A Look Ahead to Q3

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We ended the first half of this year much like we began it – looking for growth. Investors continue to search for the few companies that are delivering consistent, meaningful growth while passing over others that haven't been able to increase their top lines.

As we head into the third quarter, we at Exencial will maintain our focus on ways we can provide not only growth, but value, to investors.

Let's discuss a few key themes we're going to be monitoring.

1. **Technology as a defensive sector:** Traditional defensive sectors, such as utilities and consumer staples, have performed well in 2017. But another sector has begun acting defensive – doing well when news seems to indicate the economy looks less rosy – technology.

   As a result, the tech sector has also performed well this year. However, while we believe that some technology stocks are still reasonably priced – for example, Apple, a SELECT strategy holding – investors need to be cognizant of some areas of the technology sector that are looking increasingly expensive.

   In the third quarter, we're going to keep close tabs on stocks in this sector to see which are overpriced and continue to focus on hunting for growth at a reasonable price.

2. **Interest rates vs. the Fed:** Earlier this year, the Federal Reserve received a few inflation readings that were higher than expected. Since then, the Fed has tried to maintain its 2 percent inflation target by raising interest rates and reducing its balance sheet by letting its bonds mature.

   Despite this, interest rate expectations are falling and economic numbers have been mixed. As a result, interest rates and inflation expectations have fallen. In essence, the Fed is moving in the opposite direction of what markets are saying, which is something we're going to keep a close eye on.

3. **International markets:** The U.S. makes up about 53 percent of global market capitalization, which is fairly high compared to the historical averages of the last three decades (DFA returns). Since The Great Recession, the U.S. has been considered a safe haven for investors, driving equity valuations high and stock prices up.

   Compared to the rest of the world, overall, we believe the U.S. looks fairly priced with some areas now looking expensive, which could be causing investors to look abroad for value. As a result, we are seeing international equities, particularly emerging and European markets, outperform the U.S. This is being fueled even more by a falling U.S. dollar.

We expect international markets to continue to outperform, especially if the U.S. dollar continues to fall closer to its trend line, which we're going to be monitoring closely.

As always, there are many uncertainties in the current market environment, especially as it relates to legislative moves by the U.S. government. At the same time, there is also plenty of opportunity for growth and return. We need to maintain diversified portfolios and be mindful of opportunities beyond our borders.

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