BULLS&BEARS

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June 2019

The Seesaw Continues

Investors have applauded the strong performance of equities, as measured by the S&P 500, thus far in the third week of June. At first glance, performance seems somewhat satisfying on the surface, since the index recently claimed an all-time closing high of 2,954 on the heals of a better than 7 percent return month-to-date. Of course, this strong performance has done little more than offset the better than 6.5 percent loss experienced in May. Digging a little deeper, one may point out that the S&P 500 is still up over 17 percent on a year-to-date basis, a perfectly satisfactory performance for any full year, let alone the first half of the year. At the risk of sounding like a curmudgeon, I would point out that the year-to-date numbers may distract us from what little progress has been made in the intermediate term. For example, simply looking back to the beginning of September last year, we would be reminded that the market had reached a new high of over 2900. In other words, for all the action that has brought equities to new highs, this index is less than 2 percent higher than it was nine months ago. Of course, that is the "seesaw" nature of most markets.

Changing Geopolitics a Problem?

Over the years, investors have seen that geopolitical challenges throughout the world have certainly had an impact on the performance of markets, particularly in the valuation of stocks. Fortunately, a large portion of these "events" in recent years have tended to have a transitory impact. Our approach to investing around these events has been to perhaps make minor adjustments at best, but usually recognize that any impact is so short-lived that no action is the appropriate response. After all, we have always taken the longer-term view, recognizing that over time, earnings growth driven by a consistently supportive economic environment is much more impactful than quickly fading headlines. Under the current backdrop, we are starting to question whether some of the "noise" we used give little heed to may actually be starting to have a more fundamental and lasting impact on the earnings driver of market valuation. Certainly, slow progress toward relieving trade tensions appears to be having a direct impact on growth (i.e., due to higher tariffs) as well as an indirect one (i.e., uncertainty delays or cancels company investment plans).

A Fix? But When?

Given recent positive market action, it appears that investors are willing to give a pass on the "tariff" issue, apparently presuming that there is a fix in the not too distant future that will make everything "right" again. Markets also seem to be giving more credence to the probability, and value of, the Federal Reserve Open Market Committee (FOMC) making one or even two rate cuts before this year is out. Our concern is that, given the cracks that have started to appear in both the U.S. and many international economies, a persistent slowdown may be a challenge that is not easily addressed by minor rate cuts in an already low-rate environment. Additionally, we would question whether a trade fix and Fed rate action are not already built in assumptions that have helped move markets to current levels. The implication here is to wonder whether completion of these two "fixes" will help move markets much higher, leaving us to ponder the potential results of a "no fix" scenario. Thus, without running for cover, we feel that the potential for continued bouts of high volatility warrants some derisking of portfolios.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

6/21/19	Year-to-Date Change
S&P 500	17.70%
NASDAQ	21.05%
Russell 2000	14.78%

Interest Rates	6/21/19	12/31/18
10-Year Treasury Note	2.06%	2.68%
3-Month Treasury Bill	2.13%	2.45%

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