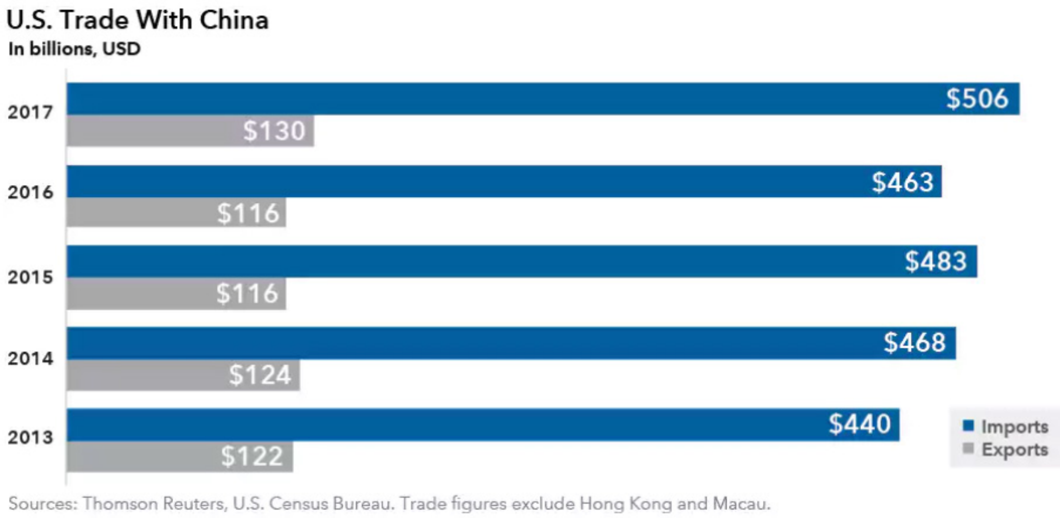
GBA Financial

Monthly Newsletter
April 2018

COMMENTARY

War (trade war), what is it good for? Absolutely nothing! Now that we have that song stuck in your head, let's jump into the topics of much media coverage in March – tariffs and trade war.

First, what are tariffs and why are they used? A tariff is basically a tax that adds to the cost of imported goods. Tariffs are used by countries for a few different reasons, including protecting domestic employment, protecting infant industries, and national security. Protecting domestic employment (and winning some votes for November midterms) seems to be the most likely reason President Trump implemented the steel and aluminum tariff (although it was officially done for national security). The steel and aluminum industry faces tough foreign competition that produces steel and aluminum at a lower price due to cheaper labor, poor working conditions, and lack of regulation. These cheaper prices drive demand away from the U.S.-made steel and aluminum, threatening companies and jobs in these companies. That said, most economists view barriers to free trade as a negative, as they limit the goods consumers can choose from and also potentially increase the cost of those goods with less competition.



Next, what is a trade war? A trade war is a situation in which countries try to damage each other's trade by imposing tariffs or quota restrictions. A trade war usually starts off with one country raising or imposing a tariff, which is countered or responded to by the other country or countries with their own tariffs. This can happen back and forth, again and again. Sounds fun and expensive for businesses and consumers.

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ECONOMIC HIGHLIGHTS

S&P 500	2,640.87
DJIA	24,103.11
NASDAQ	7,063.44
OIL	$64.94/barrel
GOLD	$1,327.30/ounce
10-YEAR TREASURY YIELD	2.74%
UNEMPLOYMENT	4.1%
GDP	2.9% (4th Qtr. 3rd Est.)
CONSUMER PRICE INDEX (CPI)	+0.2% / 12 month change: +2.2%
CORE CPI	+0.2% / 12 month change: +1.8%

European Central Bank (ECB): Even with the questions of Brexit still looming, the ECB is seeing enough signs of economic improvement that quantitative easing should be finishing up soon.

Federal Open Market Committee (FOMC): The Fed raised rates in March in Chairman Jerome Powell's first meeting as Fed Chairman. This was much expected, but there were signs from the report of possible quick rate increases this year and in the future.

Retail Sales: Numbers were below consensus for the second month in a row. Is the tax cut not making its way to retailers or are we seeing a small delay?

(cont'd.) Now, how did we get here—and where are we going from here?

In early March, the White House started leaking the idea of steel and aluminum tariffs, which on March 23 went official. President Trump cited national security as the reason to impose tariffs on countries that export steel and aluminum to the U.S. China responded with extra tariffs of up to 25 percent on 128 products, but the over size of the goods isn't as big as it sounds. Now, though, there are rumors swirling around that President Trump is going to target tariffs on industry groups that China is trying to became a major global player in (according to China's 2025 plan). As it stands right now, this back and forth is more like a small skirmish and not a full-blown trade war, but—and it's a big but—if this does continue to move towards a full trade war and not just political posturing, we could see some serious effects that derail the current global synchronized growth we are seeing.

Overall, the long-term view of the economy is strong, with many indicators pointing to a bullish economy and strong stock market. We view the recent weakness in stocks as a buying opportunity with our focus on the long-term. Solid economic data and strong balance sheets for U.S. consumers should continue to drive the economy forward. Here in the U.S., we are seeing healthy rotations in the stock market between style, size, and sector. This action speaks to the strength of the current bull market. International Equities look to be strengthened as the U.S. dollar continues to fall and commodities are breaking out. Emerging Markets look to be taking over as the leader in the equity market. Our research team is constantly evaluating our products and tactical position inside both our fixed income portfolio and equity portfolio, looking at both larger trends and short-term opportunities. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	-0.76	13.99	10.78	13.31
MSCI EAFE	-1.53	14.80	5.55	6.5
BARCAP AGG BOND	-1.46	1.20	1.20	1.82

Data as of 3/31/2018. Investments cannot be made directly into an index.

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