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Q2 2019 – Market Overview Newsletter

Economic Update

At the end of 2018, the investment landscape looked dark. Six months later, most markets are again in positive territory and all-time highs have returned to U.S. stock markets. With continuing low interest rates and positive economic fundamentals, the economy and markets seem poised for continued growth.

America has now entered the longest economic expansion in history, having risen from the wreckage of the Great Recession. The length of the current expansion may give some investors pause and while expansions may not last forever, they do not die of old age. In the past, tighter monetary policy or a bubble in the market bursting have been a catalyst for a recession. To date, there is no indication of any bubbles and the Federal Reserve may even lower rates.

It is unusual for the Federal Reserve to lower interest rates during an expansion. Generally monetary easing is implemented after a downturn in the economy, but the U.S. economy is still growing, albeit at a slower pace. The slowdown in the global economy has been swayed more by geopolitics than a restrictive Federal Reserve. While the Fed has vowed to act as appropriate to sustain expansion, Chairman Jerome Powell has continued to stress the importance for the Fed to maintain independence from political pressure. However, there are challenges that leave the Fed and other major central banks around the world not wanting to raise interest rates.

Ongoing trade tensions have created uncertainty as well as a deteriorating trade environment in Europe and China. The U.S. and China have agreed to a trade truce for the time being which should support asset prices. However, events are rapidly changing which makes it difficult to assess the global outlook and may lead to increased volatility.

The prices on U.S. equities have been increasing and while there are still good buys out there, it is important to be selective. Outsized gains in U.S. equities over the past decade have left international markets relatively unloved. Non-U.S. stocks still offer several potentially attractive traits, including diversification, higher dividend yields and lower valuations. Since the dollar is not expected to appreciate as the Fed lowers rates, they may also offer the chance to benefit from currency tailwinds if a relatively strong U.S. dollar begins to weaken.

While we are still optimistic about opportunities in both the U.S. and abroad, we also feel it is important to be prepared for increased volatility and a future downturn. As always, maintaining a diversified portfolio is the best defense in uncertain times.

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Did you know?

Lawmakers are currently discussing the Setting Everyone Up for Retirement Enhancement (SECURE) Act of 2019. This act has many provisions. A few that may be of most interest to retirees or those close to retirement involve IRA required minimum distributions (RMDs).

As it stands, the act would push back the RMD beginning age from 70 ½ to 72, giving a bit more time to defer distributions and income taxes. It would also eliminate the contribution age cap, allowing anyone with earned income, regardless of age to contribute to their IRA accounts.

On the other hand, the act may also change the rules for RMDs on inherited (non-spouse) IRAs. Rather than stretching the distributions over the lifetime of the recipient, most beneficiaries would have to distribute the total balance within 10 years of the owner’s death. This change would accelerate the payment of taxes on those dollars.

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For more market details, see the "IM&R Q2 2019 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries

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These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. Morgan Stanley Capital International **(MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.

An **inverted yield curve** is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.