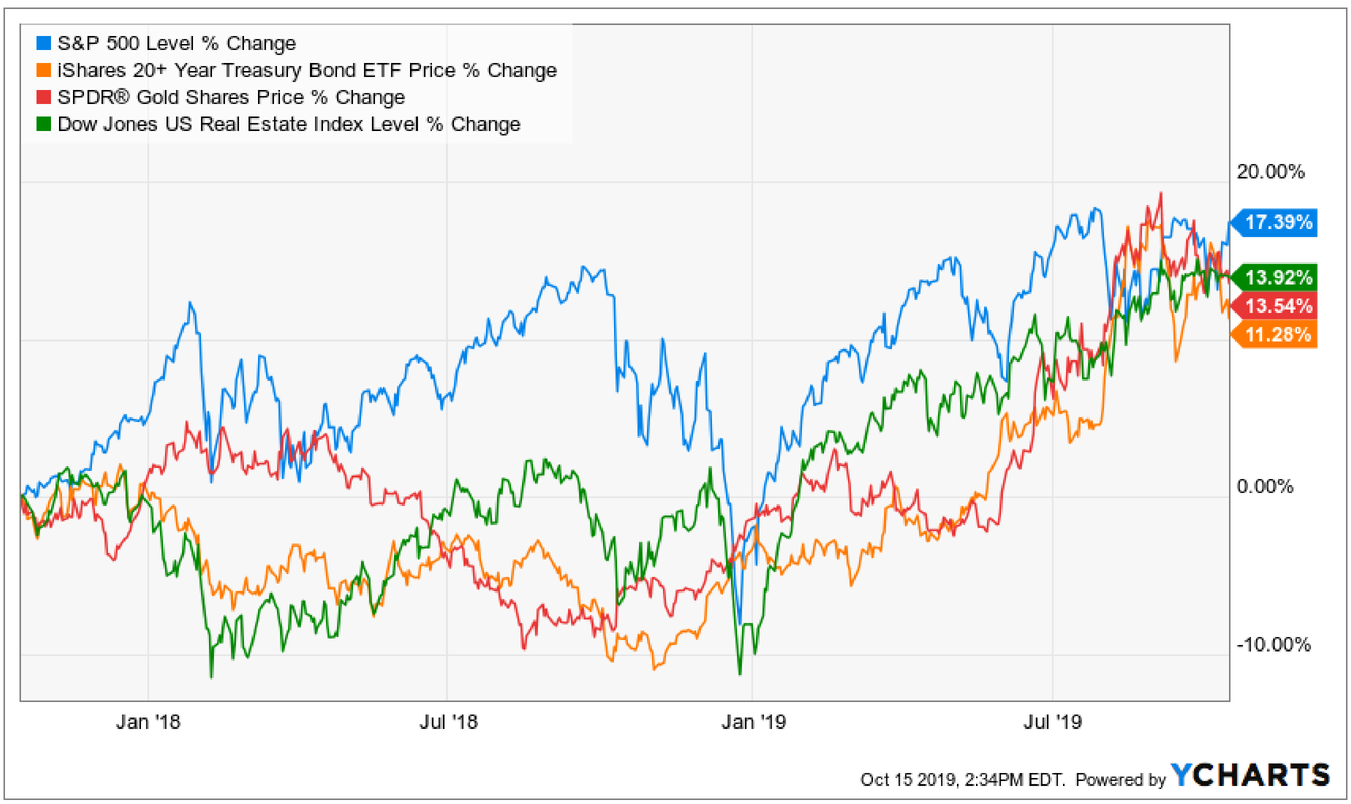
Market Update

October 15, 2019

Markets Near All Time Highs as a China Trade Deal is Still the Core Focus

- China and the U.S. seem to have made some progress, toward a phased trade deal. However, China has shown some hesitancy after the announcement, suggesting much more needs to be done before the deal is papered.
- Impeachment is certainly a concern for many, although the markets have not sold off, in anticipation, of the coming outcome.
- CPI report- confirmed that inflation remained tame in September. Both headline and core inflation registered a muted 0.1% increase on the month, leaving the readings flat on a year-over-year basis.
- Meanwhile, the JOLTs survey showed that worker demand had softened over summer. The number of job openings fell in August on a year-on-year basis - a third drop in as many months.
- The pullback has some breadth across industries, with recent declines concentrated in retail trade, professional & business services, and accommodation & food services.
- Importantly, however, the pronounced deterioration in job openings lacks broad geographic concentration, with the Midwest region accounting for the bulk, of the recent weakness, in job demand.

U.S. Equity prices are proving to be more resilient than most have and are anticipating. This is likely attributable to still decent economic indicators in the U.S., good news on the China negotiations front and International markets experiencing struggles. We are seeing asset prices moving in a similar direction, since the start of 2019, which suggest to us that there are some concerns out there, but risk taking has not gone away.



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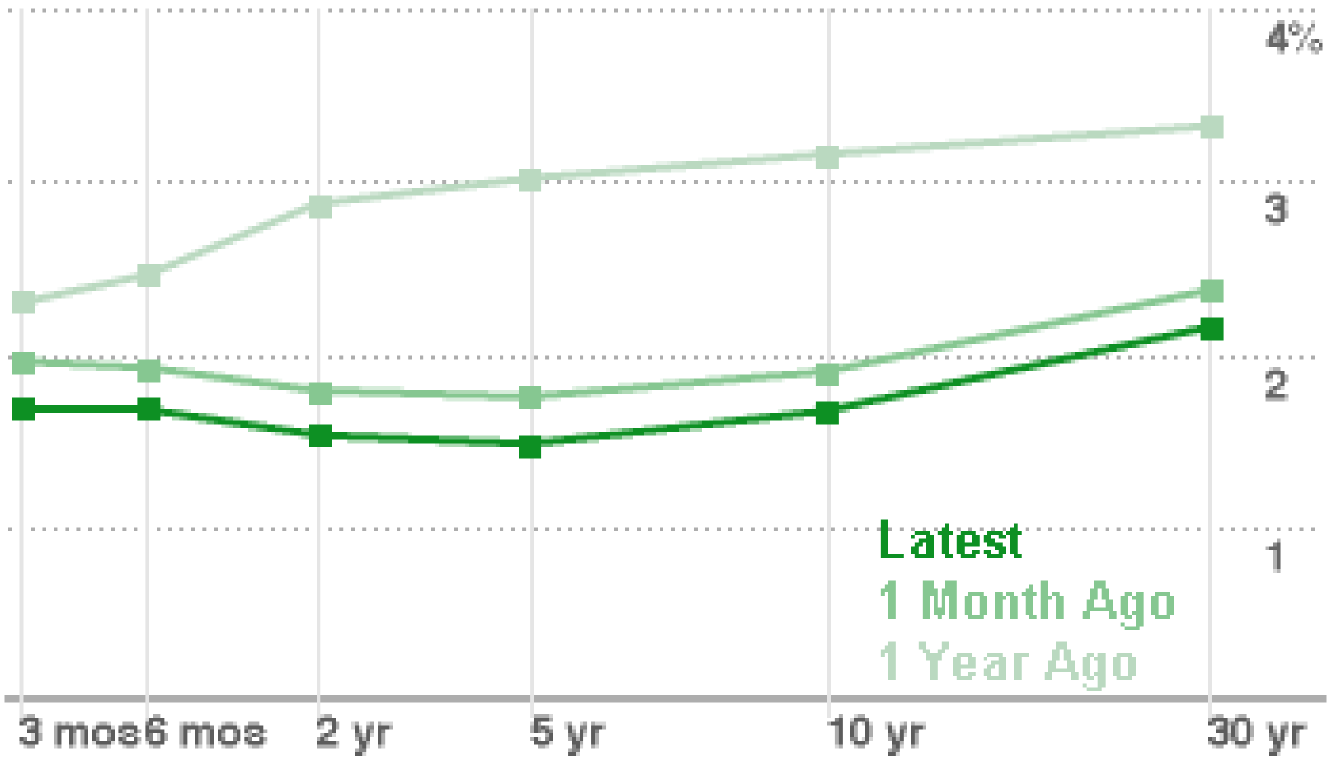
The U.S. Yield curve remains inverted and yields overall came down from the previous month. A positive aspect of the lower yields, is rates on mortgages are low, and re-financing debt obligations for those who can, still provides an opportunity for many.



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Our commentary here has not changed since last month. Our belief is still that there are signs of a later stage economic environment. Any future recession we feel would be mild in comparison to others, at this point. It is worth noting that several catalysts are on the horizon, that could slow down the eventual arrival date of a recession, which is indicated by two successive quarters of negative GDP growth. We are a long way from that as of today, but must continue to watch the data, as it comes in. 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. The Federal reserve also has some ammunition regarding interest rates and balance sheet management. They can implement these to help the U.S. economy work through the global issues, at the forefront of the inversion, in the yield curve. The Federal reserve dual mandate is to enact monetary policy decisions to combat inflation and maintain employment. A key factor missing right now is hyper-inflationary pressures, commonly seen before recessions, in the global marketplace. We currently view this as a positive. Fiscal policy decisions from the U.S. government are also elements that can come into play, should we need to see some type of further action, to augment Federal Reserve policy decisions.

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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 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 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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