

July 11, 2018

Good Morning,

After two weekly declines in a row, U.S. stocks returned to positive territory as the NASDAQ and the S&P 500 continued to outperform the Dow. The 30-stock Dow has a relatively high weighting in industrial stocks that have recently been hurt by rising trade tensions. Stocks of smaller companies have generally outperformed large caps in recent weeks, in part because most smaller firms are more domestically focused than bigger companies and less exposed to global trade tensions.

The Trump administration implemented 25% tariffs on \$34 billion of imports from China on Friday. Similar tariffs on an additional \$16 billion of imports are due to be implemented in two weeks. These tariffs are specific to China only and are in response to Chinese intellectual property practices. China immediately implemented retaliatory tariffs on imports from the U.S., mostly on agricultural goods and autos. The implementation of these tariffs was signaled well in advance, and there was a limited immediate market reaction. This is the first trade restriction implemented that is specifically targeted at China and the implementation of these tariffs moves the situation from a threatened to an actual bilateral trade conflict with China. This trade conflict and its threatened escalation have the potential to negatively impact domestic and global economic growth. Hopefully the two sides will find a way to deescalate the fight and move toward freer flows of goods, services and capital. However, events have been steadily marching toward these tariffs, and neither side seems to be looking for a quick exit.

Despite rising concerns as the Fed raised rates and trade tensions ballooned in June, economic data remains quite positive. Job growth pulled back slightly on a monthly basis, but it continued to accelerate on an annual basis. Consumer confidence remained strong, and business confidence increased—taking the trend back to positive territory. Finally, while the Fed raised interest rates, as expected, it also endorsed the strength of the economic expansion in its statement and press conference, which was helpful. Overall, the strong economic data indicates that growth continues and that the soft spot earlier this year was just that.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Enjoy this glorious summer weather!

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