With the significant divergence in global equity indexes for the 2nd quarter instigated primarily by tariffs and escalating rhetoric - the United States and China are momentarily locked in protracted negotiations. The impact globally has been widespread, with equity markets reacting in accordance. The United States is to date fairing relatively well if the equity markets are utilized as an indicator. The Dow Jones Industrial Average is lower by 1.81% YTD, while China's main equity benchmark index is down over 15% YTD. Lost in the headlines we find Europe, whose already fragile economies could be impacted to a greater extent than China or the United States. In the near term, there are unfortunately significant impacts on businesses of all sizes here and abroad that are coping with higher input costs and/ or decreasing sales. Resolution to this dilemma will arrive in the form of compromise or self correcting economic mechanisms adjusting to new trade flows, or a combination of both. The trade dispute will be resolved.

Inflation increased at a 2% annualized clip, implying that the US economy is on a firmer foundation after a prolonged period of slow growth post credit crisis. Strong wage growth and resultant spending is squeezing any slack out of the economy. While generally considered burdensome on consumers (higher loan costs along with higher costs for goods and services), the fed believes controlled inflation is key for healthy economic growth over time. The fed target is 2%, which was achieved for May, the latest monthly reading. Personal consumption has been trending higher since February, cemented this morning in the PCE report - personal consumption expenditures. The twelve month move higher in PCE calculates out as the largest year over year increase since March 2012. A quarterly survey for the manufacturing sector by the National Association of Manufactures highlights a positive outlook for 95.1% of their companies, the highest in twenty years.

Reviewing the housing sector as a critical component to the overall health of our economic growth is prudent. Housing starts are up over 20% year over year, assisted by an apartment boom. The commerce department reported a seasonally adjusted rate of 1.35 million new units. The influx of new supply is putting the brakes on rental rate increases. For reasons that are difficult to discern, there is weakening demand for apartments. The probable explanation - millennials are marrying and starting families, and so buying homes. Balancing this statistic is the National Association of Realtors reporting a drop of .4% for existing home sales to a seasonally adjusted rate of 5.43 million units in the prior month, below analysts' estimates. While existing home sales make up 90% of total housing sales, this sector has displayed year over year drops for the last three months. It could be millennials are generally opting for new construction. If so, this might mitigate some of the interest rate worries for home builders.

The generally positive backdrop is overshadowed by the growing trade tensions. Tariffs and related discussions have created fear and uncertainty, two inputs which equity markets do not respond well to. Retaliatory measures are being taken by China and other trading partners in response to US imposed tariffs. The trade deficit with China is heavily weighted against the US. China therefore has far less fire power in the imposition of tariffs on US exports. As imports are significantly lower for China relative to exports, the ability to impose tariffs on their imports is limited, the ratio being approximately $5 exported for every $1 imported. Measures outside of tariffs can be implemented through directed policy. One tool for China is a weaker Yuan, boosting exports and making American imports more expensive. Another tactic might involve selling a portion of the $1 Trillion in US government debt held by China, driving our interest rates higher. This is deemed unlikely. Economic forces, which are typically a larger factor than targeted policy, have in part driven the Yuan lower over the last several weeks. YTD, the Yuan is basically flat.

An administrative note: Initiating July 1st Ramsdell Capital will be offering Charles Schwab Institutional as an alternate custodian. Details will follow in a separate correspondence. The option was prompted by lower trade rates at Schwab Institutional, along with significantly better interest rates on money market funds. Schwab monthly statements and online access will provide supplemental account information which many will find useful. Going forward, TD Ameritrade and Charles Schwab will be available as custodians. Thank you.

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