Newsletter

August 2019

COMMENTARY

Expectation is a strong belief that something will happen or become the future state. When that expectation is met, it frequently becomes a non-event. But, if the expectation is not met, there is usually a very strong reaction to the change. Picture a toddler with a set expectation of getting something they really want. What happens when that expectation is not met? An epic temper tantrum ensues. It's almost laughable at times. This is where the market was heading as we approached the highly anticipated, July 31st Federal Open Market Committee (FOMC) meeting.

Fed Chairman, Jerome Powell, did a great job communicating a rate cut for July and the majority of market participants expected and priced in a 25bps rate cut (which was the outcome). But, there was also a fraction of investors who had started to price in a 50bps rate cut. Was this the only factor that contributed to the selling on the day of the cut? No, but it was definitely a factor. The other factor that played a larger part of the selling on July 31st was that Jerome Powell's statement was not dovish enough. The Fed Chairman described the rate cut as a "mid-cycle adjustment" and did not indicate the Fed would be aggressively cutting rates in the future. Another 25bps rate cut is anticipated in September and there is a 50/50 chance of a third rate cut in December. One item that has not received much news coverage is the fact that the FOMC is ending its balance sheet reduction process two months ahead of schedule. There could be discussion about what the Fed should have or could have done, and those are fun water cooler debates. The more important question is: what does all of this information mean for portfolios going forward?

Our investment team is fairly bullish right now and believes there could be some upward movement in stocks over the next 6-12 months. Some of the reasons for that belief are that there are low long-term interest rates, an accommodating Fed, markets trading at all-time highs, and the lack of the excitement/euphoric feelings that are usually present at market tops. In the short-term (weeks-to-months), there could be some choppiness in the market and possibly a small pullback as a typically weaker season for stocks begins in August and September. Market breadth is not great, as small and mid-cap stocks are lagging large caps. If/when breadth begins to improve, there may be a really nice rally in the 4th quarter, and possibly a good run to start off 2020.

ECONOMIC HIGHLIGHTS

S&P 500	2,958.08
DIJA	26,864.27
NASDAQ	8,175.42
OIL	$58.58/barrel
GOLD	$1,437.80/ounce
10-YEAR TREASURY FIELD	2.02%
UNEMPLOYMENT	3.70%
GDP	2.10% (Q2 1st estimate)
CONSUMER PRICE INDEX (CPI)	0.1% (12 mo change +1.6%)
CORE CPI	0.3% (12 mo change +2.1%)

Retail Sales – June retail sales exceeded consensus expectations as the consumer is indicating with their spending, that this economy is strong. Consumer consumption is the main driver of the U.S. economy so this news is really positive.

Inflation – Personal Consumption Expenditures (PCE), Producer Price Index (PPI) and Consumer Price Index (CPI) are all tracking below 2.0% (Fed's target rate) which will become concerning if it continues for too long.

U.S. Dollar – The dollar continues to act strong which is lowering inflation by pushing commodity prices lower. This is also hurting the performance of our overweight call in International Emerging Markets.

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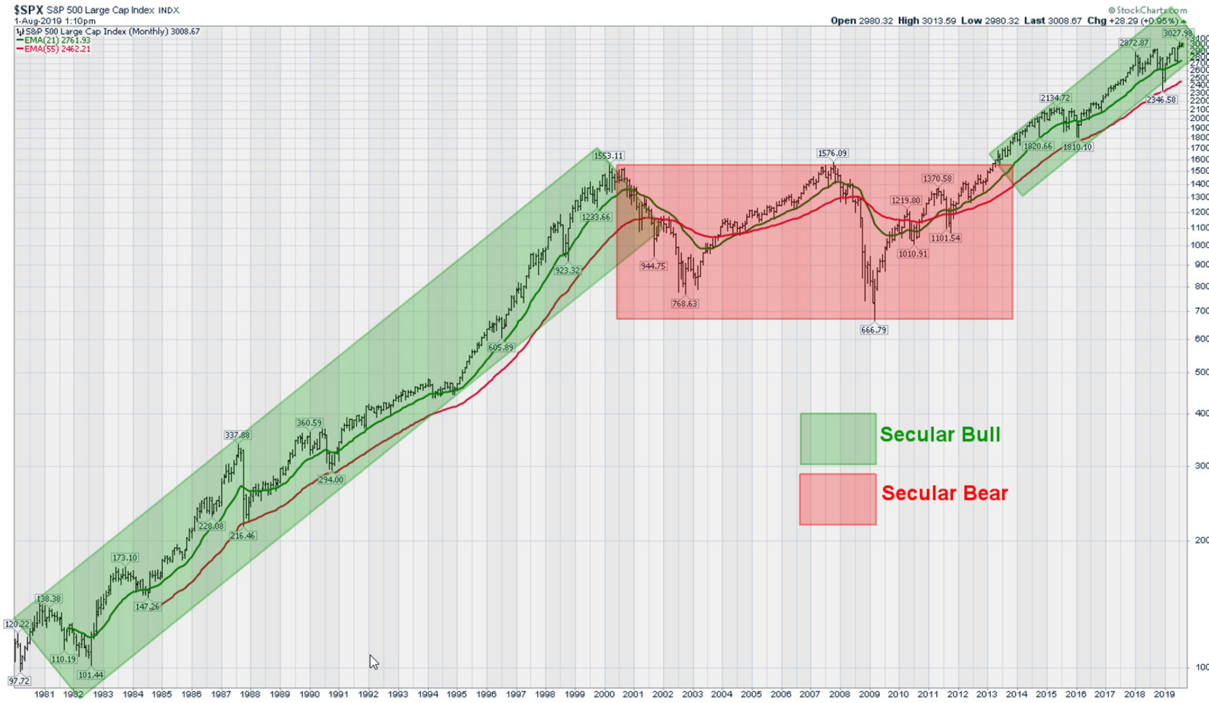
Our long-term view (multiple years) for equity markets is still bullish. The market is still in the middle part of a secular bull market, with the previous two secular bull markets lasting 17 years. Inside of a long-term secular bull market, a bear market and a recession is expected, but currently we do not project this for 2019. Our S&P 500 target at the beginning of the year is/was 2800, which is looking a little light. It is now revised to a S&P 500 target of 3200 (+7.3%) from the July 31st close. It looks like there is a chance of reaching that point before the end of the year. In Fixed Income, portfolios are maintaining over-weights in International and Floating Rate bonds. We will gradually be looking to move into U.S. Government Bonds and Mortgage-Backed Securities, as the fixed income position moves more conservative. Our research team is constantly evaluating our products and tactical positions inside both the fixed income portfolio and equity portfolio by looking at both larger trends and short-term opportunities. With daily monitoring of accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.



MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	1.69%	7.99%	13.36%	11.34%
MSCI EAFE	-0.44%	-2.60%	6.87%	2.39%
BAR AGG BOND	3.28%	8.08%	2.17%	3.05%

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