CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report – July 2018

Are tough tariff talks the new Fed?

On May 17th, responding to global growth in earnings and GDP, the US 10 year bond reached 3.11% and traders were talking about 3 to 4 more Fed rate hikes. The prevailing fear was that yields could be headed higher and this tightening could portend an end to the bull market in equities.

Only 7 weeks later, with the 10 year yield back down to 2.85%, the talk instead is about tariffs and their threat to global growth. Indeed, just the threat of the "T" word has sparked a 20% decline in Chinese stocks and a simultaneous drop in virtually every major stock market index. Some legendary investors are suffering too: celebrated hedge fund manager, David Einhorn is down over 18% in 2018 and the greatest investor of all time, Warren Buffet, is down 5.3%.

So instead of the Fed needing to raise rates to contain growth and inflation, the tweeting US president simply, but persistently, threatens our trading partners. This has certainly aided the slowdown in global economic growth, yet it has done so with a corresponding decline, not rise in yields.

With rates held down out of a desire for safety amidst a potential trade war, market sectors that had previously been in decline are poking their heads above water. Higher yielding healthcare, financial, and energy stocks are finding a bid and as a result, are broadening the number of industries participating to the upside. If Trump's tough trade talk is perceived to put a lid on US interest rates for the near future, then even more interest rate sensitive sectors such as REITs and utilities may gain some traction.

With these new sectors participating and joining stalwart market leaders such as tech and small cap stocks, we believe this old bull is not done fighting. Although the summer months may continue to be plagued by volatility, we can see the possibility of new index highs during the fourth quarter. It's conceivable that once trade agreements and mid-term elections are decided, investors could create a capitulation and relief rally into the spring of 2019. Then, possibly, the party ends and the next recession begins.

Hefter, Leshem, Margolis Capital Management Group
of Wells Fargo Advisors
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com

Charlie Margolis, Ben Leshem, Steve Hefter
Managing Directors – Investments
Micah Nathan
Senior Vice President - Investments

Disclosures

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. 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.

The prices of small and mid-cap company stock are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Investments that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than investments that are more diversified.

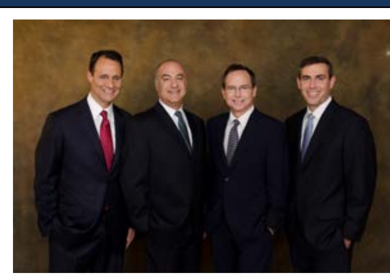
Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default 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.

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

Past performance is not indicative of future results and there is no guarantee that any forward looking statements made in this report will be attained.

This and/or the accompanying statistical information was prepared by or obtained from sources that Wells Fargo Advisors believes to be reliable, but its accuracy is not guaranteed. The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

Hefter, Leshem, Margolis Capital Management Group
of Wells Fargo Advisors
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com



Charlie Margolis, Ben Leshem, Steve Hefter
Managing Directors – Investments
Micah Nathan
Senior Vice President - Investments