Market Review and Outlook—September 6, 2019

It was a Much Better Quarter than it Seemed—Especially with the 750 point freefall of the Dow on August 5th, the quarter felt awful. Your second guess could be that it was simply a roller coaster ride with neither a big gain or loss. The table below, however, shows that the three months were actually quite good for investors. In reality, June was wonderful, July was sideways, and August saw a sharp decline followed by a near-full recovery.

Trade War Casualties—The US and China have been ratcheting up the rhetoric, and the tariffs, for a year and a half. Ask any contractor using steel, or any soybean farmer looking to sell their crop. The ramifications are spreading, as economic growth expectations have steadily fallen over the past year, in the both the US and abroad.

Fed Reversal—The Federal Reserve Bank increased the overnight rate by ¼% four times in 2018, including on December 20th. Due to unimpressive economic growth, not only has the Fed failed to raise the rate further, it lowered the rate by ¼% on August 1st. This wasn't a complete surprise; in meetings earlier in the year, the Fed commented on the economic doldrums and the possibility that, if necessary, it would consider lowering the rate. There is always a gamble to Fed rate decreases, as investors can view it as proof that the Fed is committed to helping the economy grow; however, investors can also see it as proof that the economy is so weak that it requires the Fed's support.

Bond Market Questions—Due partially to the Fed's rate cut, bond interest rates have fallen, and bond prices have risen. The 12 Months figures displayed below for Intermediate Term bonds are high; returns for Long Term bonds are even higher. This good news comes with a bad news sibling—lower interest rates mean lower future returns for bonds are most likely. We have made substantial changes to bonds over the past year designed to obtain the best bond returns in the likely low-return future.

Recession Coming?—Recession fears have hit the headlines recently, often tied to what is called a 'negative yield curve.' We continue to expect that a recession is not imminent (likely for the next year), and that even if one occurs soon, it is unlikely to be significant. We have positioned client portfolios, both stocks and bonds, for the scenario we expect for the next few quarters—sluggish economic growth, low interest rates and low bond returns, and continued global trade turmoil.

We are pleased that the past three months delivered gains often greater than the losses for the prior three months.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Cash Reserves	+0.51%	+2.01%	+1.17%	+0.71%	+0.37%
Intermediate Term Bond	+3.65%	+9.25%	+2.76%	+2.92%	+3.80%
Intermediate Muni Bond	+2.54%	+7.72%	+2.69%	+3.16%	+3.98%
Large-Cap Stock	+6.22%	+1.32%	+10.90%	+8.11%	+11.93%
Mid-Cap Stock	+4.43%	-4.60%	+7.54%	+5.16%	+11.18%
Small-Cap Stock	+2.36%	-12.65%	+6.18%	+4.95%	+10.85%
Foreign Large-Cap Stock	+1.65%	-4.34%	+4.97%	+1.46%	+4.69%
Finance	+2.83%	-6.06%	+9.33%	+7.13%	+9.34%
Health	+4.12%	-8.39%	+8.98%	+7.22%	+14.24%
Technology	+6.40%	-0.38%	+18.14%	+14.21%	+15.46%
Moderate Allocation (60% stocks)	+4.27%	+2.57%	+6.79%	+4.94%	+8.09%

The data in this table comes from Morningstar and is as of August 31, 2019.