

Market Recap for the Week Ending 05/31/2019

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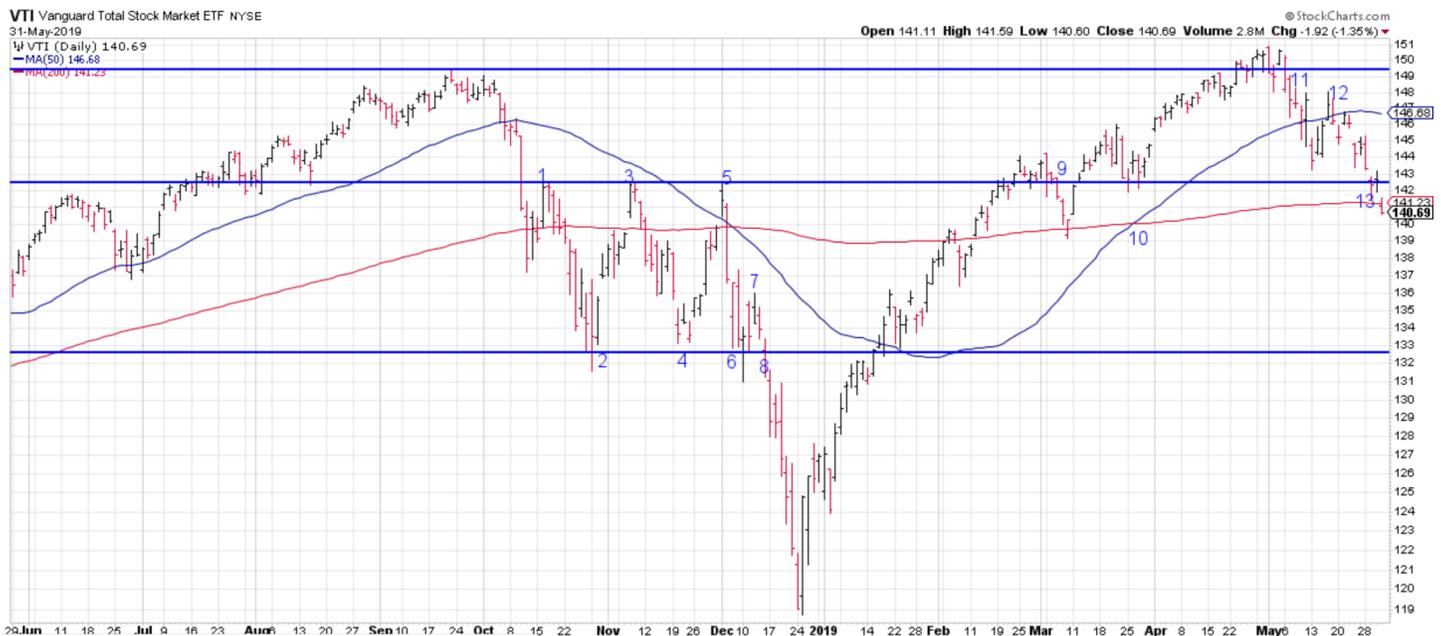
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HIGHLIGHTS

- Stocks are down by 2.69% in the US and 1.12% outside the US.
- The technical damage begins to add up.
- More trade war threats with China and now Trump adds tariffs to Mexico and threatens more.
- The 3 month/10-year curve is still inverted.
- There are multiple efforts around the world for trading systems that do not rely on the US dollar.

MARKET RECAP

It was another rough week as US stocks tumbled by 2.69% and international stocks fell by 1.12%. Bonds were up by 0.9%. Trade war fears and the impact on businesses and the economy continue to hurt stocks (read below). The technical damage to stocks is starting to add up. The VTI fell below resistance (see 1-3-5-9 below) and the price is under the 200-day moving average. The 50-day moving average is now on a downward slope.



TRADE WAR

Trade war fears continue to rattle the markets. Threats fly back and forth. Chinese media reported that China would consider cutting exports of rare-earth metals that are necessary for some advanced electronic products. China said it would not accept any deal that harms sovereignty and dignity. On Friday, Trump said he would

begin implementing a 5% tariff on imports from Mexico, that would increase from there if there is no progress on illegal immigrants passing through Mexico on the way to the US.

Since Trump increased tariffs on China in early May, the market has fallen by x%, resulting in a decline of about \$5 trillion dollars in US equities. In the last 30 days, Trump has put in place or threatened, tariffs amounting to almost \$200 billion in increased costs on US businesses. That would be enough to cancel out the value of the tax cuts. But worse than that, the tariffs will disrupt supply chains, make businesses more inefficient, lower business certainty and confidence, increase unemployment, lower profits, and reduce the perception of the United States as a reliable trade partner, among other things. In other words, bad things will happen. And as the tariffs ramp up, and the longer they last, the more damage.

Considering that the US economy was not that strong to start, a tariff war being fought on multiple fronts increases the odds of a recession in the next year or so. Trump may not realize it, but he lowers the chances for his reelection with these foolish policies.

BOND YIELDS

The 10-year yield has fallen to the lowest level since September of 2017 and yields less than the 3-month treasury bill. All recent recessions have been preceded by an inverted yield curve.

BREAKING AWAY FROM THE DOLLAR

The Trump administrations constant use of economically isolating individuals, companies, and countries around the world are increasing the calls for an alternative system that does not rely on the US dollar. Europe, China, and Russia are working on their own bank-transfer systems, and others are also in the works. The net result is that over time the power of the dollar could fade.

SCOREBOARD

| PERFORMANCE | VTI | SPY | VXUS | AGG | \$ | OIL |
|---------------|-----------|--------|-------------|--------|--------|---------|
| 5/31/2019 | US Market | SP500 | Intl (x-US) | Bonds | US\$ | Crude |
| Week | -2.69% | -2.66% | -1.12% | 0.90% | -0.01% | -8.75% |
| May 2018 | -6.45% | -6.38% | -5.42% | 1.91% | 0.39% | -16.29% |
| April 2018 | 3.93% | 4.09% | 1.03% | -0.20% | 0.18% | 6.27% |
| March 2019 | 1.42% | 1.81% | 0.77% | 2.12% | 0.46% | 5.11% |
| February 2018 | 3.56% | 3.24% | 1.63% | -0.11% | 0.17% | 0.07% |
| January 2019 | 8.54% | 8.01% | 7.67% | 0.91% | -0.98% | 18.78% |
| YTD | 10.90% | 10.69% | 7.22% | 4.71% | 0.67% | 17.81% |
| 2018 | -5.21% | -4.56% | -14.43% | 0.10% | 4.08% | -20.62% |
| 2017 | 21.21% | 21.70% | 27.45% | 3.61% | -7.81% | 12.47% |
| 2016 | 12.83% | 12.00% | 4.81% | 2.41% | 2.41% | 33.48% |
| 2015 | 0.36% | 1.25% | -4.19% | 0.48% | 7.19% | -29.70% |
| 2014 | 12.54% | 13.46% | -4.74% | 6.00% | | -43.92% |
| 2013 | 33.45% | 32.31% | 14.61% | -1.98% | | 0.47% |

All returns include dividends. \$ is the Dow Jones FXCM Index. Oil is the S&P GSCI Crude Oil Index.

| RATES | 3m | 2-YR | 10-YR | 30-YR | 2-10 | HY OAS |
|----------------|---------|---------|---------|---------|--------|---------|
| 5/31/2019 | 2.35% | 1.95% | 2.14% | 2.58% | 0.19% | 4.36% |
| 5/24/2019 | 2.35% | 2.16% | 2.32% | 2.75% | 0.16% | 4.22% |
| 4/30/2019 | 2.43% | 2.27% | 2.51% | 2.93% | 0.24% | 3.73% |
| 12/31/2018 | 2.45% | 2.48% | 2.69% | 3.02% | 0.21% | 5.33% |
| 12/31/2018 | 2.45% | 2.48% | 2.69% | 3.02% | 0.21% | 5.33% |
| Δ for Week* | 0.00 | (21.00) | (18.00) | (17.00) | 3.00 | 14.00 |
| Δ for Month* | (8.00) | (32.00) | (37.00) | (35.00) | (5.00) | 63.00 |
| Δ for Quarter* | (10.00) | (53.00) | (55.00) | (44.00) | (2.00) | (97.00) |
| Δ YTD* | (10.00) | (53.00) | (55.00) | (44.00) | (2.00) | (97.00) |

*Δ is measured in basis points; 2-10 refers to the spread between the 10 & 2-yr bonds.

HY OAS - Merrill Lynch US High Yield Option-Adjusted Spread.

| Year | Earnings | SPX | P/E |
|---------------|----------|----------|-------|
| 2021 Estimate | 205.09 | 2,752.06 | 13.42 |
| 2020 Estimate | 186.74 | 2,752.06 | 14.74 |
| 2019 Estimate | 167.07 | 2,752.06 | 16.47 |
| 2018 | 161.93 | 2,892.74 | 17.86 |
| 2017 | 132.00 | 2,604.47 | 19.73 |
| 2016 | 118.10 | 2,238.83 | 18.96 |
| 2015 | 117.46 | 2,043.94 | 17.40 |
| 2014 | 118.78 | 2,058.90 | 17.33 |
| 2013 | 109.68 | 1,848.36 | 16.85 |
| 2012 | 103.80 | 1,426.19 | 13.74 |
| 2011 | 97.82 | 1,257.60 | 12.86 |
| 2010 | 85.28 | 1,257.64 | 14.75 |
| 2009 | 60.80 | 1,115.10 | 18.34 |
| 2008 | 65.47 | 903.25 | 13.80 |
| 2007 | 85.12 | 1,468.36 | 17.25 |
| 2006 | 88.18 | 1,418.30 | 16.08 |
| 2005 | 76.28 | 1,248.29 | 16.36 |
| 2004 | 67.10 | 1,211.92 | 18.06 |

The SPX (S&P 500) price is as of year-end for the period indicated except for the current year and next year which show the SPX price as of Friday. All earnings and estimates are per Thomson Reuters I/B/E/S as of the current month. Remember the p/e for this year and future years are based on forward ESTIMATES, whereas past years p/e were calculated based on trailing earnings. Also, forward estimates are usually revised downward over time.

| ECONOMY | GDPNow | NowCast | BEA* |
|------------------|--------|---------|-------|
| Q2 2019 Estimate | 1.20% | 1.50% | |
| Q1 2019 | 2.70% | 1.43% | 3.20% |
| Q4 2018 | 1.80% | 2.26% | 2.20% |
| Q3 2018 | 3.60% | 2.18% | 3.40% |
| Q2 2018 | 3.80% | 2.78% | 4.20% |
| Q1 2018 | 2.30% | 2.97% | 2.20% |
| Q4 2017 | 3.40% | 3.88% | 2.90% |
| Q3 2017 | 2.50% | 1.60% | 3.20% |
| Q2 2017 | 2.80% | 2.09% | 3.10% |
| Q1 2017 | 0.20% | 2.70% | 1.40% |
| Q4 2016 | 2.90% | 2.10% | 2.10% |
| Q3 2016 | 2.10% | 2.20% | 3.50% |
| Q2 2016 | 1.80% | 2.10% | 1.40% |
| Q1 2016 | 0.60% | 0.72% | 0.80% |

*Bureau of Economic Analysis is the official government estimate.

| TREND | VTI | SPY | VXUS | AGG |
|----------|------|------|------|-----|
| 1-Year | Even | Even | Down | Up |
| 6 Months | Up | Up | Even | Up |

Past performance does not guarantee future results.

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