PEACHTREE FINANCIAL GROUP

PARALLEL PORTFOLIOS | MONTHLY VIEWPOINT

Our Current View on Investments and the Economy

BIG THOUGHT

Financial markets in recent weeks have dealt with choppy trading as seemingly every few days stories come out with perceived vastly different ramifications. In one corner we have the **continued strong advance in corporate earnings and economic data.** In the other more negative corner lies a trade war and various geopolitical issues. A full-blown trade war is not something to ignore, as we have mentioned in our bearish points below dating back to January 2017. Similarly, geopolitical concerns whether they be from North Korea, or Italy threatening to leave the Euro are not without their potential consequences. However, these **negative headlines can easily be made to appear more imminent and dangerous than they may be**. Meanwhile, when the economy and earnings keep on their steady positive path an exciting headline is hard to generate. As we discuss often **the underlying fundamentals of earnings and the economy are the important underpinnings of financial markets**. Everything else, while not always unimportant, runs the risk of being noise that simply effects investor sentiment. Giving us further comfort in this view is the continued healthy price uptrends in stocks. Trends are an important aspect to our risk management discipline and as of early June provide us with a mostly positive view of financial markets.

DASHBOARD

- TREND (green)
- VALUATION (green)
- SENTIMENT (yellow)
- ECONOMY (green)
- CREDIT (green)

BULLISH

- Intermediate to long-term stock price trends are still positive
- Economy healthy
    - ⇒ Strong job market gaining further momentum
    - ⇒ Job strength boosting wages
    - ⇒ Leading Economic Indicators very strong
- Corporate tax cuts are significantly increasing earnings
- February/March correction took away some of the excessive investor sentiment
- Small business and consumer confidence is high
- Recent stock market correction reduced somewhat overvalued stocks to fair value
- Corporations are starting to reinvest in cap ex instead of just buybacks and dividends

BEARISH

- Protectionism/trade wars on the rise and is likely to boost inflation and cause economic slowing
- Strength is U.S. Dollar has contributed to recent weakness in International/Emerging Markets
- The transition to a new Fed and likely end to the decades long bond bull market occurring at same time complicates matters
- Q1 GDP was lukewarm, will Q2 show big jump expected?
- Geopolitical concerns
- Lackluster market response from strong earnings reports

CHART OF THE MONTH

EARNINGS GROWTH PEAKS ARE NOT TYPICALLY SOON FOLLOWED BY RECESSIONS

Date of Earnings Growth Peaks	Next Recession Start Date	Number of Months to Recession
Sep 1953	Aug 1957	47
Sep 1959	Apr 1960	7
Sep 1962	Dec 1969	87
Dec 1968	Dec 1969	12
Dec 1973	Jan 1980	73
Dec 1976	Jan 1980	37
Sep 1981	Jul 1990	103
Jun 1984	Jul 1990	73
Jun 1988	Jul 1990	24
Mar 1995	Mar 2001	72
Jun 2000	Mar 2001	9
Jun 2004	Dec 2007	41
Mar 2018?	?	?
	Average	49 months
	Median	44 months

Source: LPL Research, Thomson Reuters, FactSet, National Bureau of Economic Research 05/11/18

Recently completed 1st quarter earnings reports showed yet again the **strength of corporate earnings.** The growth in recent years jumped even more with the corporate tax cut. Along with this has come the inevitable naysayers who tend to look for potential negatives without actually studying historical data. In this case, these negative views have revolved around the concern we may have hit peak earnings. Only in hindsight will anyone know for sure if we have. If we assume we have peaked the study above shows that **on average a recession doesn't occur for about four years after earnings peaked.** We frequently talk about the importance of earnings, and a potential peak is not something to ignore. Importantly though it is also not something about which to make broad negative assumptions

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Mr. Towner has worked in the investment industry since 1999 and received his MBA from the University of Central Florida and BA from the University of Mount Union. At Parallel he oversees the implementation of the firm's overall investment philosophy and is the Senior Portfolio Manager for several strategies. Prior to his current role, Mr. Towner was co-manager of large-cap core and equity income portfolios totaling approximately $1 billion at Sterling Capital Management. He holds the designations of Chartered Financial Analyst and a Chartered Market Technician.

STUART CANZERI
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Mr. Canzeri began his financial services career in mortgage banking in 2000 and has been a consecutive recipient of Atlanta Magazine's Five Star Wealth Manager Award since 2014. Stuart received his MBA from Mercer University and BA from Tulane University. Stuart is married, has a son and is active in his church. He serves as Board Chairman and Commissioner of Fulton County's Housing Authority.

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Mr. Boughner has worked in the investment industry since 2000 and holds a BS from Florida State University. He is a co-founder of Parallel, a Senior Portfolio Manager for several strategies and has developed the firm's quantitative tools. Prior to Parallel, he had extensive experience with U.S. Trust, BB&T Wealth, Royal Bank of Canada (RBC Centura), Amsouth Bank, and Charles Schwab Co. Mr. Boughner holds the designations of Chartered Financial Analyst and Chartered Market Technician.

DAVID HUGHES
Managing Partner

Mr. Hughes work in the financial fields of insurance, wealth, and risk management since 2001 earned him a membership in the Million Dollar Round Table, considered the standard of excellence in the financial services industry. He received his BA from the University of Georgia in 1999. Married with two children, David serves on his church's finance committee.

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