www.CantyFinancial.com

New York
20 Church Avenue
Ballston Spa, NY 12020
Telephone: 518.885.3230
Fax: 518.885.2835

Florida
5129 Castello Drive #1
Naples, FL 34103
Telephone: 239.435.0090
E-Fax: 239.236.0928

Semi-Annual Investment Commentary: 2019

7/12/2019

After a robust start to the year, the stock market retraced its pullback in the latter half of 2018, with multiple indexes reaching record all-time highs. After uncertainty emerging from trade tension, global economic news, and the Federal reserve, investors have seen a recent increase in volatility as a result.

The Current Environment

Over the past 6 months the stock market has seen relative strength despite continuous political, economic, and social disruptions. The S&P 500 is up 18.32% year to date, showing a dramatic snap back since the December 2018 lows. Overall, the U.S. is showing strength relative to the global economy, this can be seen in the outperformance of the U.S. over recent months.

Bond markets have also seen strength as interest rates decline. Though historically it is uncommon for bond and equity markets to move in tandem, we have seen just that during the first half of this year. Though short-term bonds are earning attractive yields we believe a long-term bond component is a key feature in a well-diversified portfolio. For this reason, we continue to hold core bond funds with an emphasis on credit quality.

Moving forward we believe earnings growth will continue at a slower pace and U.S. equity valuations do look high compared to long term trends. However, international equity valuations look healthy comparatively. Now more than ever it is important to evaluate portfolio holdings and make sure investors are taking on the appropriate risk.

Trade

Trade tension continues to be a theme in 2019 as the United States looks to renegotiate trade agreements with multiple countries. The U.S. and China trade tension has been one of the top recent discussions. The ongoing back and forth rhetoric between the two global superpowers have stricken uncertainty into both the stock market and economy. There is hope that there will eventually be an agreement that ends this

Key Economic Statistics

Leading Economic Index 111.80 Recent Trend: Increasing (Source: The Conference Board)
Consumer Confidence Index 121.50 Recent Trend: Increasing (Source: The Conference Board)
US Current Annual Inflation Rate (PCE): 1.65% Overall FED Goal: 2% Recent Trend: Decreasing *(Source: Inflationdata.com)*
US Unemployment Rate: 3.70% Recent Trend: historically low *(Source: US Dept of Labor (BLS))*
Interest Rates: Fed Fund Target Rate: 2.25- 2.50% 2-year US Gov't Bond Yield: 1.86% 10-year US Gov't Bond Yield: 2.13% 30-year US Gov't Bond Yield: 2.65% Recent Trend: Interest rates continue to be low. *(Source: Wall St Journal Market Data)*
Total Returns: 2019 YTD US: S&P 500 (SPY): 20.59% US: Dow Jones Ind. Avg. (DIA): 15.26% US: NASDAQ Comp (NASDAQ): 23.96% US: Aggregate Bond Index (AGG) 5.84% Europe: FTSE Europe (VGK): 15.61% Canada: I-Shares (EWC): 20.53% China: Large Cap (FXI): 10.54% Hong Kong: I-Shares (EWH): 16.76% Japan: I-Shares (EWJ): 8.64% Brazil: I-Shares (EWZ): 15.91% Gold: I-Shares: (IAU): 9.85% *(Source: Morningstar Office)*

New York
20 Church Avenue
Ballston Spa, NY 12020
Telephone: 518.885.3230
Fax: 518.885.2835

Florida
5129 Castello Drive #1
Naples, FL 34103
Telephone: 239.435.0090
E-Fax: 239.236.0928

uncertainty. Since the stock market dislikes nothing more than uncertainty, we believe an agreement would end the volatility caused by these trade talks.

The Federal Reserve

Over the last 12 months, the Federal Reserve and its chairman Jerome Powell, have made continuous headlines in local and international media. After a December interest rate hike, the market is pricing in a reversal, and a rate cut in the later half of 2019. This would be the first rate cut since December 2008 and has been one of the top recent concerns to the stock market. High interest rates are not strangling the economy right now, and mortgage rates have actually come down over the last 12 months. However, with recent international economic data showing weakness the Federal Reserve feels it is time to ease monetary policy and cut rates. Markets have shown a positive reaction to an easier monetary policy.

The Economy

With recent weakness in the economy, naturally the risk of a recession has slightly increased. Though consumer spending is showing strength, there are other areas of the economy which have recently showed decline. Year over year GDP growth is showing a decline on track for 2% for 2019, most likely attributed to the robust increase in GDP last year from the Tax Cuts and Jobs Act. However, 2% is not an unhealthy figure. Investment spending has also shown a recent decline, this may be due to companies holding off on capital expenditures due to trade uncertainty.

Even with the current slowdown in the manufacturing sector, long term economic growth prospects are good and international equity valuations are favorable. We believe a bull market does not die of old age, and most recessions occur after a boom goes bust. Home building, auto sales, and inventory growth are currently not showing booming conditions. Unemployment remains low and inflation is close to the Federal Reserve’s 2% target. The odds of a temporary lull in the economy has increased, but a recession does not seem to be imminent.

Moving Forward

We believe there will be more of the same moving forward. Trade tension and skirmishes will continue and the Federal Reserve will try to adjust their tone as new economic data emerges. Valuations are high, but not at extremes. The stock market can be a very volatile environment. It is easy for investors to panic and fear a recession, especially when economic indicators weaken. However, as long-term investors we must steer clear of short-term fluctuations and hold true to our investment strategy.

By Ed Canty, *Registered Investment Advisor Representative*