



CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report – June 2018

Although global stock markets have stalled since February, certain themes have emerged with varying sectors performing better than others.

Across the globe, small cap stocks have outperformed large caps. This is probably due to trade uncertainties that affect larger multinational companies more than domestic oriented small cap companies. Furthermore, small caps have underperformed in recent years and may be playing catch up. Another theme is that the US dollar has reversed its recent decline against global currencies and has rallied. This is probably a result of the increased growth in the US, as opposed to other countries, and due to the stimulative effect of tax cuts. Not only has the dollar reacted favorably, but US stocks have outperformed. As the tax cuts push up earnings per share, PE multiples drop in the US and money has been flowing in resulting in the rise in the US dollar and US stock markets.

Another big positive for stocks is that the rally is broadening across many more sectors. What had been predominantly a growth and tech rally is now seeing movement in previously stalled sectors such as consumer staples, financials, health care, energy and other value areas. This gives us confidence that there is potential for more upside and we could see some robust new highs in the indices before the year is over.

Although the 10 year US treasury has increased in yield, it is off its recent high and remains range bound for now. With relatively low inflation, low interest rates, a rising dollar and rising earnings, equities remain our asset of choice. Most fixed income is down for 2018 and we are once again in a period where risk is being rewarded while conservative principal preservation is being penalized.

We have lightened up on international stocks and bonds are shifting more into small cap equities, regional banks and fixed income alternatives such as long short credit funds, floating rate senior loan ETFs, mortgage REITs and negative duration bond funds.

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