18 AM US Passive Ethical Equity Highlights

The 18 AM US Passive Ethical Strategy provides a client with the returns of the S&P 500 +/- the returns of stocks prohibited by the client's Investment Policy Statement. As a separate account solution, the strategy is customized to each client's specific ethical prohibitions. Highlights shown for the 18 AM US Passive Ethical Equity Portfolio are for the strategy's representative account, which prohibits exposure to Alcohol and Tobacco stocks.

For Q2, the 18 AM US Passive Ethical Equity Portfolio had a return of 3.65% in $US versus the benchmark return of 3.43%. During Q2, the Canadian dollar declined by 1.9%, moving from 77.6 cents to 76.1 cents. In Canadian dollars, the portfolio's return for the quarter was 5.65% versus the S&P 500 return of 5.42%. The portfolio's zero exposure to Alcohol and Tobacco stocks had a slight positive effect on the portfolio's return. During Q2, all Alcohol and Tobacco stocks declined. Philip Morris had the worst return (down 17.6%). Constellation Brands had the best return, a loss of 3.7%.

Market Overview

The total return of the S&P 500 was 3.43% for Q2. On the stock front, stocks with Q2 gains outpaced losers by a 3 to 2 margin. In Q2, winning stocks were led by Advanced Micro Devices (computer graphics chips), which was up 49% on strong demand from crypto-currency miners. Under Armour (sports apparel) enjoyed a 47% Q2 gain as earnings reported during the quarter provided optimism about the company's turnaround initiatives. Devon Energy Corp, up 38% for the quarter, led a number of energy stocks experiencing healthy gains. Notable Q2 losers were led by Nektar Therapeutics, (a pharmaceutical research company), which had a single day drop of 42% and was down over 50% for the quarter on news that their experimental melanoma drug is not showing positive patient results.

As to industry sectors, 7 of the 11 industry sectors experienced positive Q2 returns. Energy (up 13.5%), Consumer Discretionary (up 8.1%) and Info Tech (up 7.1%) had the biggest gains. Only 6 of the 32 Energy stocks in the index had negative Q2 returns. Meanwhile, 23 Energy stocks had double-digit gains. Oil and Gas Exploration companies led the way, buoyed by rising crude prices. Losing sectors were Telecomm Services (-0.9%), Consumer Staples (-1.5%), Industrials (-3.2%) and Financials (-3.2%).

Earnings continue to be a market driver – Earnings growth remains strong in the United States. Q1 operating earnings (reported in April and May) for the S&P 500 of $36.54 were the highest quarterly earnings level ever recorded. This was the fourth record-setting quarter in a row. These quarterly earnings represent a 27% increase versus levels achieved in Q1 2017. Earnings in the last four reported quarters are up over 19% versus the reported earnings of the preceding four quarters. S&P 500 earnings for Q2 2018 (reported in July and August) are forecast to be $38.69, another record quarterly level. In fact, Wall Street analysts are expecting each successive quarter in 2018 to establish a new quarterly earnings record. Earnings forecasts for 2018 project a 27% growth rate over calendar 2017. Despite the strong earnings, the S&P 500 is trading at a price to earnings ("PE") multiple of 16.1 times, exactly equal to the 25-year average PE for the S&P 500, suggesting that the market is not aggressively valued.

Performance is shown gross of all fees. Performance data is historical and not indicative of future performance. Returns are annualized for periods greater than 1 year. The benchmark for the fund is the S&P 500 Total Return Index. This document is for information purposes only.