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The roller coaster ride in equity markets continued through the months of May & June, which can be described as a “miniature” version of last December into January. We did not test recent lows as we did in December, but the volatility reminds us that even in the presence of healthy fundamentals, uncertainty and headlines will always be “active gremlins” in driving short-term market fluctuation. Occasional conflicting signals from economic readings have also been observed in some of the variables we track. Even though our most recent analysis of fundamentals supports a slightly higher 2020 Dow Jones Industrial Average (DJIA) target of 27,200 relative to our last commentary, we are observing a greater presence of negative earnings adjustment trends. At this time, these downward adjustments are extremely minor and do not warrant any concern regarding a possible recession in the near future. Outside of any extreme announcements, we believe the DJIA should trade in the range of 26,000 to 27,200.

There is nothing new when it comes to watching the Fed for any signs of lowering rates. One of the main catalysts in the recovery from the challenging month of May, was feedback from the Fed regarding their flexibility in rate decisions. This was somehow translated into expectations of a 50 basis point reduction in 2019. We do not expect any support for lower rates coming from earnings reports for the 2nd quarter. We also do not see any economic indicators in the near-term that would warrant such a rate reduction. From our perspective, we believe that any negative effects from the tariffs/trade war would be more accurately gauged within the 3rd and 4th quarter results due to strategic pre-purchases of goods prior to implementation of recently announced tariffs.

News from the G20 Summit regarding a consensus to put a temporary hold on any additional tariffs between the U.S. and China has contributed to the recovery of global equity markets, while boosting U.S. markets to new highs. We hope there is some level of resolution in the trade war, especially in the area of intellectual property. However, if there is not and both economic powerhouses decide to move in different directions, it may not necessarily be bad for the U.S. in the long run. Expectations would have to change regarding fundamental variables such as profit margins, inflation and GDP growth. Due to greater geopolitical risks associated with current trade discussions, U.S. corporate business decisions regarding foreign operations may result in greater investment in our country, even though there may be a cost to profit margin. We shall see the possibilities unfold over time, and we expect some form of evolution in the global economic matrix resulting in an ever changing “new” world.

We often overlook the U.S. consumer and what it represents, whereas, other countries have successfully relied on our purchasing power for strength in their exports and respective GDP’s. We believe a combination of the U.S. consumer and a flexible Federal Reserve should enable the U.S. to weather any near-term storms caused by tariffs/trade war.

As a firm, we will continue to avoid any doom & gloom headlines that may be influenced by questionable factors. Our commitment to long-term investing and reasonable expectations will continue to drive our decisions. Please do not hesitate to reach out to your consultant if you should have any questions or concerns regarding your financial plan or portfolio.