W. James Steen, CFP®
jim@petrafin.com

Jason A. Pearson, CFP®
jason@petrafin.com

(O) 937.294.9000
www.petrafinancialsolutions.com

Quarter Update

The second quarter of 2018 is now officially closed, and with July 4th just past, it is safe to say the summer season is in full swing. While for many of us the main features of July are cookouts and trips to the beach, this month also holds a special place in the hearts of cycling fans worldwide, as it brings the sport's most famous race, the Tour de France. For those that are unfamiliar with the event, the Tour de France is one of cycling's three Grand Tours. Each July, 22 teams comprised of nearly 200 of the best cyclists in the world, compete in the race, which spans 23 days and covers more than 2,000 miles. With 23 days of televised coverage, you're likely to catch at least one of the various stages of the race, and if you do, you will notice that riders tend to pack together in groups the announcers call the "peloton." Winners will pull ahead of the peloton, while riders who struggle with the grueling pace or experience equipment issues will lag behind.

This same principal can be applied to the markets, with the peloton represented by the broad, capitalization-weighted market. As this large group of hundreds of stocks winds its way around curves, through valleys and over mountains, many stocks will behave quite similarly. However, there will be stocks and sectors that break away from the pack for sustained periods of time, others that fall well behind the pack, and a few that inevitably fall out of the race altogether. Our job as risk managers and tactical investors is to identify the stocks, sectors, and asset classes that have the strength to pedal beyond the comfortable confines of the peloton and avoid those that lag behind or fall out of the race.

One metric that has a history of providing a quantifiable, objective measure of performance is price. Everyday stocks compete and the results of these competitions are recorded. By recording the results of this daily competition, we can rank stocks, sectors, and even asset classes by relative strength in order to develop an objective picture of the market race as it develops, allowing us to see which areas are currently leading, much like we can see the riders that are pulling ahead of the peloton and those that are lagging behind. With that in mind, here are some of our observations from the previous quarter:

- Domestic Equities continue to lead the major asset classes, with International Equities in second place. However, the second quarter saw notable weakening in the international space, most significantly in the emerging markets.

PETRA
Financial Solutions, Inc.

Quarter Update

W. James Steen, CFP®
jim@petrafin.com

Jason A. Pearson, CFP®
jason@petrafin.com

(O) 937.294.9000
www.petrafinancialsolutions.com

Join Us On Facebook

- From a size and style perspective, growth is favored across all three size categories – large, small, and mid cap. Specifically, small cap growth strengthened significantly during Q2 and now leads all size and style boxes.
- From a domestic sector perspective, the technology sector remains the most significant long-term leadership trend within the market, despite volatility earlier this year and questions about how trade tensions with China may affect the sector. The energy sector has improved its standing more than any other this year, largely thanks to rising crude oil prices. Two interest rate sensitive sectors, real estate and utilities, have struggled and represent the laggards among US sectors today.
- As mentioned above, International Equities continues to sit in second place from a broad asset class perspective; however, a strengthening dollar and geopolitical uncertainties have contributed to notable weakening of the asset class.
- The five-, 10-, and 30-year U.S. Treasury yields have each receded from the highs they established earlier this year, providing some relief for core domestic fixed income which had been harmed by the rising rates of early 2018. It may be too early to say that the trend in rising interest rates is over however, as the Fed has given no indication that it will reduce its pace of short-term interest rate hikes. Meanwhile, international bonds, which had provided a safe haven from rising US interest rates, saw sharp declines over Q2, as the US dollar strengthened. Convertible bonds, high yield municipals, and floating rate notes have been among the few bright spots within fixed income.

As always, we will continue to monitor your portfolios, and make any necessary changes as leadership changes within the market. If you would like to become more familiar with our investment process and the tools we use to identify market leadership across major asset classes and within asset classes, please contact us at your convenience.

P.S. If you think this type of information would be of benefit to anyone you know, please share this communication with them.

PETRA
Financial Solutions, Inc.