

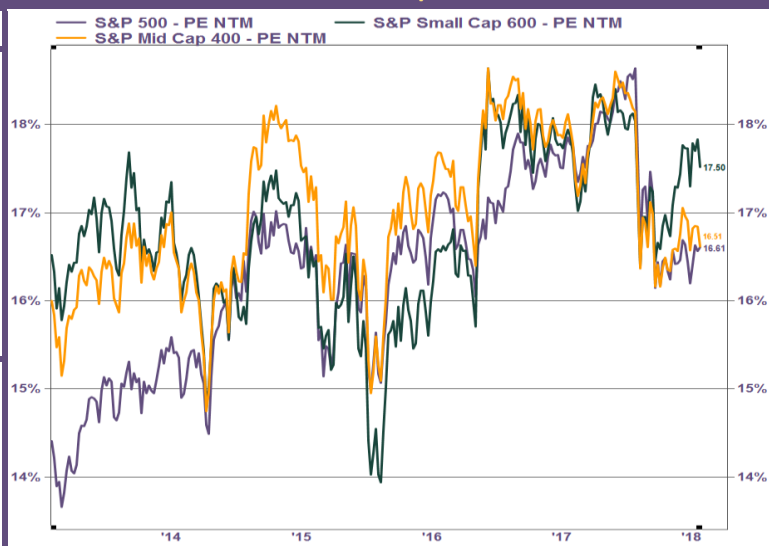
Economic & Market Commentary

Last Friday, the Bureau of Economic Analysis reported the U.S. economy grew at a 4.1% annual pace in 2Q18, which is the fastest pace since 3Q14. Last week was the second full week of S&P 500 companies reporting their quarterly numbers. According to FactSet's July 27, 2018 Earnings Insight report, with 53% companies having reported, the earnings growth rate stands at 21.3% and the revenue growth rate at 9.3%. A higher than normal percentage of companies (83%) are beating their estimates. When S&P 500 reached an all-time high on January 26th, it was trading at a 12-month forward multiple of 18.6x. Leading into 2018, stock markets were moving solidly higher in anticipation of higher earnings that would be generated from pro-growth tax reform. This is what stock market participants do. They are always looking forward and trying to identify the next directional catalyst(s). In February, a market correction ensued due to rising inflation and the implementation of tariffs, and the forward multiple on the S&P 500 contracted to 16.2x. The S&P 500 currently trades at a 12-month forward multiple of 16.6x. With the economy expanding and earnings growing, what is holding back the multiple? Some reasons include the uncertainty related to tariffs, possible inversion of the yield curve, fed policy and rising inflation. Its 5-year forward average is 16.2x and 10-year average 14.4x. Using estimated 2019 earnings per share (EPS) of \$177.05 and the current multiple of 16.6x, puts the potential valuation of the S&P 500 at \$2,939, which is 4.3% higher from where the S&P 500 currently stands at \$2,819. A multiple of 18x, puts the valuation at \$3,187 (+13.1%) and a multiple of 14x, puts the valuation at \$2,479 (-12.1%). The S&P 400 (mid-cap) and S&P 600 (small-cap) recently reached new all-time highs, albeit at lower multiples. The S&P 500 all-time high is \$2,873 and this is likely to be surpassed, however, the key moving forward will be the direction of the catalysts.

Total Returns - July 27, 2018

Stock Index	1-Wk	YTD	1-Yr
NASDAQ	-1.05	12.71	22.51
Russell 2000	-1.96	9.04	17.50
S&P 500	0.61	6.55	16.10
S&P 400	-1.15	4.80	13.28
Dow Jones	1.57	4.22	19.43
MSCI-Developed	1.35	-0.10	6.71
MSCI-Emerging	2.14	-4.19	4.55
Barclay's U.S. Bond Index			
High Yield	0.32	1.08	2.46
5-year Muni	-0.10	0.67	-0.05
Municipal	-0.19	-0.02	1.03
Int. Gov. Credit	-0.13	-0.99	-0.98
Aggregate	-0.17	-1.64	-0.72

S&P Index 12-Month Forward Multiple



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	2.42	2.41	1.23
U.S. 2-Yr	2.67	2.60	1.36
U.S. 3-Yr	2.76	2.67	1.51
U.S. 5-Yr	2.85	2.76	1.83
U.S. 10-Yr	2.96	2.88	2.29
U.S. 30-Yr	3.09	3.03	2.89

S&P 500 - Sector Total Returns - July 27, 2018

Sector	1-Wk	YTD	1-Yr
Info Tech	-1.15	14.88	29.60
Consumer Discretionary	-0.45	13.95	22.94
Energy	2.32	7.74	19.11
Health Care	1.40	7.37	12.49
Utilities	0.69	1.69	2.58
Financials	2.04	1.61	14.95
Industrials	2.08	1.11	11.77
Real Estate	-0.16	0.05	2.78
Materials	1.82	-0.87	9.43
Consumer Staples	0.99	-5.20	-1.96
Telecom Services	1.15	-7.30	-3.67

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	2.39	2.34	1.85
U.S. AA	2.52	2.47	1.97
U.S. A	2.87	2.83	2.49
U.S. Baa	3.45	3.42	3.35
U.S. Municipal	2.66	2.62	2.18
Michigan	2.77	2.74	2.30

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