



April 25, 2018

Dow: 24,083

Armistice

This November, we will celebrate the 100th anniversary of the armistice that ended the First World War on the holiday we recognize as Veterans Day. That armistice was signed in a railroad car in a French forest and led to the Treaty of Versailles in 1920. Alas, 20 years later, Hitler forced the French to sign a surrender agreement in the same train car. The Korean armistice was signed in the summer of 1953, and to date no formal peace agreement has followed. The Korean peninsula was unified from the 600's until 1945. The leaders of North and South Korea have recently announced a historic end to the Korean War, and further breakthroughs will be sought following the summit meeting between President Trump and Kim Jong Un.

The beginning and end of many conflicts are driven by economics; Kim Jong Un has allowed some capitalist economic structure to begin to emerge in North Korea, and it appears that he realizes that in order for North Korea to continue to develop, he has to close the gap between it and the rest of the world by allowing more openness and trade. Trump is offering a reduction in isolationism, and the prospect of economic improvement, as the carrot in the coming negotiations. By offering face-to-face negotiations, Trump is providing the North Korean leader with status and relevancy on the world stage; it is presumed that since Trump has provided this standing, he can also revoke it. We have no delusions that the path to substantial agreements will be anything but long and arduous, but we maintain hope at this early stage. We are already at a stage of discussions that has been elusive for the past 65 years.

It should also be noted that we are at an 'armistice' stage in our relationship with two other major world powers, although those developments could be fleeting. The potential for a Chinese tariff war is pushed back as negotiations between the two parties continue. A coalition of the U.S., United Kingdom, and France attacked and destroyed Syrian chemical weapons sites this month, with no defensive participation from Russia in support of Syria. Following the attack,

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both Putin and Trump refrained from imposing prior discussed additional sanctions on each other.

The equity markets continue to seesaw around their year-end levels, as they begin to digest first quarter earnings reports. So far, over 25% of the S&P 500 has reported, and both earnings and revenue positive surprises are running well ahead of past quarters. Financials, consumer discretionary, and industrial sectors have the largest percentage of companies reporting, and also have shown the largest earnings beats. This news is encouraging for the markets going forward, since overall economic growth is expected to be close to the trend of recent quarters. Strong growth in earnings could be a precursor to greater economic optimism, capital investment, and consumption in the future.

The April inflation figures were relatively tame, and that leaves the future path for the Fed still open to question. The Fed seems to have attempted to maximize their flexibility by guiding expectations for increases only at every other meeting, and thus no change is expected at the May meeting. Although the ten-year Treasury has continued to move higher, it still has not decisively pushed through three percent. Housing and energy continue to be the factors pushing inflation higher over the next few months. The housing component of CPI is increasing at 3% plus, and oil is close to \$70 a barrel after spending virtually all of last summer below \$50 a barrel.

As the world continues to seem to get smaller in human terms, the relationships between people and cultures grow in importance. We hope that all world leaders work in ways that can bring us together for the common interest of humanity.

Random Thought for April 2018: A well-written life is almost as rare as a well-spent one.

- Thomas Carlyle

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