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Stocks were strong in July. The S&P 500 finished up 3.7% for the month and is up 7.7% year-to-date through the end of July. More importantly, the S&P 500 broke through its trading range and reached a new all-time high. The previous high was reached more than a year earlier in May 2015. The Small Cap Russell 2000 index performed even better with a gain of 6.0% in July and a gain of 8.3% year-to-date. International stocks in the MSCI EAFE index were up 5.1% for the month bringing their year-to-date return into positive territory at 0.4%. On Brexit fears, the ten-year US Treasury yield reached a new low of 1.36% before finishing the month at 1.46%.

The full extent of any fallout from Brexit is still unknown, but global fears have mostly subsided. Many believe that although the UK will be impacted negatively in the short-term, it will not have a large global impact. It will take time for the UK to get trade agreements in place, but many analysts now seem to think that they will and that broader Europe will avoid a recession. Oil prices have weakened and gold prices have strengthened since the vote.

The US political scene has been the focus of the media. It seems neither party is united behind their candidate. However, the uncertainty has not been felt in the markets significantly.

Second quarter GDP growth is currently estimated to be 1.2% in preliminary readings. Housing has remained in an uptrend and the US appears to be at full employment with growing wages. Consumer spending was especially strong during the quarter.

Strategas Research believes the US will muddle through with slow growth but notes that countries do not muddle through indefinitely. They cite that when GDP is growing at less than 2%, it is difficult to support both capital investment and wage growth which pressures margins and profits. Monetary policy could cause more harm than good if measures like credit easing, debt forgiveness or negative interest rates were implemented during this time. Alternatively, fiscal stimulus could help if productivity could be increased.

Of the companies in the S&P 500 that have reported so far, earnings for the second quarter 2016 fell -4.7% versus the same quarter of 2015. This is the fifth quarter in a row with negative growth year-over-year. Analysts still expect earnings to improve in coming quarters as the drag from the energy sector due to falling energy prices is reversed.

The Fed has continued to talk about resuming their plans to raise short-term interest rates. However, Fed officials are concerned about the Brexit and have indicated they want to make sure the labor market has not lost momentum. September is the earliest meeting where they could raise rates; however, December appears to be more likely.

Stock valuations are still stretched but technical analysts cite that the DJIA's breakout to new highs is a positive sign indicating that the market can continue to go higher with 18,000 forming a new support level. With bond yields low, many analysts are recommending stable stocks that pay dividends as an alternative to bonds. Diversification continues to be a prudent strategy. If you have questions regarding the strategy in your account, please do not hesitate to contact your advisor.