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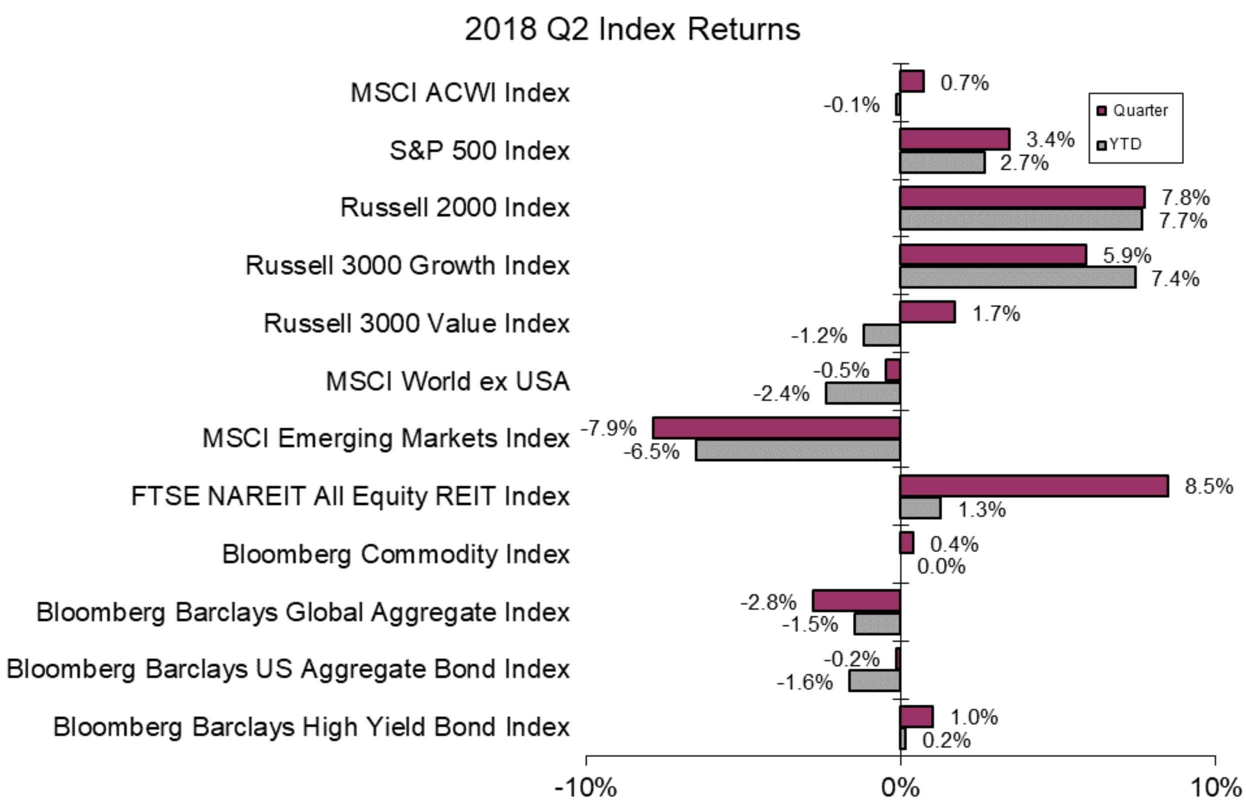
Dear Clients,

The S&P 500 returned 3.4% in the second quarter, providing a year-to-date return of 2.6% for the first half of the year. The US markets were lifted by a robust earnings season with the number of companies beating estimates hitting record levels and economic data being better than expected. Smaller sized companies saw the strongest returns during the quarter with a return of 7.8%. This strong performance for small company stocks helped their 3 and 5 year average performance catch up with that of large company stocks, which have consistently outperformed. The US dollar reversed direction and rallied in the second quarter providing a powerful headwind to the performance of international stocks held by US investors. The fixed income markets stayed in negative territory for the second quarter, except for high yield, as central banks globally raised rates (US) or stopped easing (European Central Bank). Year to date, the weakest fixed income sectors were long-term treasuries and investment grade corporate bonds with returns of -3.0% and -3.3%, respectively, while short-term treasuries provided the strongest returns at 0.8%.[1]



The current rally in the US stock market is now in its 9th year and appears to be on track to become the longest in history. Since its official start on March 9, 2009, the current US stock rally has returned a whopping 302%

1. Source: AssetMark

from the markets low at the end of the Great Financial Crisis. Since then it has grown, uninterrupted by a decline of 20% or more, which is the definition of a bear market. The prospect of breaking the longevity record is a double-edged sword for investors who are grateful for the rewards provided, but anxious about what they can look forward to in such an old rally. While there is no question this rally is old, it seems in surprisingly good health. Economic growth appears to be strong with the NY Fed and Atlanta Fed forecasting 2.8% and 3.8%, respectively for Q2, corporate earnings continue to grow and even though interest rates have been rising, credit availability is still easy. Bear markets do not come out of nowhere. They are associated with recessions that generally come with warning signs like declines in manufacturing and housing, and increases in jobless claims. At the moment, business sentiment, new home sales and unemployment claims all seem to be trending in a positive direction, with healthy spending by consumers and capital expenditures by business.[2]

Tariffs and Trade Policy

Given the positive earnings surprises and stock-buy-back announcements from corporations, it would be fair to wonder why the market results have not been stronger for 2018. One answer may be the focus of analysts and investors on trade policy and the potential impact of President Trump's announced tariffs on the global economy. Up until recently, the market had discounted the President's tariff and trade pronouncements as a strategy to renegotiate various treaties, and believed that it would not be allowed to get out of hand since it was understood that an outright trade war would hurt all parties. And indeed, to date the tariffs announced or imposed by our trading partners in response to US tariffs have been reassuringly measured, rather than escalating the threat. Because President Trump's goal may be to bring manufacturing jobs back to the US, his focus seems to be on reducing our trade deficit with our largest trading partners, rather than trying to neutralize tariffs or to ensure fair trade. China is our largest trading partner and holds 7% of US Treasury debt. Other foreign countries hold an additional 30% of US Treasury debt. Given the potential for change in inflationary expectations, global trade policies, the pacing of interest rate hikes and the rate of growth in corporate earnings, it behooves investors now, as ever, to diversify.[3]

PERS Corner

House Bill 4159 would have provided limited member choice in IAP (Individual Account Program) investments starting Jan1, 2019. But after a review by the Oregon State Treasury it was determined that as originally drafted, this legislation would violate legal and fiduciary standards. PERS may not move forward with implementation of member choice without additional legislative action; until resolved members will remain invested in the age-based IAP Target-Date-Funds.

Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf. We look forward to discussing your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

Kadi

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2. Source: https: www.americanfunds.com/perspectives

3. Source: Oppenheimer: 2018 Mid-Year Outlook

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