
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

**QUARTERLY COMMENTARY** **Q1**

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With a new President inaugurated and a torrent of Executive Orders issued, financial markets rapidly tried to discount in the winners and losers of the new administration's policies. The "Trump Rally" turned into flailing volatility, as every new action or statement made stocks, and even complete sectors, shift in the confusion around Wall Street.

We have noted prior that the biggest event in markets is the passing of the inflection point of a declining rate environment into a rising interest rate environment. Just as markets do not go in straight lines, interest rates will not either. The Federal Reserve raised rates by 0.25% and signaled that it would continue carefully in the same direction. Now it is widely anticipated that we will see 2 and maybe even 3 additional rate increases over the next 12 to 18 months, depending on whether real growth and inflation show up in a sustained fashion.

Though seemingly innocuous, these gradual rate increases at some point may become a headwind for the markets, rather than a perceived tail wind for banks resulting as a positive signal on the economy. The late Marty Zweig's belief of "don't fight the Fed" comes to mind as we think through how markets may react if the Fed does continue to raise rates.

The biggest question domestic markets are seeming to grapple with now is the outcome of the new administration's fiscal stimulus and tax policies. Does repatriation of the vast hordes of corporate cash held abroad actually happen? If so, does this create a virtuous cycle of capital expenditures and investment spurring growth in the US economy? Does a Border Adjustment Tax start a trade war and sow the seeds of disaster as the Smoot-Hawley Tariff Act did in the post-depression recovery? Do the simulative fiscal projects proposed by the new administration spur hoped for economic growth across the economy?

The remainder of the year is surely to have a bit of volatility as the markets digest this and the geopolitical landscape. The economic condition of EU member countries, the notable rise of populist sentiment, and the increasingly fractured manner in which member countries wrestle through pressing issues assuredly provides for a fair degree of uncertainty. Trade policies and partnerships, economic stability, immigration, technological advancement, and national sovereignty are among the ponderous issues at the core of this turmoil. And of course worries of the escalation of terrorism and the increased tensions with North Korea could yield additional unpredictable outcomes.

Though we have never been proponents of making market predictions, we think that this year we could see the "sell in May and go away" seasonal effect hold true, especially as markets try and digest the gains from the Trump Rally and the backdrop of global geopolitical uncertainty. Though we still believe we are in a secular bull market, we note that advances are usually accompanied by periods of consolidation and correction.

*continued on page 2*

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From a fundamental basis, the oil and gas export story and picture appears to be strong, making oil and gas infrastructure an attractive multi-year place to utilize capital. We believe the rising rate environment should inject profit into the financial sector with broad effects and potential profits for investors. Demographics and attractive valuations should yield long-term opportunities to patient and selective health care investments. Finally, it is our belief the disruption caused by evolving purchase and delivery channels should create a new landscape in consumer brands and retail that investors may profit from by being forward thinking and agile. Regardless of the market's run, and the potential for future volatility, we believe that we will find good investment opportunities for our investment strategy.

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