Hughes Investment Advisory Service LLC

April 2, 2018

Dear Clients and Investors,

Here in Connecticut we were greeted this morning with 6 inches of fresh snow and a 10-day forecast for sub freezing temperatures during the evening hours. The markets have greeted the first day of the second quarter trading significantly lower down 2.2% on the S&P 500 and now officially in correction territory off 10% from recent highs. Quite a change from three months ago when the equity markets were on fire and setting new record highs. In points, the DJIA is now 3000 below it's record high set the third week of January. For Q1 the equity markets suffered their first quarterly loss in more than two years. The S&P 500 slid 2.7% during Q1.

So where are we now and what does this correction mean to investors as we head into the 2nd quarter of 2018? 10% corrections are normal and the fact that we have not had one in over two years was more the surprise than the fact that one has finally occurred. On average the market suffers a 10% correction about every 12 months. The last 24 months were enjoyable for investors but also highly unusual from a volatility standpoint as I often noted in last years Quarterly Market letters.

I am still positive on equity markets for the balance of 2018 despite some new headwinds. Risk factors include rising interest rates, U.S. protectionism and a loss of market leadership from the largest tech stocks. Looking at each of these concerns: higher rates are a factor but overall I am pleased with the new Federal Reserve Chairman, Jerome Powell, and his balanced approach and outlook for rates going forward. U.S. protectionism is a bigger concern due to the many unknowns that go with the Trump administrations approach to this issue. Overall, I agree with Washington's trade objectives however the Trump administrations approach is more direct and novel, opening the door to possible mistakes potentially resulting in a larger trade war with our trading partners. The pullback of the biggest tech stocks that have led the markets higher for the last 8 years is also a concern but the bottom line is that they had become overvalued and represented extreme optimism. I won't go over the reasons why each of these companies were overvalued, suffice to say that Tesla, Netflix, Amazon, Facebook, Google are all facing headwinds to their long-standing positive stories. The market needs new leadership and I'll be watching to see if this occurs.

In the United States, GDP growth is projected to pick up between 2 ¾-3% over 2018-19. Tax reductions and higher government expenditures reinforce the momentum in domestic demand from strong confidence, solid job creation, gains in household wealth and the rebound in energy production. Taken together, the new US fiscal measures could add up to ¾ percentage point to US GDP growth with modest positive demand spillovers for other economies. Gradual monetary policy normalization is set to continue from the Fed, bringing higher interest rates as the labor market tightens and wage growth and inflationary pressures pick up.

434 Housatonic Ave. Stratford, Ct 06615 203-209-4797

The World economy should also continue to strengthen over the next two years, with global GDP growth projected to reach almost 4% in both 2018-19. Growth in the US, Germany, France, Mexico, Turkey etc. is projected to be more robust than recently projected, with small upward revisions in most other G20 economies.

This positive economic backdrop plus the recent US tax bill should, in turn, help super charge US corporate profits. The upcoming earnings season will be a positive catalyst that should stop the recent stock market sell-off. Earnings season starts in less than two weeks. Overall, earnings are expected to grow close to 18%. Inflation will continue to pick up keeping the Fed on track for 2 or 3 more interest rate hikes this year. This gradual increase is important as the market can withstand gradual increases in Treasury yields that are associated with robust growth.

At this time I continue to favor large-cap, dividend paying, international corporations with strong balance sheets and Asian markets in general. Risk/reward continues to favor equities over fixed income. For the first time in many years I like short term Government bills and notes with the 2-year yielding 2.23% Select MLP's, REIT's and specialized bond funds continue to look good as income producers.

Sincerely,
J. Britt Hughes
Registered Investment Advisor
Britthughes2@icloud.com www.hiasllc.com