THE UNITED COMPANIES

Planning for the Possibilities®

Dear Clients and Friends, July 2017

In the second quarter, equity markets were up modestly while the sector rotation that started in 1Q continued in the latest quarter. Specifically, the S&P 500 Index was up 2.6% for 2Q17, trailing European stocks (as measured by the MSCI EAFE Index), which were up 5%, as key Euro countries skirted election risk and developed European economies continue to recover nicely. Bond returns were solid during the quarter, with the Muni Index up 2.7% while the Merrill Lynch Corporate index was up 2.6%. Throughout this period, volatility remains low, which we interpret as investors' getting somewhat complacent. While the economy looks solid and corporate earnings are supportive of market valuations, we are becoming increasingly concerned about the direction of policy, both monetary and fiscal.

While the U.S. economy remains supportive of markets, there are some pockets of weakness emerging. The June manufacturing trends remain strong, with the PMI reading coming in at 57.8, which was higher than the May reading of 54.9 and is the highest reading since August 2014. For some perspective, a reading above 50 is generally associated with a growing economy. However, retail sales have been weak, oil prices have been faced with downward pressure on oversupply concerns, and the recent housing starts trend has been weak. Overseas, European PMI's have been quite strong (average Euro Area PMI is 57.4 in June 2017 vs. 52.8 in June 2016), as developed European countries are emerging from their economic malaise.

The 2Q corporate earnings reporting season begins in earnest in July, and the consensus expectation is for a 7.8% increase in earnings per share. Given the positive "surprise rate" experienced the past few quarters, earnings should ultimately top the double-digit mark for the second quarter. This level of earnings growth should be driven by mid-single-digit revenue growth, coupled with modest margin expansion and stock buybacks. Given the lofty valuations, companies that disappoint are likely to see their stocks take a hit.

In Washington, we see continued dysfunction with slow progress on both healthcare and tax reform. Since they are most likely linked, getting healthcare done will most likely act as a catalyst to getting some type of tax reform done as well. We are watching policy trends closely, as we don't believe that equity markets are fully discounting continued policy headwinds, such as a fiscal stalemate (tax reform, healthcare, infrastructure, etc.) and central bank tightening.

As for central banks, ECB President Mario Draghi's recent commentary seems to have taken a more hawkish turn. Specifically, Draghi mentioned that deflation risks are receding and that the economic recovery is broadening, and while a 'considerable' degree of accommodation is still necessary, it is no longer a 'very substantial' degree. Recent comments from Fed governors suggest they are not backtracking on the Fed's recent hawkish tone. While central bank policy is only one of many items impacting the market, the intent of the FOMC and ECB to move towards tightening/removing stimulus in the face of recently slow inflation could present a bearish headwind for both bonds and equities.

Considering the increasing valuations for equities over the past several quarters, United successfully launched its Value Plus strategy at year-end 2016 to identify stocks that are trading at a discount to their cash flow estimate of fair value. While a short period of time, the early results are quite promising. We are excited to report that the process and performance of this strategy, along with our Momentum Plus strategy, are being examined by an independent auditing firm to allow for the official certification of the performance of both strategies. Lastly, we are pleased to report that Lee DeLorenzo has been named to Barron's Top 100 Women Advisor's list for the eighth consecutive year.

Please feel free to contact us to share changes in your financial situation or risk tolerances. Enjoy your summer!

Respectfully submitted by the Professional Staff at United Asset Strategies, Inc.