

Quarterly Economic Update

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THE QUARTER IN BRIEF

Summary: ...markets are now a bit “frothy,” slightly ahead of their expected value. This means that a temporary pullback is likely in the near term. “Normal,” temporary pullbacks average around 10% with a duration of 3-4 months. Over the longer-term 1-2 year period, however, markets are expected to continue their rise along the bumpy market highway.

Review: Historical Expansion & New Market Highs

The U.S. economy is now in its 11th year of expansion, the longest on record. And markets have done well this year despite the bumpy road. The S&P 500, representing U.S. Large Company (“large-cap”) stocks, recently reached new highs as one of the top performing asset classes. Small-caps, foreign stocks, emerging markets, and commodities which are all included in diversified portfolios, are trailing the S&P 500 but are still showing nice gains. Mid-caps are outperforming large-caps and growth stocks are outpacing value/dividend stocks again this year. Real Estate, which was added to our managed/advisory portfolios earlier this year, is now the top performing asset class for the year. Bonds have also done relatively well this year as the

Federal reserve recently signaled a pause, or pullback, with rates going forward, causing many bond prices to rise.

Outlook: Slowing Economy and Bumpy Markets

The economy that powers the stock markets is still humming along, but it appears to be slowing. [The Conference Board's Leading Economic Index® \(LEI\)](#) for the U.S. did not increase this past month. And it continues to slow, pointing “to a moderation in growth towards 2 percent by year end.”

Most of the participants in Bloomberg’s most recent survey of economists, and the [National Association for Business Economics' \(NABE\) most recent quarterly forecasting panel](#) also see the economy continuing to expand, but more slowly. According to Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics, ‘trade wars,’ financial market strains and the global economic slowdown are considered the primary downside risks to growth.

When will the next recession start? NABE panelists put the odds of a recession starting in 2019 at 15%, climbing to 60% by the end of 2020. 67% of 1500+ CFOs recently surveyed by the Duke University Fuqua School of Business earlier this year believe it will be by the latter half of 2020. 84% believe it will start by the first quarter of 2021.

Dr. David Kelley, chief economist for J.P Morgan noted in a conference call on 7/2/19 that economic expansions may slow from old age, but it doesn’t necessarily kill them. And the two greatest threats that typically kill off expansions, that being “bubbles” and high interest rates, are both “in prison.” While a recession will indeed come at some time, it doesn’t seem to be imminent.

Still, markets are now a bit “frothy,” slightly ahead of their expected value. This means that a temporary pullback is likely in the near term. “Normal,” temporary pullbacks average around 10% with a duration of 3-4 months. Over the longer-term 1-2 year period, however, markets are expected to continue their rise along the bumpy market highway.

Temporary volatility, and even the next recession should not unduly concern investors who are in diversified portfolios appropriate for their plan and risk tolerance. The next one is likely to be much milder than the last two. And investors can miss out on gains trying to time recessions by getting out of the market completely. Indeed, often markets “melt up” just before a recession, with substantial gains. *But, if you are concerned about market volatility or are in or near retirement, now is the time to do a thorough review of your plan, risk tolerance, and portfolio strategy. A portfolio can be slowly “stepped down” in risk over an extended period while still*

maintaining market exposure. And It is better to err on the side of caution and to prepare beforehand rather than to react after.

QUOTE OF THE QUARTER



Quotes for the Day: *“(Our Independence) ought to be commemorated as the day of deliverance by solemn acts of devotion to God Almighty; it ought to be solemnized with pomp and parade, with shows, games, sports, guns, bells, bonfires and illuminations from one end of this continent to the other, from this time forward forever more.” -- John Adams*

“Nothing says ‘Let’s celebrate America!’ quite like drinking beer and playing with explosives” -- Unknown

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