goals.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

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Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Investing in commodities is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. The prices of various commodities may fluctuate based on numerous factors including changes in supply and demand relationships, weather and acts of nature, agricultural conditions, international trade conditions, fiscal monetary and exchange control programs, domestic and foreign political and economic events and policies, and changes in interest rates or sectors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks, including futures roll yield risk.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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