Quarterly Newsletter

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Market Comments

After the very strong 1st quarter that we reported in our last newsletter, April saw continued strength, closing with over a 4% return for the S & P 500. May, however, saw some heavy selling. The old Wall Street adage, “sell in May and go away” seemed to begin living up to its reputation. At month’s end, stock prices closed down approximately 6.5%. Continuing the roller coaster ride, June came right back with that month’s best performance for stocks in U.S. history, settling up over 7%. After all of the volatility, the 2nd quarter of 2019 finished up over 4%. That is a far cry from the 1st quarter’s almost 14% gain but impressive none the less. So far in 2019, stocks have advanced more than 18%. This continues to support our belief that trying to time the markets is a dangerous game.

The most influential news that supported the second quarter’s advance was the new “rate debate.” The Fed’s message changed early in 2019 from raising rates last year to a then more neutral stance. During June’s meeting, however, the Fed announced that it might begin lowering rates if the slowing, but still growing, economy warranted it. With current low inflation threats, the Fed has more flexibility to be patient and data dependent. The big question now is if, or when, the Fed will lower interest rates. The recent stock market activity seems to indicate an expectation of sooner rather than later. This is while the Fed is also still trying to reduce the amount of bonds that it owns, known as shrinking its balance sheet, which awkwardly puts upward pressure on rates.

The ongoing trade tensions with China have improved for the moment. This has allowed market fears to settle down. Additionally, the yield on the 10-year U.S. treasury bond has moved from 2.5% in April to 1.95% last week, as investors have been buying bonds for protection. This has brought the yield on the 10-year bond much closer to the yield on the S & P 500, currently 1.85%, which should help support higher stock prices.

	Close	Month	YTD	1 Year
Dow	26,599.96	7.31%	15.40%	12.20%
S & P 500	2,941.76	7.05%	18.54%	10.42%
NASDAQ Comp.	8,006.24	7.42%	20.66%	6.60%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	2.00%	2.69%	2.85%

Looking Ahead

The second half of 2019 will be faced with increasing geopolitical risks, which now includes Iran, as well as economic growth concerns outside of the U.S. As mentioned above, growth in the U.S. is slowing but is still positive. Despite the current slightly inverted treasury yield curve on the short end, we feel that the risk for a recession in the near term is low. Inflation is projected to be at or below 1.8% through year-end. This gives the Fed some wiggle room, but a rate cut from the Fed is not a certainty. Any disappointment on that front would create volatility in the stock market which we would view as a buying opportunity.

Earnings growth for 2019 will be lower than the tax cut aided earnings of last year, but projections for 2020 are strong. Historically stock prices have performed well, as mentioned above, when the yield on stocks is equal to or exceeds the yield on the 10-year bond. This is primarily because bonds are then less attractive, from an income standpoint, than stocks. While stocks are not exactly cheap right now, we feel that the bull market has more to run. Any pullback in good quality stocks will be viewed as an opportune time to buy or add to positions. As always, keeping an eye on each client’s appropriate asset allocation is vital, as is remaining diversified in security selection.

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