

Tale of Two Markets

Eighty-nine percent of assets handed investors losses in 2018, more than any year since 1901. The correlation of asset types continues in 2019, but in the opposite direction. Not only did the stock market deliver the best quarter in 10 years, but the bond markets also rallied and even gold participated. Yet the price action of the stock market and that of the bond market (and gold) are actually telling us two different stories. The stock market is showing confidence in the Fed, anticipating a trade deal with China and its effect on global growth. In contrast, the bond market (and gold) are reacting to the more mixed economic data, pricing in the threat of a recession and the Fed lowering rates later this year. So, the stock market is being driven by policy expectations while the bond market is reacting to actual economic news.

We feel like we are on a seesaw. Not only does the data go from bad to good, but even the President's chief economic advisor, Larry Kudlow, makes contradictory statements. Why does he advocate that the Fed needs to lower rates a half a percent if the economy is as strong as he maintains?

Where are we going from here?

The most recent U.S. economic news does look better, suggesting the Fed policy pivot may achieve a soft landing. The easy monetary policy of central banks all over the world should have a positive effect on international economies. A meaningful trade deal with China and a resolution of auto tariffs with Europe could propel both the world economy and the markets higher, depending on the specifics.

Despite this good news and the potential for more, we know that trees don't grow to the sky. Our approach is to rebalance with an emphasis on international markets, stable dividend growth companies with good balance sheets, and companies that get thrown out in a fit of short-termism.

We remain focused on the long term guiding your portfolio to meet your goals. Please call us with any questions, we are here to help.

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