Market Update

June 30, 2019

Equity market returns during the second calendar quarter of 2019 resembled the patterns seen during the first quarter of 2019 and the fourth quarter of 2018. Whereas the S&P 500 was down 15% during the fourth calendar quarter of 2018 and then up 13% during the first calendar quarter of 2019, the second calendar quarter of 2019 performed similarly with its monthly returns. After being up 4% during April, the S&P 500 was down 6.5% in May and then up 6.4% in June. It is likely that security traders misread these market movements and underperformed the 3.8% return posted by the S&P 500 for the quarter.

Other equity indices also posted positive returns during the second calendar quarter. The Dow Jones Industrial Average was up 3.0%, NASDAQ was up 3.5% and mid-size and small capitalization stock indices were up 4.0% and 2.6% respectively. Developed International markets were up 5.8% while Emerging Markets were up 0.7%.

Interest rates continued to decline during the second quarter of 2019. The ten year US Treasury Note declined from 2.25% to 2.00%, roughly the same decline as occurred during the first calendar quarter of 2019. Ordinarily declining interest rates signal a slowing economy and increases the likelihood of a recession. The decline this year appears to be the result of the bond market running ahead of the Federal Reserve, and indicates a high probability of at least one drop in the Federal Funds rate to 2.00% to 2.25% during the third calendar quarter.

Former Federal Reserve Chairman Alan Greenspan initiated three cuts in the Federal Funds rate in 1996 during an economic expansion, and the result was a four year extension of the economic expansion. Looking back, Mr. Greenspan stated that he believes that decision marked the high point of his tenure as Chairman.

We agree with those economic forecasts that expect real Gross Domestic Product growth of roughly 3% during the second half of 2019. We anticipate inflation will remain below 2%, unemployment will stay below 4%, and interest rates and exchange rates for the dollar will remain stable at current levels. In other words, it continues to be a good time to be fully invested and we are positioned that way in our client portfolios.

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