MARKETS MIXED

Following a strong rebound in the first half of 2019, equity markets stalled a bit in the 3rd quarter, posting mixed results. In the shadow of uncertainty related to ongoing trade negotiations, slowing global growth, and geopolitical concerns, US equity markets made little headway for the quarter with the S&P 500 up 1.7%, and the Nasdaq down slightly at -.09%. Emerging markets were hit harder by trade concerns, with the MSCI Emerging Markets Index retreating -4.3% for the quarter, but still up 5.9% year-to-date. Foreign developed stocks fared slightly better, with the MSCI EAFE at -1% for the quarter.

While the year-to-date double-digit returns on equities look impressive at first glance, stocks have mostly regained ground from steep losses at the end of 2018. On a rolling twelve-month basis, US equities are only modestly higher, with the Nasdaq and foreign stocks remaining slightly negative. Equities are not expensive at these levels, but progress on trade negotiations is likely necessary to move equity markets higher from here.

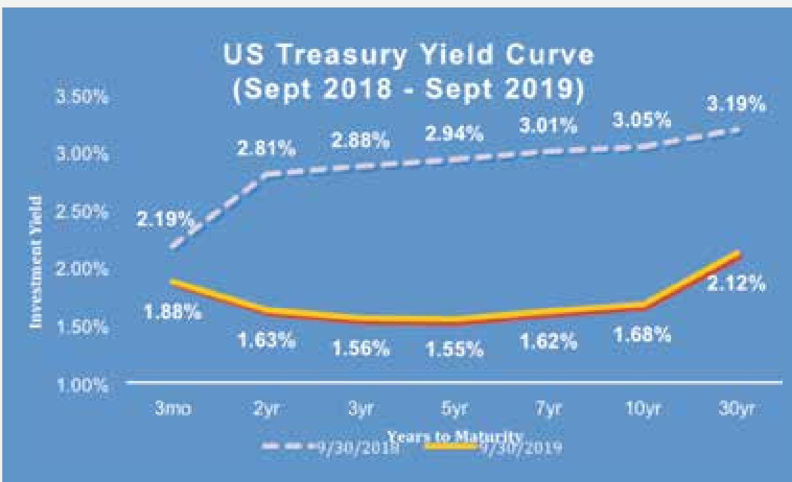
Rolling 12-month performance
(September 30, 2018 – September 30, 2019):

S&P 500	4.3%
DJIA	4.2%
NASDAQ	-0.6%
MSCI EAFE	-1.3%
MSCI Emerging Markets	-2.0%
Barclays Aggregate Bond Index	10.3%

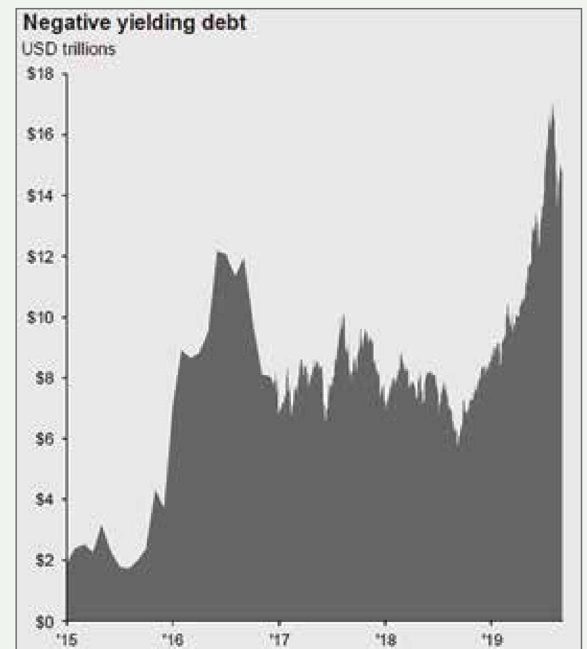
Bonds have been the clear winner both year-to-date and on a rolling basis, fueled by demand from growing economic uncertainty and falling interest rates around the globe. Over the past 12 months, the yield on the 10-year US Treasury Bond has fallen about 45% (see chart). The Federal Reserve cut its benchmark Fed Funds rate twice in Q3, and may make at least one more cut this year. Bond yields could continue to sink as a result, but demand for US bonds should remain strong given they still offer some of the most competitive yields. Globally, there was approximately $15 trillion in negative yielding debt outstanding at the end of the quarter. *(JP Morgan)*

Index	*2019 (through 09/30)*
S&P 500	+20.6
DJIA	+17.5
EAFE (Int'l)	+12.8
BC Ttl Bond	+8.5

Dow Jones Relative Risk Benchmarks	
Conservative	+6.6
Moderate	+12.5
Aggressive	+16.9



Source: US Department of Treasury



Source: JP Morgan Guide to Markets, Sept 30, 2019

2019 OUTLOOK

FIXED INCOME — Bonds have made headlines again with the Federal Reserve lowering rates and the subsequent "inversion" of the yield curve. When long-term rates fall below short-term rates ("inversion") it is an indicator of fear in the market and has at times been a signal of impending recession. There have also been false signals given by this metric, so we are hesitant to place too much significance on it. In addition, global interest rates have been declining, creating higher demand for US bonds and pressuring yields lower. While yields are not particularly attractive at this time, fixed income maintains an important role in managing portfolio risk. In this environment however, we are in favor of utilizing more active fixed income managers to navigate the waters.

Our View — Use active managers to navigate interest rate volatility

US EQUITIES — The US economy remains fairly solid, and for the most part equities have held up. The S&P 500 closed the quarter at 16.8 times forward earnings compared to a 25-year average of 16.2. While earnings growth has been slower this year, 4% year over year, profit margins remain high in double digits. Within the US, consumers remain relatively healthy with unemployment low and wages rising. Personal consumption represents 68% of US economic activity, we are hopeful that this is enough to sustain the economy which has supported the economy thus far. Overall, the US economy continues a slow growth path, and US stocks carry reasonable valuations and attractive dividend yields. We recommend rebalancing portfolios if needed, otherwise maintaining exposure at this time.

Our View — Maintain allocation, rebalance where needed

INTERNATIONAL EQUITIES — Trade issues weighed on foreign stocks in the third quarter. Between trade negotiations between China and the US, and an unknown outcome regarding Brexit and the future of the European Union, confidence has been shaken. These fears are somewhat valid, as there has been a definite slowdown in the global economy including a marked slowing in world trade volume. However, global growth remains positive at this time at around 2.6% for 2Q 2019, and valuations for foreign stocks are cheap as a reflection of the uncertainty. We feel it is important to maintain exposure to foreign markets for diversification, and they remain attractive based on valuations and growth prospects. Long term we feel foreign equities retain some of the highest potential for patient investors. Even a partial resolution to the trade issues would likely be a major catalyst for foreign stocks.

Our View — Maintain exposure, monitor trade negotiations

DID YOU KNOW?

- Adjusted for inflation, the median household income of $63,179 in 2018 is the highest ever recorded in the US. This was the third consecutive year of a new record high (2016-2018). The previous peak was $61,526 in 1999. (Federal Reserve Bank of St. Louis)

- The US Treasury Department has auctioned 30-year bonds since 1977. On 8/28/2019, the yield hit its lowest ever at 1.94%. The previous low was 2.1% on 7/08/2016. (US Treasury Department)

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