C Y P R E S S
Asset Management, Inc.

MARKET COMMENTARY **April, 2018**

Market volatility returned in the first quarter 2018, largely due to fears over how rising interest rates and inflation might impact markets and the potential for a trade war between the U.S. and China. It was a quarter full of noisy rhetoric and troubling cross currents but ultimately very little movement in equities. The S&P 500 sustained a 10% correction from its late January highs, and after then rallying back to positive 4% on the year in early March, suffered another 5% pullback in the last weeks of the quarter.

While the S&P 500 fell 1.2% for its first quarterly loss since 2015, the market has been remarkably resilient given all the geopolitical hits it sustained: the Trump trade tantrum and ensuing media obsession with trade wars and comparison to the Smoot-Hawley Tariff of 1930 that raised tariffs on imported goods; the Mueller investigation and various ongoing legal proceedings; turnover in key White House positions like State and Chief Economic Advisor; the Syrian situation and an escalation of tensions with Russia. All of this occurring at the same time the market is adjusting to Fed tightening and some pick up in inflation.

In contrast to the chaotic macro backdrop, the global economy remains on solid footing and the earnings outlook is the strongest in years. Global growth is the fastest since 2011 and is expected to be roughly 4% in 2018 and 2019. The long U.S. economic expansion continues to maintain a youthful and healthy appearance:

- Monetary policy remains accommodative for this stage of the economic cycle and the normalization of rates a gradual process
- Consumer confidence is high
- Job growth remains solid despite a low unemployment rate as work force participation seems to be finally increasing
- Wages are gradually accelerating
- The housing market is in good shape and home prices are increasing
- Inventory levels are low
- Corporate profits are surging

Corporate earnings increased 11% in 2017 and are forecast to rise by 21% in 2018. As a result of a sideways stock market combined with the surge in earnings, equity valuations have become more attractive. The S&P 500 currently trades at about 16.5 times estimated 2018 operating earnings. This is right around its long-term average, and well below the levels of late 2017.

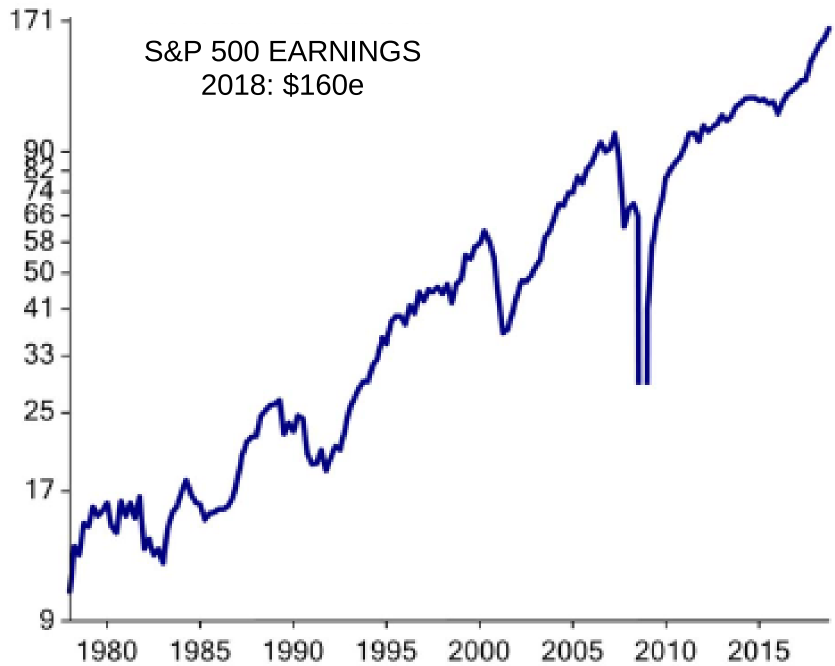
Conclusion: An Earnings Story

The geopolitical cross currents and chaotic state of affairs in Washington D.C. that have buffeted the market in 2018 are likely to remain with us in the coming quarters. The pattern of periodic market panic attacks and recovery may continue. Yet the fundamental economic outlook remains superb and remarkably well-balanced, boding well for continued growth.

We have reached that stage of the economic cycle where the market must climb a wall of worries and must rely on earning growth to move higher. A fundamental driven market that relies on earnings is not a thing to be feared, particularly in a strong global economic environment.

If the global recovery stays on course, as most indicators suggest, the corporate profit machine is poised to keep running along with added fuel from cash inflow from tax reform, stock buybacks and mergers. The market is an earnings growth story, and that is probably a good thing.

S&P Earnings Surging



Source: Evercore ISI