



Economic Summary

The juggernaut that is the U.S. economy continued to roll, as it entered its ninth consecutive year of economic expansion. Until recently, growth has been modest, but recent success can be attributed to the Tax Cuts and Jobs Act of 2017, Federal Government deregulation, and record high levels of business and consumer confidence. All have contributed to the recent strength in the U.S. economy and stock market in 2018.

Forward-looking soft economic data continues to register at, or near, all-time highs. U.S. Consumer Confidence (CHART 1) is near its all-time high.

Other measures, such as Small Business Optimism and CEO Confidence, are also at, or near, all-time highs. Two of the most watched soft data points are the ISM Manufacturing PMI and the ISM Non-Manufacturing NMI. Both indexes survey over 400 companies, asking questions regarding their business and outlook on the economy. Currently, the ISM Manufacturing PMI is at 59.8, and the ISM Non-Manufacturing NMI is 61.6. A reading above 50 is regarded as expansionary and over 60 is highly expansionary. Current U.S. economic data is very strong and the outlook continues to be positive.

Hard economic data measures what has already happened in the economy for a given period. These indexes measure unemployment, Gross Domestic Product, inflation and other measurable activities



Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – OCTOBER 1, 2018

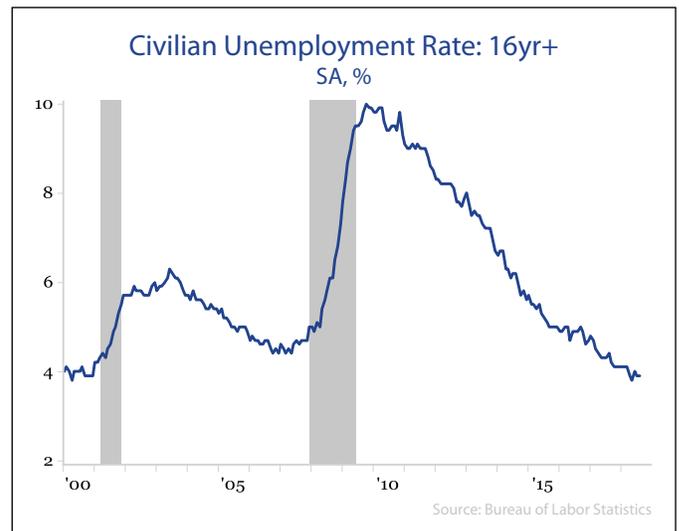


Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"ECONOMICS BALANCE SHEET" – OCTOBER 1, 2018

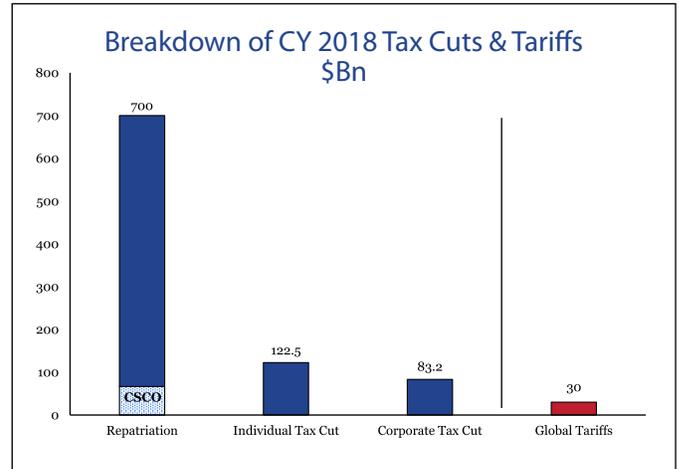
Past performance does not guarantee future results.

in the economy. The unemployment rate (CHART 2) is at a historically and once unthinkable low of 3.8%.

Real GDP was up 4.2% quarter-over-quarter, which is dramatically higher than the roughly 2% reading over the past several years. Inflation is now running above the Federal Reserve's 2% target. This has enabled the Federal Reserve to start normalizing short-term interest rates, after a long period of "emergency" low rates which were the Fed's response to the financial crisis.

One has to be concerned about tariffs and their impact on the economy. However it's important to keep in mind that the fiscal stimulus enacted in late 2017 (CHART 3) has greatly outweighed the negative effects of tariffs enacted so far.

Another area of concern is the flatness of the yield curve. The last three recessions (CHART 4) have been preceded by an inversion of the yield curve (WHEN THE 10-YEAR TREASURY YIELDS LESS THAN THE 2-YEAR TREASURY), as higher short-term rates choke off borrowing and economic expansion. We're watching carefully but headwinds facing the economy are outnumbered by tailwinds.


Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
 "QUARTERLY REVIEW IN CHARTS" — OCTOBER 1, 2018


Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
 "QUARTERLY REVIEW IN CHARTS" — OCTOBER 1, 2018

Past performance does not guarantee future results.

The Bond Market

During the third quarter, the Federal Reserve raised the Fed Funds rate for the third time this year. It seems likely they will raise it again in December, bringing the target range between 2.25% and 2.50%. Additionally, the Fed continues to work down its balance sheet, which had grown to over \$4 trillion. As monetary policy is being scaled back, fiscal policy (TAX RATE CUTS & FEDERAL SPENDING) continues to inflate the federal debt. Typically, deficit spending is used to stimulate the economy in recessionary periods (CHART 5), not when the economy is entering the ninth year of expansion. This sets up an interesting dynamic, with slightly higher inflation, increased supply of government debt, and the Fed increasing short-term rates at the same time, all of which does not bode well for the bond market. Long maturity bond prices remain more vulnerable than short maturity issues.

The yield on the 10-year U.S. Treasury Note ended the third quarter north of 3%. In the past few years, the 10-year yield has pushed up against the 3% level several times, but then retreated. Perhaps with the current strong economy, the 10-year treasury yield will meaningfully break above 3%.

Corporate credit spreads tightened in the third quarter, as earnings and repatriated money flows surprised to the upside. During the first half of the year, spreads widened, offering investors an attractive opportunity to purchase high-quality, short-maturity corporate bonds. With spreads tightening again, we are exercising extra caution in the credit markets with respect to quality and maturity when managing bond portfolios.

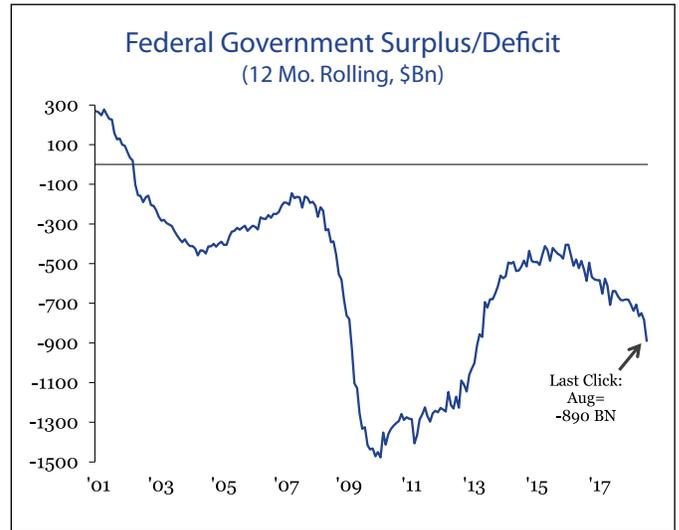


Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
 "QUARTERLY REVIEW IN CHARTS" — OCTOBER 1, 2018

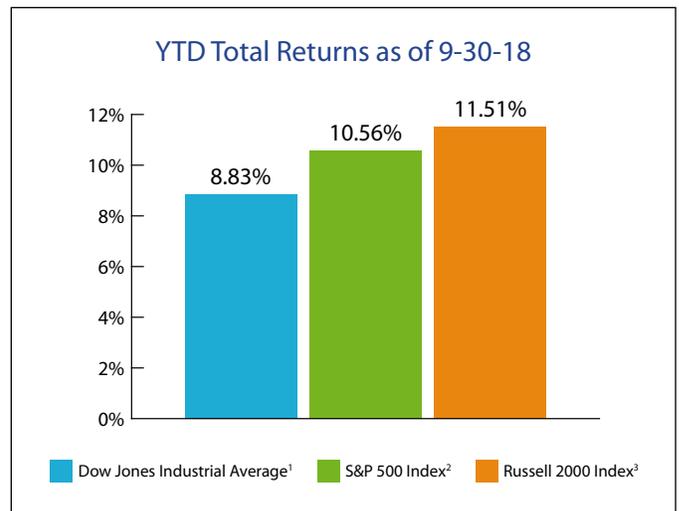


Chart 6

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

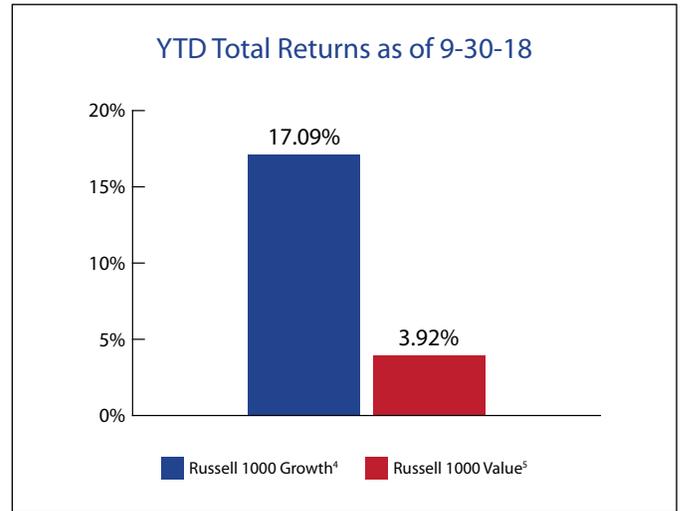
¹ The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

² The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

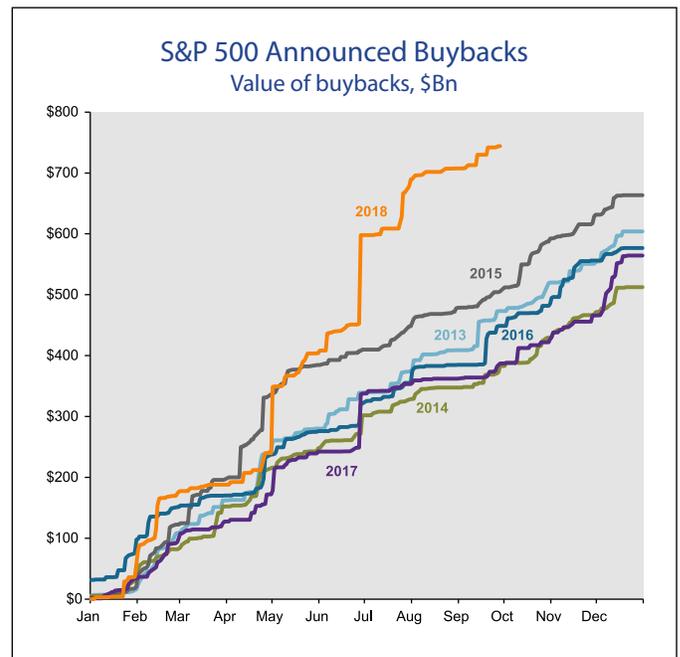
³ The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

The Stock Market

It was an exceptional quarter for equity returns, as large-cap companies outperformed small-caps, and growth continued to outperform value (CHART 6). This chart shows year-to-date small-cap companies have modestly outperformed large-caps. Noteworthy is the large discrepancy in performance between growth and value stocks (CHART 7). The outperformance can be attributed to sector weightings, and more specifically, the large concentration and performance of FAANG stocks (FACEBOOK, APPLE, AMAZON, NETFLIX AND ALPHABET PARENT COMPANY OF GOOGLE). The fundamentals of the U.S. equity market continue to look good. Corporate earnings for the third and fourth quarters are forecasted to rise 20% year-over-year. Additionally, over \$700 billion of share buybacks have been announced, in 2018 (CHART 8). Dividends paid by S&P 500 companies have also increased 8.2% year-over-year in the third quarter. Equity market valuations are in line with historical averages.


Chart 7

SOURCE: MORNINGSTAR DIRECT


Chart 8

SOURCE: J.P. MORGAN

"GUIDE TO THE MARKETS" - SEPTEMBER 9, 2018

Past performance does not guarantee future results. You cannot invest directly in an index.

⁴The Russell 1000[®] Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000[®] companies with higher price-to-book ratios and higher forecasted growth values.

⁵The Russell 1000[®] Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000[®] companies with lower price-to-book ratios and lower expected growth values.



AVE MARIA
MUTUAL FUNDS

MARKET COMMENTARY - Q3 2018

Past performance does not guarantee future results.

Schwartz Investment Counsel, Inc., a registered investment adviser established in 1980, serves as investment adviser for Ave Maria Mutual Funds and invests only in securities that meet the Funds' investment and religious requirements. The returns may be lower or higher than if decisions were based solely on investment considerations. The Funds' method of security selection may or may not be successful and the Funds may underperform or outperform the stock market as a whole. All mutual funds are subject to market risk, including possible loss of principal.

Request a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. The prospectus can be obtained by calling 1-866-283-6274 or it can be viewed at www.avemariafunds.com. Distributed by Ultimus Fund Distributors, LLC.