301-770-9880
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U.S ECONOMY: Inflation On The Rise?

Q1 GDP Revised Slightly Lower

U.S. GDP increased at a 2.2% rate, the Commerce Department said in its second estimate of Q1 GDP. This is down slightly from the initial estimate of 2.3%, as growth slowed slightly more than initially thought amid downward revisions to inventory investment and consumer spending.

Mortgage Rates Rising

Rising interest rates are making refinancing increasingly less attractive for homeowners. The average rate on a 30-year mortgage hit a seven-year high of 4.86% during late May. Higher rates continue to negatively impact mortgage demand, as mortgage application volume continues to decline. Higher rates, however, appear to be weighing more on refinancing than purchases.

Confidence At A 17 Year High

The Conference Board ***Consumer Confidence Index***® increased in May, following a modest decline in April. *"Consumer confidence increased in May after a modest decline in April. Consumers' assessment of current conditions increased to a 17-year high, suggesting that the level of economic growth in Q2 is likely to have improved from Q1. Consumers' short-term expectations improved modestly, suggesting that the pace of growth over the coming months is not likely to gain any significant momentum. Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term."*

Job Growth Rebounds

The labor market strengthened further in May, with employers adding 223,000 new jobs, the unemployment rate falling to 3.8% and wages rising 0.3%.

Inflation on the Rise

U.S. inflation accelerated in May to the fastest pace in more than six years. The consumer price index rose 0.2% from the previous month and 2.8% from a year earlier, according to the Labor Department. The annual gain was the biggest since February 2012 and follows a 2.5% increase in April. Excluding food and energy, the core gauge was up 0.2% from the prior month and 2.2% from May 2017. The Fed's preferred gauge of inflation - the Personal Consumption Expenditures Index (PCE) - came in at the 2% goal during March and April.

Risk In Trade Wars

Escalating trade tensions are posing an increasing threat to the global economy, according to Christine Lagarde, the head of the International Monetary Fund. The Trump administration implemented steel and aluminum tariffs on Canada, Mexico and the European Union in the name of national security, while also engaging in a tense trade dispute with China. World Trade Organization Director-General Roberto Azevêdo said the rising tensions in global trade "*risk a major economic impact, undermining the strongest sustainable period of trade growth since the financial crisis*."

Political Uncertainty In Europe

Political events in Italy and Spain produced high volatility in financial markets at the end of May. In Italy, the president vetoed the candidate nominated for the Finance ministry who is known for his anti-euro rhetoric. Meanwhile in Spain, the socialist opposition party filed a motion for a vote of no-confidence against Prime Minister Rajoy. Both events raised the threat of another euro-area crisis. By month end a new government was finally installed in Italy, while the Socialist-led opposition in Spain succeeded in ousting the prime minister.

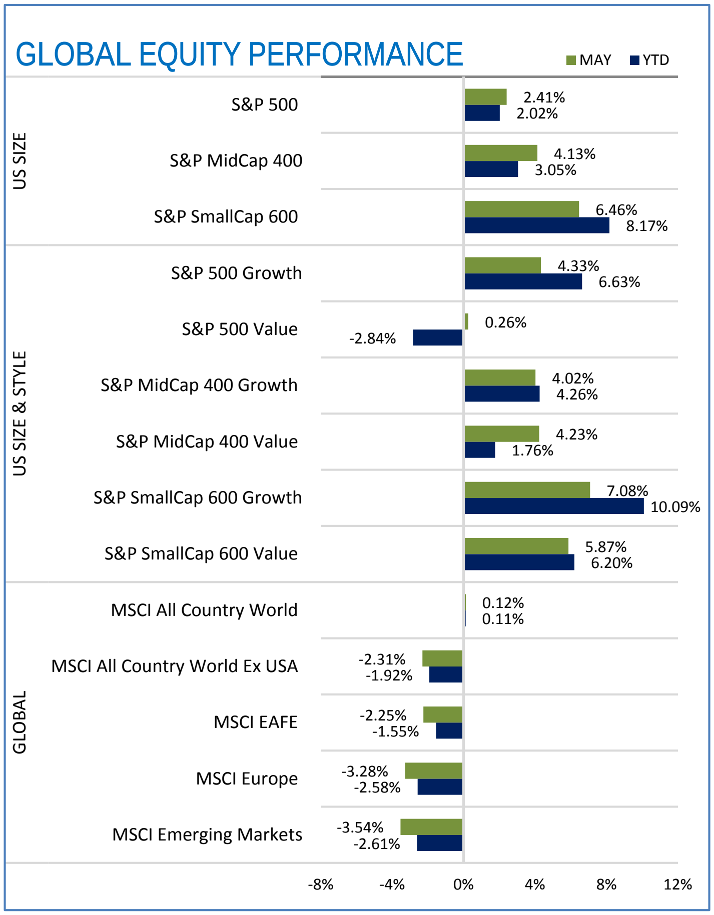
Japan Takes A Step Back

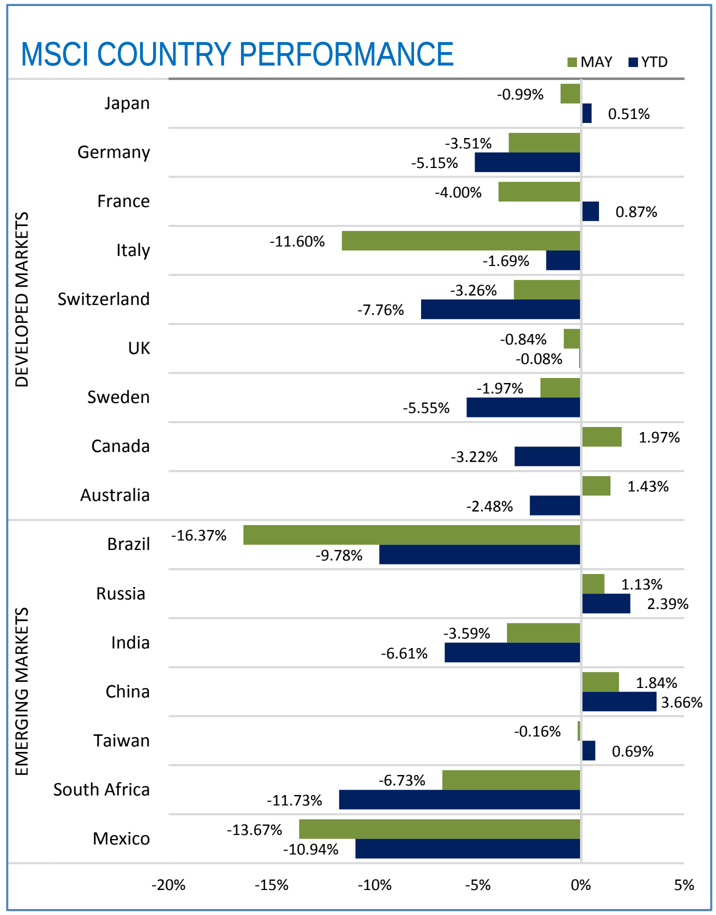
Japan's gross domestic product contracted during the January-March period. It was the first decline in economic output since the fourth quarter of 2015 and ended Japan's longest growth streak in 28 years.

Despite Troubles, Brazil Growing

The Brazilian economy expanded in the first three months of 2018 for a fifth straight quarter, easing fears of a slowdown before a nationwide trucker protest this month. Brazil's GDP grew 0.4% from the prior three months, and rose 1.2% from the first quarter of 2017.

GLOBAL EQUITIES: Earnings Push U.S. Equities Higher





Earnings Drive U.S. Gains

The U.S, equity market shrugged off geopolitical and trade concerns, as the S&P 500 gained 2.41% for the month. Investors continued to focus on strong earnings growth and a healthy economy. According to FactSet, Q1 earnings for the S&P 500 rose by more than 24% from a year ago, which marks the fastest growth in eight years. Growth continues to outperform value across the market capitalization spectrum, while small cap equities have significantly outperformed their larger counterparts.

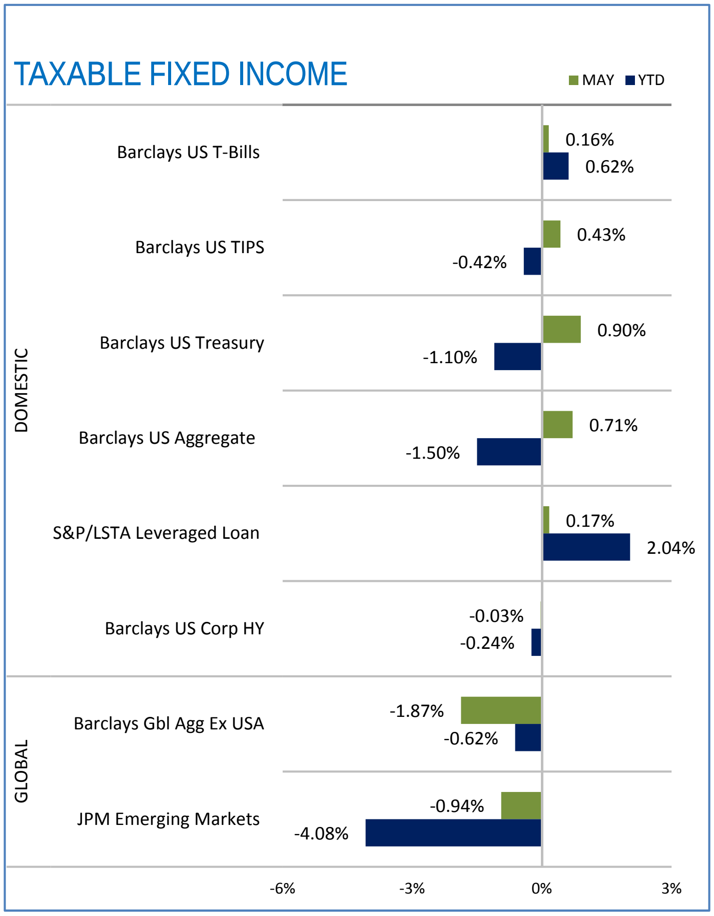
Political Concerns Hit Europe

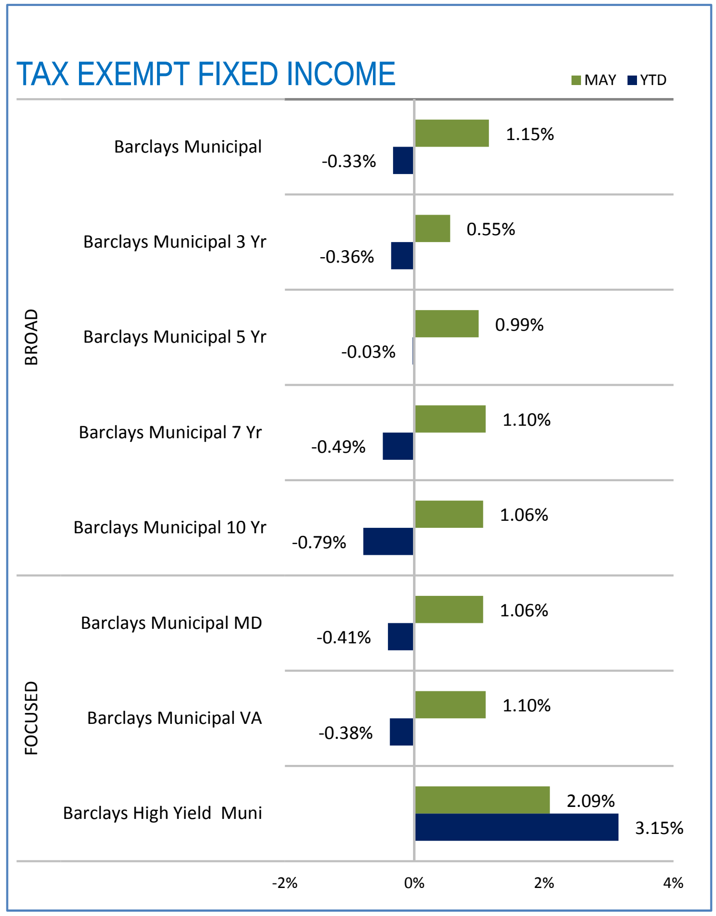
European equity markets fell victim to political upheaval in Italy and Spain. In Italy, the president vetoed an anti-euro Finance Minister, while opposition parties filed for a vote of no-confidence in Spain's current Prime Minister. Strong earnings pushed the MSCI Europe Index up 1.25% in the first half of the month. However, the Index fell 3.28% from there with Italy losing 11.6% and Spain falling 9.28%. Some of the political uncertainties cleared by month's end, but investors remained cautious.

Headwinds Remain For EM

Emerging equity markets fell in May as the MSCI Emerging Markets Index declined 3.54%. It was a different month, but the same concerns plagued emerging market equities: a stronger U.S. dollar, rising Treasury yields and global trade concerns. Only two countries in the index, China and Russia, posted gains in May. Conversely, Poland, Egypt, Turkey, Mexico, Hungary, Brazil and Greece all fell more than 10% for the month.

FIXED INCOME: Global Concerns Benefit Bond Market





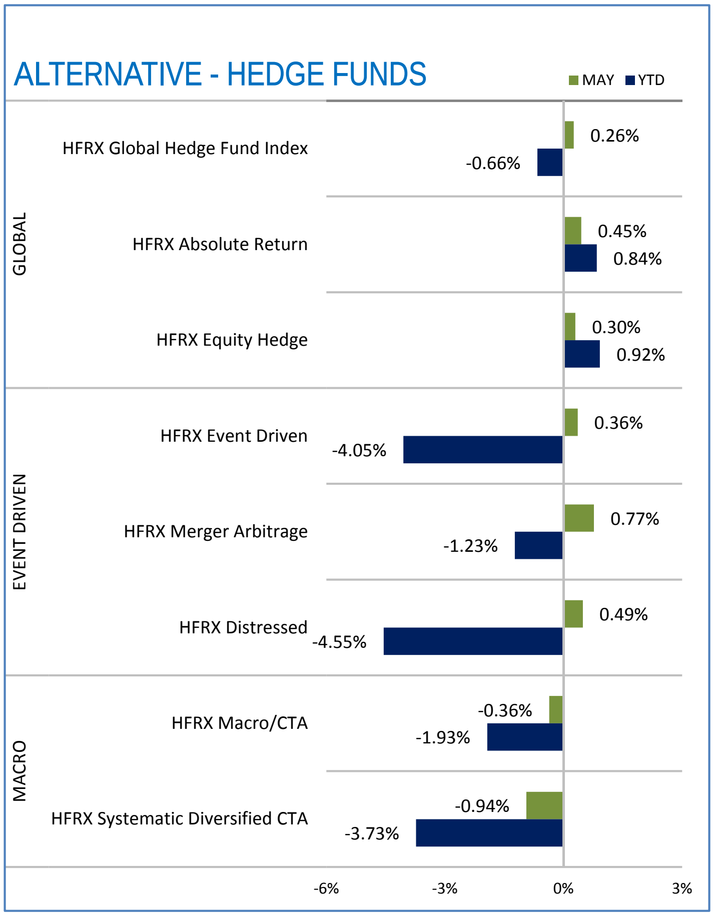
Roller Coaster Ride For Treasuries

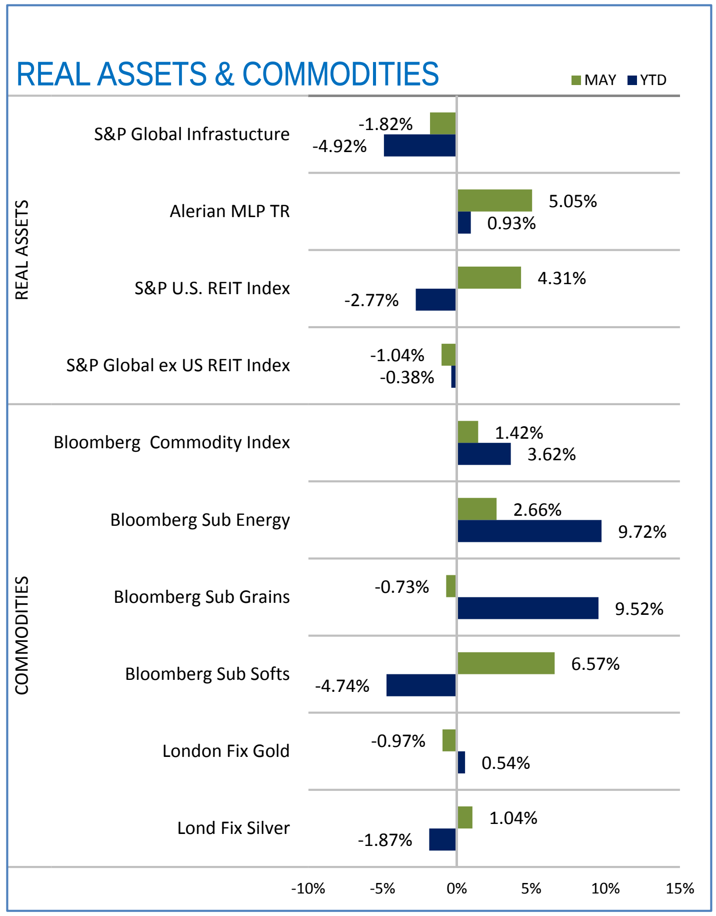
Yields rose early in May, reaching a high of 3.11%, the highest level since July 2011, before reversing to close lower then where they started. Yields rose on the back on strong economic data, including an unemployment rate of 3.8%, the lowest reading in 18 years. However, the reversal was sparked by less aggressive Fed commentary, political developments in Europe, and global growth concerns sparked by ongoing trade negotiations. All of the turmoil benefitted bonds as the Barclays U.S. Aggregate Bond Index gained 0.71% for the month.

Munis Gain Amidst Low Supply

The municipal market continued to benefit from relatively light supply as YTD issuance through May is 22% below last year's pace. New money borrowing is actually up 18% compared to last year, but refundings have fallen more than 50%, significantly impacting supply. Falling yields generated positive returns across all portions of the municipal market in May as the Baclays Municipal Index gained 1.15%. Longer maturities outperformed shorter segments of the yield curve and lower quality credits outperformed higher quality.

ALTERNATIVES: Volume, Oil, and Earnings Propel MLPs





Macro Strategies Struggle

Hedge funds generally gained in May despite increased volatility due to European elections and new tariff and trade proposals. The HFRX Global Hedge Fund Index gained 0.26% for the month, but remains in negative territory YTD. Global Macro strategies struggled as the HFRX Macro/CTA Index and HFRX Systematic Diversified CTA Index declined 0.36% and 0.94% respectively.

MLPs Come Roaring Back

Master limited partnerships (MLPs), as measured by the Alerian MLP Index gained 5.05% on a total return basis in May, marking the second positive performance month in a row. The 13.55% gain in April and May is the index's best two month performance since the same period in 2016. On a YTD basis, the Alerian MLP Index has now gained 0.93% after falling more than 11% in the first three months of the year. The continued recovery in oil prices, better than expected volumes, and strong earnings and distribution growth have benefitted the sector.