AVE MARIA MUTUAL FUNDS

MARKET COMMENTARY – Q1 2018

The Stock Market

For the first quarter, the S&P 500 Index returned -0.76% (CHART 1), the first negative return of the last ten quarters. The Technology and Consumer Discretionary Sectors generated positive returns for the quarter and were the only two that performed better than the Index. The quarter's weakest sectors were: Telecommunications, Staples, Energy and Materials. All declined by more than 5%.

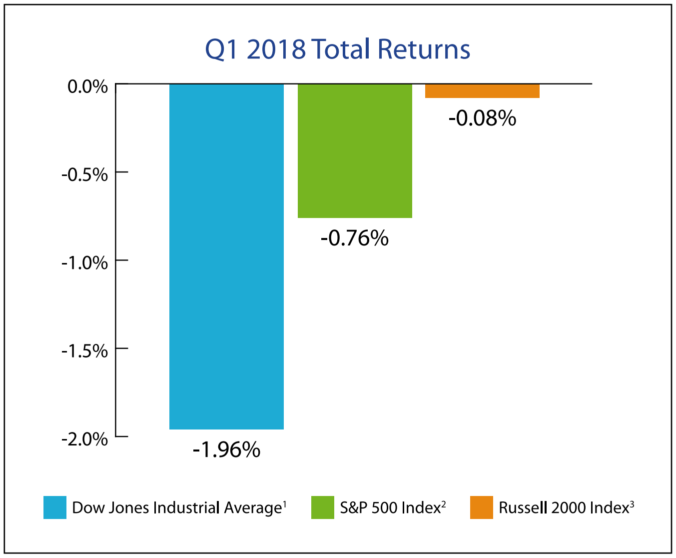

Chart 1

SOURCE: MORNINGSTAR DIRECT

In stark contrast to last year's record setting 12 consecutive up months, the first quarter market gave notice that things have changed. After sprinting ahead 7.5% to an all-time high on January 26th, the S&P 500 has experienced more than a dozen plus or minus 2% moves versus zero such moves in all of last year. The sudden rise in market volatility is evident in the chart to the right (CHART 2).

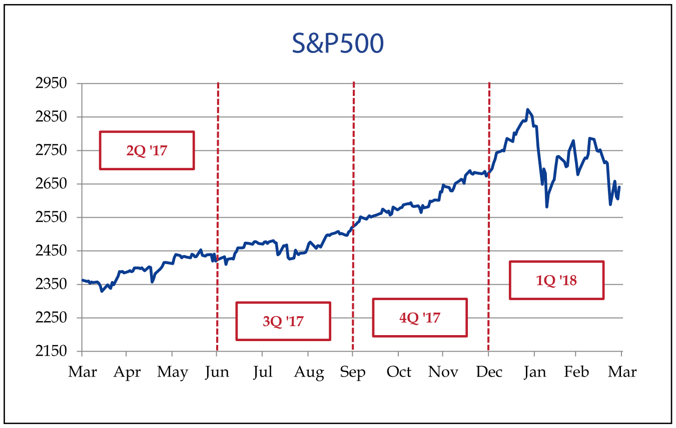

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS, "QUARTERLY REVIEW IN CHARTS" — APRIL 2, 2018

So, what has changed? First, last year's lack of volatility was highly unusual. Short-term market gyrations are more the norm. Second, we are nine years into this market recovery so investors could be more sensitive to negative developments. And they see a number of potential issues to worry about. Trump's follow through on campaign promises to renegotiate terms of international trade has resulted in proposed tariffs and trade sanctions. The seemingly endless investigation of Russian election meddling has reached new heights. News headlines on data breaches

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.

and the misappropriation of personal information by Facebook has resulted in Congressional hearings that could bring more oversight to tech and social media companies. Finally, upcoming mid-term elections have also created some angst. Don't be surprised if high levels of both positive and negative volatility continue this year. This volatility may create opportunity for value investors.

The Bond Market

As expected, the Federal Reserve recently raised the Fed Funds target rate to 1.75% versus 1.5% at year-end. Furthermore, they indicated that at least two more rate bumps are likely in 2018. During the quarter, the yield on the ten-year Treasury Bond increased from 2.41% to 2.74%. Bond investors' long-term inflation outlook remains sanguine as evidenced by the 2.94% yield on the 30-year Treasury. In our view, economic growth, as well as monetary and fiscal policy pressures, will likely take inflation and interest rates higher. At low nominal interest rates bond returns are very sensitive to rate movements. For instance, in the first quarter, the 0.33% increase in the 10-year Treasury Bond yield resulted in a negative 2.39% rate of return. That small rate change nearly negated a full year of income from the Treasury Bond. The first quarter was the first time since 2008 where both bonds and stocks delivered negative returns.

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The Economy

We expect that real U.S. GDP growth will accelerate from 2.5% in the fourth quarter of 2017 to about 3.0-3.5% for 2018. The full impact of tax cuts, fiscal stimulus from the budget bill, corporate profit repatriation, and the benefits from deregulation will kick in as the year progresses. S&P operating earnings were up about 10% in 2017 after paltry growth for the three prior years.

In 2018, profit growth could be up 15-20%. In March, the number of Americans filing new applications for unemployment benefits fell to the lowest level since 1969. The unemployment rate held steady around 4.1%, the lowest since 2000. Business confidence remains high. Household formations are rising at a healthy clip. Consumer Price Inflation has moved back up to 1.8%. Small businesses are finally gaining pricing power (CHART 3) as operating rates have spiked to the highest rate this decade (CHART 4).

Hours worked and average hourly earnings are hitting new recovery highs. This all points to better profits and likely higher inflation. Qualified workers are getting harder to find. Lower corporate taxes will bring massive amounts of cash held overseas back to be invested in the U.S. Capital investment plans are surging (CHART 5). This should result in more hiring and higher productivity allowing wage and profit growth to continue.

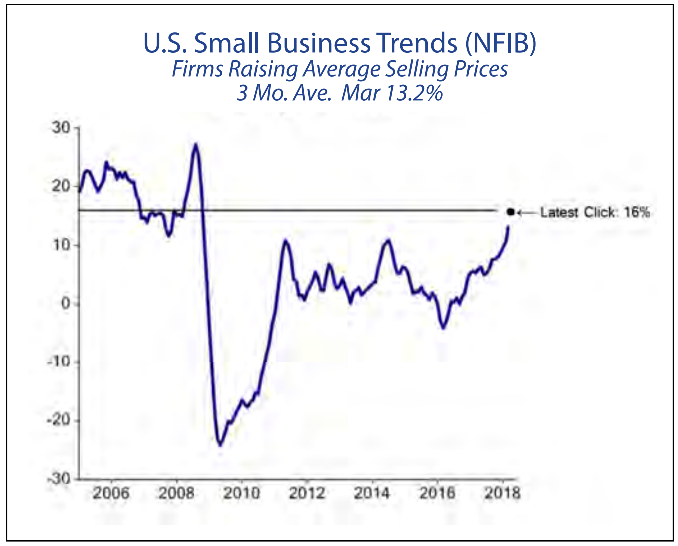

Chart 3

SOURCE: EVERCORE ISI
"MORNING ECONOMIC REPORT" — APRIL 10, 2018

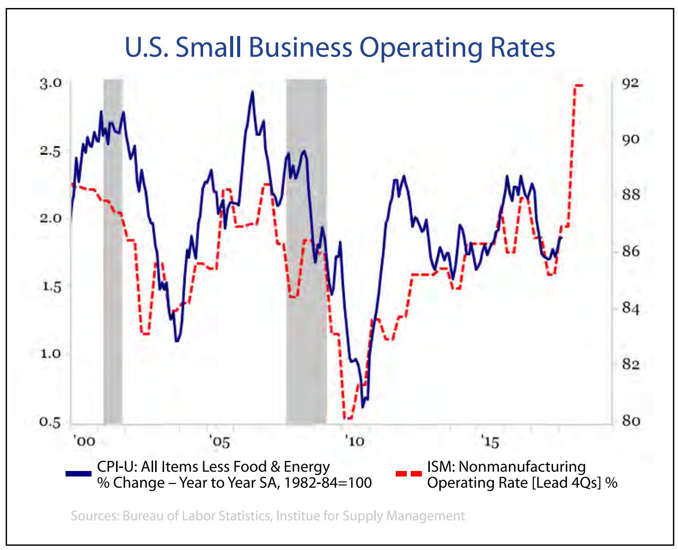

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — APRIL 2, 2018

Politics

Mid-term elections always increase investors' focus on Washington. Republican majorities in Congress are at risk, plus there is all the sturm und drang in and around the White House. Given the President's low approval rating, the odds of Democrats taking control of the House are real. Republican control of the Senate is still likely, but highly subject to developments over the next six months. Events pertaining to the Mueller investigation only add to the drama. Continued shakeups in Trump's cabinet and staff are also disquieting. The designations of Mike Pompeo as Secretary of State and John Bolton as National Security Advisor point to a hard line on Korea and the Iran Nuclear Deal which the President has called "an embarrassment to the United States." The Syrian war and the power struggle between Saudi Arabia and Iran also hold the potential for major power shifts in the Middle East. Front and center are the proposed trade tariffs. To keep things in perspective, note that so far the proposed tariffs amount to an estimated $81.5 billion and are dwarfed by fiscal policy initiatives already enacted which total an $800 billion benefit for 2018.

The good news is that in mid-term election years over the last 24 years, the stock market on average has been weakest in the run up to elections and then rebounds to finish the year higher than it began (CHART 6).

Recent events in Washington have surely produced short term volatility in the capital markets, but should not alter the positive long-term outlook that serious investors must keep in focus.

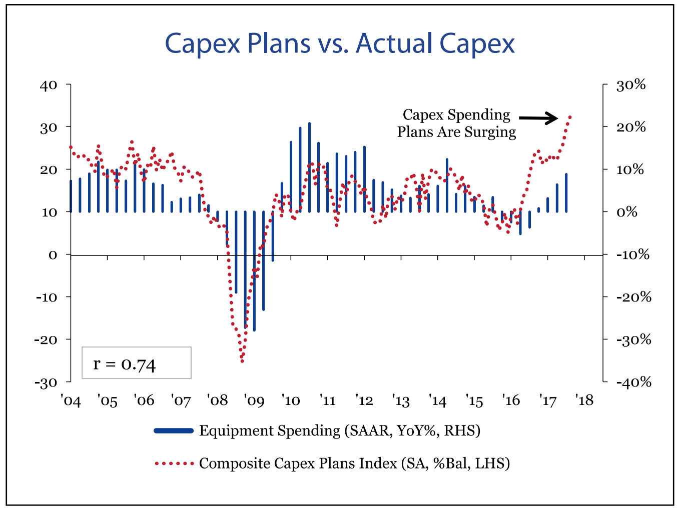

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — APRIL 2, 2018

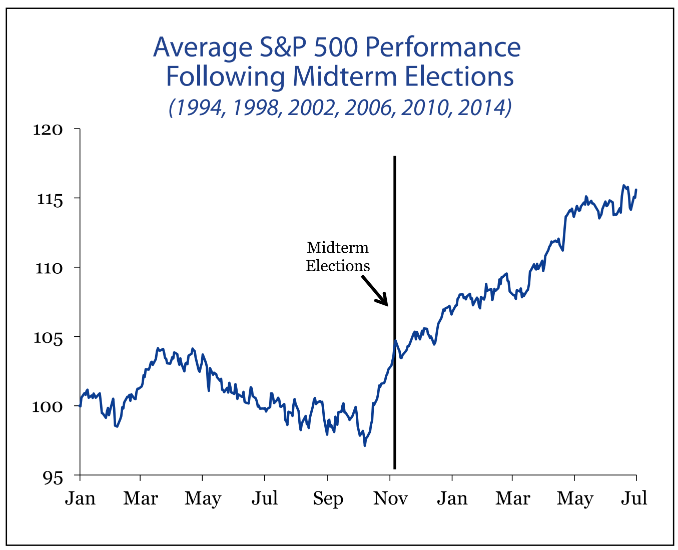

Chart 6

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — APRIL 2, 2018

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