The first half of 2018 has played out much differently than last year. Volatility has been elevated, returns up-and-down and the relative tranquility of 2017 has disappeared. Year to date there have been three times as many days where the markets moved up or down 1% than in all of the prior year. With increased geopolitical risk, trade wars threats and rising protectionism/nativism, it would seem that the volatility is here to stay.

These heightened tensions, coupled with the Fed's willingness to continue with monetary tightening, have led short-term rates to almost double year-over-year. Consequently, prices among a number of asset classes, notably long-duration credit, high yield bonds, preferreds and dividend stocks, have fallen.

On a positive note, valuations are at a more reasonable level, for both stocks and bonds. Globally, forward P/E ratios have come down, driven by robust corporate earnings growth, especially domestically. The economic conditions that have supported markets over the past year still exist and are healthy; employment data, wages, manufacturing and moderate inflation all have read strongly over the past quarter. Despite modestly tighter financial and interest rate conditions, they remain, by historical standards, quite easy, which has helped to engender confidence within the business sector to increase capital expenditures and hire additional workers.

That being said, risks still exist. The coordinated global growth that drove market returns has shown some signs of weakness; Asia, Europe and emerging markets, which had benefited from a weak US dollar, have seen some of that tailwind reversed, as the dollar rose roughly 5% versus a basket of global currencies, in Q2. Concerns also abound in regards to escalating trade tensions and the potential impact that isolationist policies among the world's largest economies might have on global growth, as a whole.

Nonetheless, opportunities still exist and we believe that a healthy dose of caution, combined with discipline and patience, will be rewarded. We remain well positioned to take advantage of rising rates, favoring short-duration, floating rate and less rate-sensitive credit instruments. Similarly, our domestic equity focus, particularly our overweight to the technology and healthcare sectors, has been a strong driver of returns, year-to-date. Also, despite our international holdings (of which European equities make up the bulk) facing some near-term headwinds, they continue to offer above-market yields. Given the backdrop, we do not expect another 2017, but are confident in achieving mid-to-upper single digit returns, squarely within our stated investment objectives.

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