

Market Update

July 17, 2019

Still the Federal Reserve, Interest Rates, Earnings and China-U.S. Trade Driving Markets

Major Market Driving Theme: Federal Reserve Decisions and China Trade Negotiations

- In a busy week for Fed communication, Chair Powell gave his semiannual testimony to Congress where he confirmed that crosscurrents hitting the outlook would likely require some additional accommodation.
- The Fed Chair also noted that he doesn't see the labor market as particularly hot and, with wage growth subdued, has more room to run.
- Powell also noted the risk that weak inflation could prove more persistent than anticipated. That risk diminished somewhat with the June CPI report, which showed core inflation firming across both goods and services.

U.S. Equities Markets continue to find ways to new all-time highs. More recently the news out of the Federal Reserve has provided the catalyst for the recent movements in the major U.S. indices. Although negotiations with China are still on going and taking time the markets seem to prefer the positive rhetoric coming out of the Fed. A deal with China seems to be taking a back seat to Fed policy and earnings announcements.



Information in the chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness.

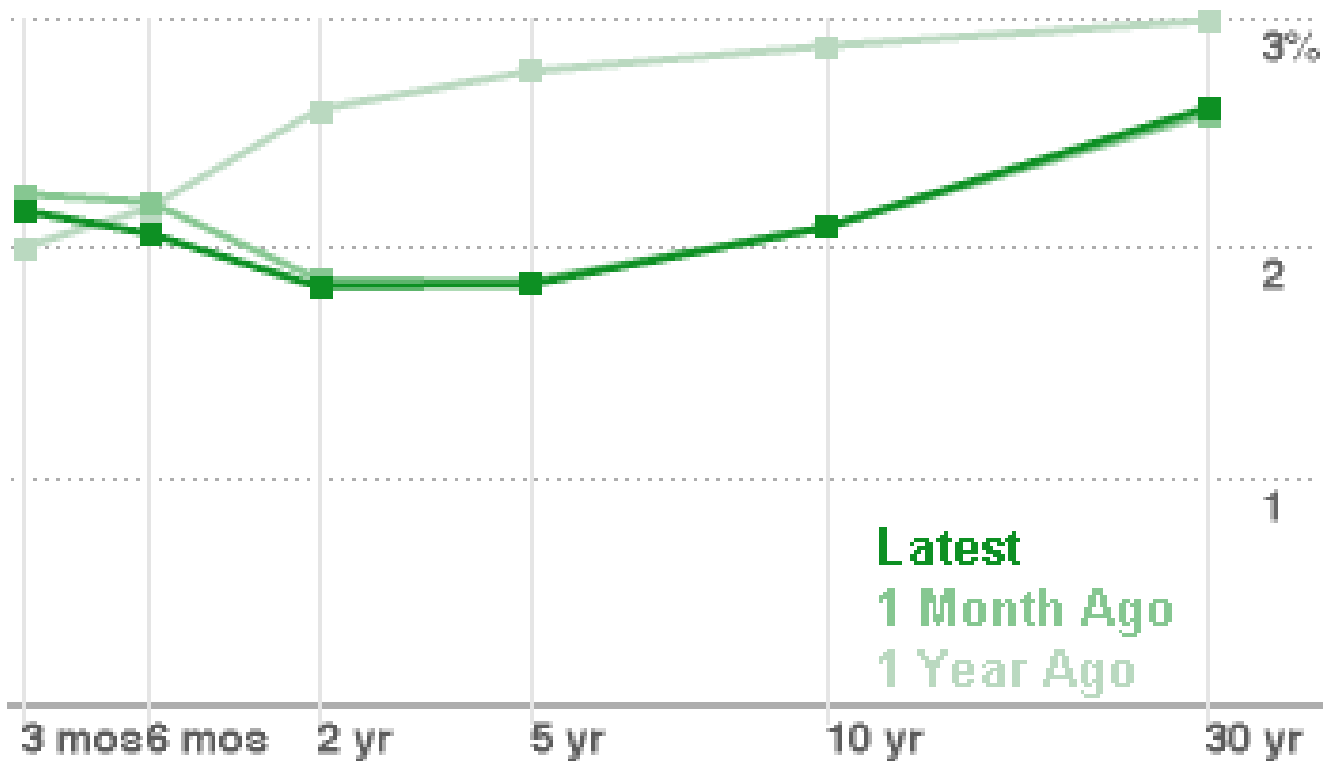
The July 31st Federal Reserve meeting on interest rate policy is highly anticipated and most feel a rate cut is forthcoming. The anticipation is for a 25-basis point rate cut. An important comment Fed Chairman Powel made

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recently was that the 3% wage growth, while better than the 2% of 5 years ago, is “barely keeping up with productivity.” Productivity growth has increased over the past year lowering the cost of adding workers relative to the output they produce.

Below, you will find the U.S. Treasury Yield Curve. We see that rates have ticked down a bit on the shorter end between 3 months and 2 years. This has added to the positive reaction in the equities markets as the inversion in the yield curve is showing some signs it could flatten out a little bit. Federal Reserve interest rate policy will continue to influence the yield curves shape. Some feel there could be as many as three rate reductions by the Federal Reserve before years end. This could go along way in reshaping the yield curve out of inversion on the front end and add more confidence into an already strong economy and equity market.



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Our belief is still that there are signs of a later stage economic environment. The biggest concern for the economy in the next 12 months continues to be the Federal Reserve interest rate decisions. Chinese trade issues could quickly turn into a positive if a deal is made. This would potentially create a reason for equities to rally.

Having a disciplined investment and risk management process regardless of market action is the foundational elements to our portfolio designs. It is this portion of the approach of portfolio management that helps



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consistently reduce the long run risk taken in a portfolio of investments. Speculating about near term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks currently. As we have stated in the past, value stocks tend to move more slowly in either direction when the markets react to stimulus. In later stage economic environments, a tactical shift to overweighting value type stocks can reduce portfolio risk. As we watch interest rate policy decisions from the Federal Reserve, we will evaluate our stance and potentially look to opportunities that exist in more of the growth areas of the market. These are areas we are looking at, to continue to make tactical changes, over the course of the coming months. We are currently neutral to bearish on fixed-income and interest rates. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-469-7254.



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