Quarterly Newsletter

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DELTA
FINANCIAL ADVISORS
Investment Counsel

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Market Comments

The 3rd quarter of 2019 closed with the S&P 500 up 1.7% for the three-month period and 20.5% higher since the beginning of the year. For the twelve months ended September 30, however, the stock market was up a much less impressive 4.25%, due to last December and May's big downturns. As such, the stock market has experienced some periods of strong volatility. Investors have certainly been more nervous lately, which has caused some sharp swings in stock prices, even on an intra-day basis. We have taken some opportunities to periodically re-balance portfolios by taking partial, or full, gains in some stocks that we felt were either fully or even overvalued. Periods of short-term market weakness can, and do, provide good buying opportunities.

During the most recent quarter, investors had to deal with many of the same issues, along with some new ones. The trade war, primarily with China, continues to be on most investors' minds and remains a serious global threat. This is evidenced by the contraction in new U.S. export orders over the last several months. Other parts of Asia and Europe are showing signs of economic weakness, with Italy and Germany signaling potential recessions. However, new to investors' plates are the recent oil field attack in Saudi Arabia which added to spikes in oil prices, and the worsening UAW strike against General Motors. The new impeachment inquiry by the House has certainly not helped investors' anxieties. The recent economic news has also been mixed with the just released Purchasing Managers' Index (PMI) hitting a 10-year low, and at a reading of 47.8%, has sparked new recession fears in the United States. Our nation's labor market; however, remains robust with the latest unemployment rate hitting 50-year lows.

As expected, the Fed lowered its targeted Fed Funds rate in September by 0.25 percentage points. The Treasury yield curve has also flattened and is currently slightly inverted. This is evidenced by the current 1-year interest rate of 1.58% compared to the 10-year rate of 1.52%. As a reminder, the 10-year rate was 2.5% as recently as April. This can be a predictor of a forthcoming recession, but not always. It is presenting some interesting challenges, though, in managing fixed income portfolios, in that some money market funds are currently yielding higher than some certificates of deposit (CDs) and short-term bonds.

	Close	Month	YTD	1 Year
DJIA	26,916.80	2.05%	17.51%	4.21%
S & P 500	2,976.74	1.87%	20.55%	4.25%
NASDAQ Comp.	7,999.34	0.46%	20.56%	-0.58%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	1.68%	2.69%	3.06%

Looking Ahead

With 3rd quarter's corporate earnings coming out soon, estimates for the 4th quarter have been lowered but are still positive. Stock prices tend to follow earnings, and we will be closely reviewing reports as they are released. Likewise, due to the previously mentioned PMI weakness, estimates for the 3rd quarter GDP have been lowered. The current consensus, though, is that the 4th quarter GDP will rebound, and that the economy is currently soft but not anticipating an impending recession, although risks of such have increased. The Fed is expected to lower its target rate again before year end, with some analysts predicting two possible overnight rate decreases in the next few months.

The U.S. consumer remains resilient, as can be seen by recent reports of increases in housing permits and sales coupled with higher auto sales and household spending. This can likely be attributed to reported increases in personal income. Manufacturing activity, however, is lower, as are business fixed investments, along with weaker export numbers. There are also signs of selective inflation in housing and transportation mentioned above as well as health care, but this data warrants monitoring and is not currently alarming.

Overall, we remain optimistic about the current state of the economy and the stock market and will continue to take profits on strength and view market weakness as buying opportunities.

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