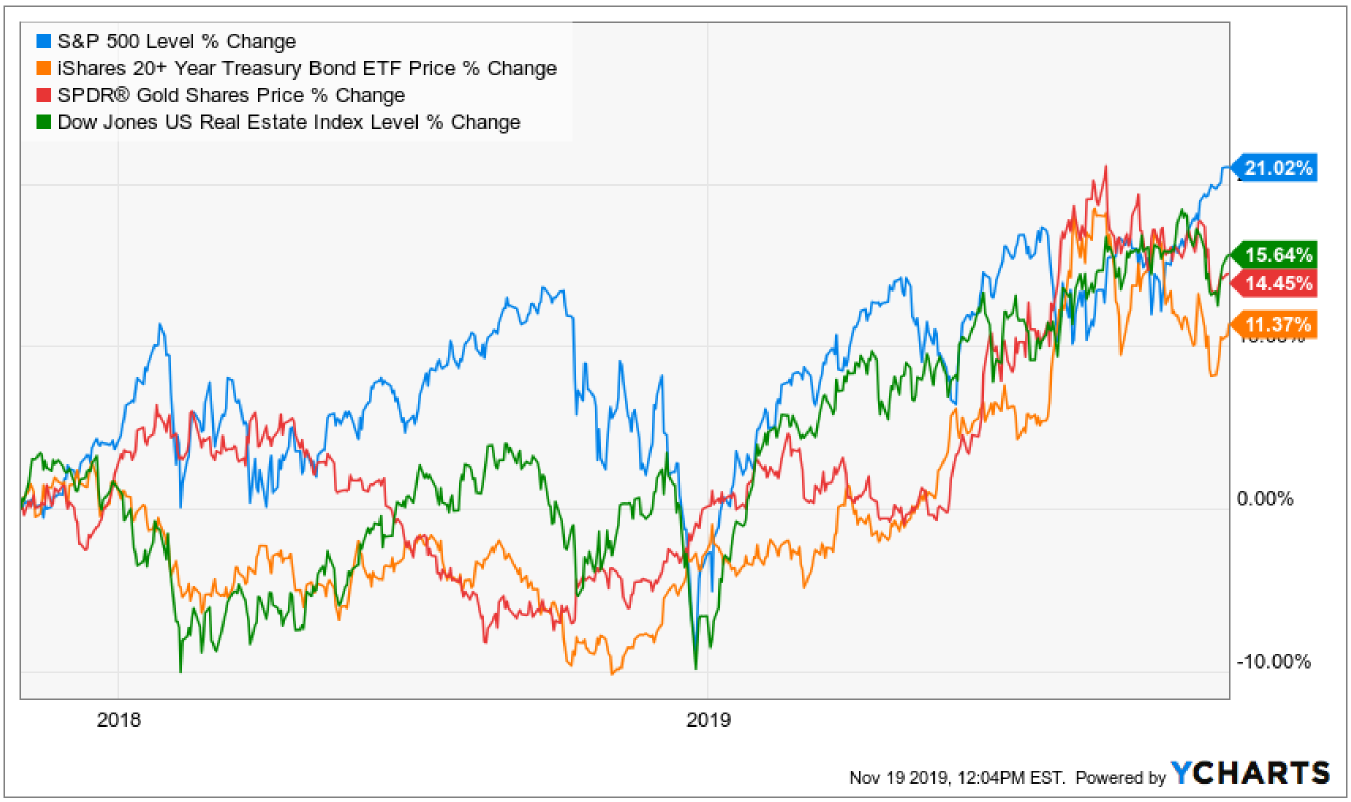
Market Update

November 19, 2019

Markets Making All Time Highs

- U.S. data last week showcased the contrasting feature of the U.S. economy: a resilient U.S. consumer, but a struggling manufacturing sector.
- Negotiations on a phase one trade deal between the U.S. and China took a step back last week, as negotiators struggled, to come to a compromise. A deal is unlikely to be signed before the end of this month.
- Inflation remained subdued as the high dollar, inventory stockpiling and margin compression offset the price increases implied by tariffs.

US equity markets have been making new all-time highs, recently, and asset prices have been stable, recently, and less volatile, as the chart below shows. Of note we notice that gold (red line below), an asset that moves in direct response to global economic concerns, has started a downward price trend. This is a positive sign for global economic issues, but is not the sole indicator of better global economic forces.



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

The U.S. Yield curve has started to reverse its inverted appearance and is gaining back a positively sloped nature. Yields remain close to all time lows. As stated last update, 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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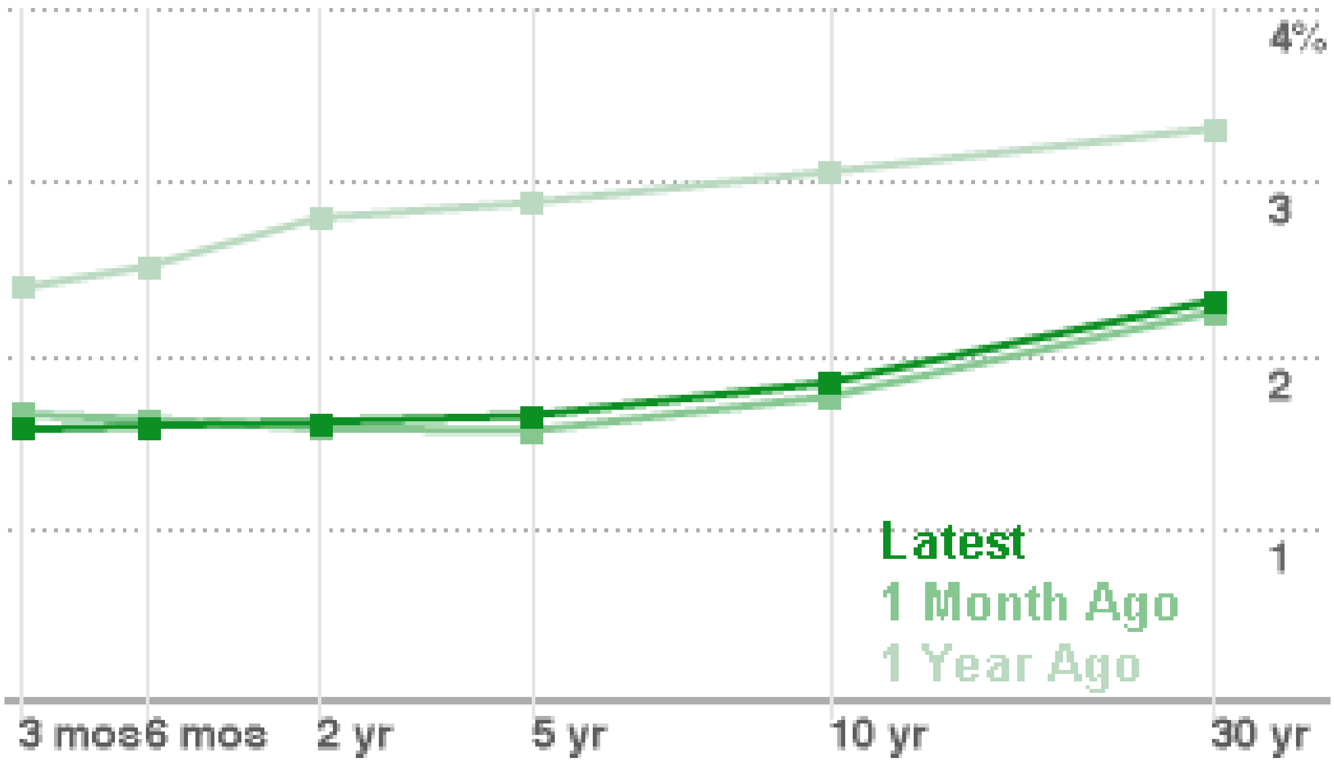

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Many on Wall Street have been suggesting that the economy and the markets may now be in a position for a further extension, of the current direction, of positive returns and sustained economic growth. Our belief is still that there are signs of a later stage economic environment. Any future recession we feel would be mild in comparison to others, at this point. 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 finalized. 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 global issues and the shape of 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.

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.

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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.

James M. Liotta, CFP®, CPWA®, AIF®, NSSA®, MBA
President
Prominence Capital GP, LLC.
jliotta@prominencecapital.com
www.prominencecapital.com

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