The second quarter saw the U.S. equity indexes move higher, non-U.S. equity indexes move lower, and the major U.S. bond index was little changed. Despite corporate earnings that continued to demonstrate considerable growth many non-company specific factors weighed on the markets. Wall Street investment strategists joined the financial media in raising potential concerns surrounding everything from increased inflation fears to the length of the global economic recovery as it approaches a ten-year anniversary. President Trump's hardline on tariffs sparked talk of a potential trade war with China and several other trade partners which came to dominate the investor psyche. However, despite all the negative chatter, global equity markets exhibited less volatility than last quarter.

Our first quarter commentary discussed the optimistic earnings growth expectations of Wall Street analysts and how the market correction in earlier this year had seemingly put a base in the U.S. equity markets at around 2600 on the S&P 500. At that time it also appeared that if earnings proved to be as strong as Wall Street expected, that the path of least resistance for the overall market would likely be higher. During the second quarter, the index traded up towards 2800 in early June before dropping back to around 2720. At the same time mid-cap and small-cap U.S. stocks also demonstrated strength in the face of the negative headlines. RiverGlades' outlook is consistent with the recently range-bound but bullish performance of the S&P 500. While a period of consolidation may be necessary following the strong performance of 2017, it could lay a solid foundation for the next move higher into the coming year.

That being said, what may have been good for the U.S. markets appears to have been less so for non-U.S. investments. As the second quarter unfolded international equities and to a greater extent emerging market stocks sold off as the dollar strengthened and fears of potentially slowing growth weighed on share prices. At this point the valuations of non-U.S. stocks may have already priced in the eventual impact of any tariffs. Should the trade issues be resolved, or should the implications simply prove less dire than investors appear to be expecting, this could provide for a reasonable bounce off of recent lows. International and emerging market equities have historically outperformed U.S. markets in the later stages of an economic cycle furthering the possibility of a rebound in the second half. While this cycle is certainly unique in many ways, it wouldn't be surprising to see non-U.S. equities outpace the U.S. over the next few quarters.

Admittedly, this commentary might sound optimistic in light of all the negatives that are currently hanging over the market. There are risks in the market place today, just as there have been any number of risks at any time in the past. This point was highlighted in a recent MarketWatch article I read that was titled *The bear case for stocks is so 'obvious, it can't be right'*. The main take-away of the article is that you rarely get a downturn when everyone is expecting one. Since the market pullback in January many so-called experts have put forth warnings of further declines and some major Wall Street strategists are warning clients to bunker down. In short, they are saying that all the bad news everyone already knows about is going to surprise the markets and trigger a meaningful decline.

The reason for highlighting the "nay-sayers" is certainly not to belittle their effort or words of warning. As caution is always warranted and even more so in the later stages of the cycle. Rather the comments are to highlight that as with many other aspects of the modern twenty-four-hour news cycle, the facts can sometimes get lost in the noise. A recent Bloomberg survey of twenty-five Wall Street Strategists puts the average year-end forecast for the S&P 500 at 2944 or 8.3% above where it ended June. The highest forecast was for 3200 and lowest was for 2750 (which is still 1% above where the quarter ended). Could the average of the strategists' estimates prove to be too high? Could there be another 10% correction between now and year-end? The answer to both questions is yes. Yet, despite the fact that a market pullback may occur at any time, the general outlook is for the S&P 500 to move higher over the next six months.

Last quarter's commentary concluded highlighting the need to focus on a smoother path of returns as opposed to targeting a total level of return. That remains RiverGlades approach and this strategy may increase in importance should the risks that linger cause the equity markets to stumble while attempting to climb the rhetorical "wall of worry." However, a carefully crafted, diversified portfolio should be ready to weather the volatility when the next pull-back comes.

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