Market Update

September 30, 2019

Equity market returns during the third calendar quarter of 2019 were remarkably less volatile than during the second calendar quarter of 2019. Whereas the average monthly change in the S&P 500 during the second calendar quarter of 2019, either up or down, was 5.6%, during the third calendar quarter of 2019 the average was only 1.6%. For the third calendar quarter of 2019, the S&P 500 was up 1.2%, the Dow Jones industrial average was up 1.2% and the NASDAQ was down 0.1%, as large technology companies that dominate this index were down.

While year to date returns for U.S. markets were up 15-20%, developed international markets were up only 10%, and emerging markets were up less than 4%. Clearly, capital markets this year followed the relative strength in the U.S. economy, resulting in superior investment returns.

It is also worthwhile to look at the activity in the equity markets over the last twelve months, and note that the S&P 500 is up 2% from September 30, 2018 to September 30, 2019. During that time period corporate earnings growth was positive, but only in the 3-5% range. The US Dollar appreciated by roughly 5% versus other major currencies over the same time period, due largely to Europe and Japan pushing interest rates further into negative territory. The large yield gap between US Treasuries and comparable bonds of other developed economies, makes the yield on U.S. Treasury Notes very attractive to foreign investors. Amazingly, the yield on ten year bonds for Greece is lower than the yield on ten year US Treasury Notes.

Interest rates, as evidenced by the ten year U.S. Treasury Note, declined by more than 1% in the last twelve months, from 2.8% to its current level of 1.7%. This decline helped the housing market, producing a significant surge in both new mortgage applications as well as refinancing of existing mortgages. Overall, with US unemployment low, inflation remaining low and average wages increasing at the fastest rate in 15 years, the US consumer is in very good shape financially. Recent data show both healthy increases in consumer spending and in consumer saving. As long as this trend continues, the US economy and the equity markets will do well.

Last year at this time, recession fears drove the market down more than 15% during the fourth calendar quarter of 2018. This year, recession fears have abated but new concerns over President Trump’s possible impeachment, trade talks with China, and aggressive military actions by Iran in the Mideast, are now significant risks. So far, capital markets have taken a wait-and-see approach which we believe is appropriate. We don’t know how or even if these issues will be resolved, but we believe equity investments will adapt and do well regardless of the outcome on any of these issues. We remain fully invested in equities in client portfolios.

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