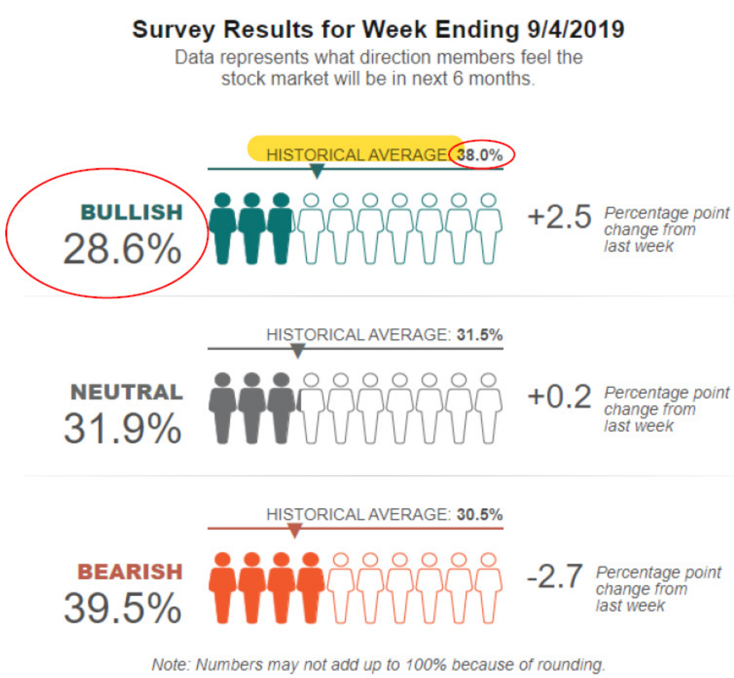
Weekly Market Update
September 9, 2019

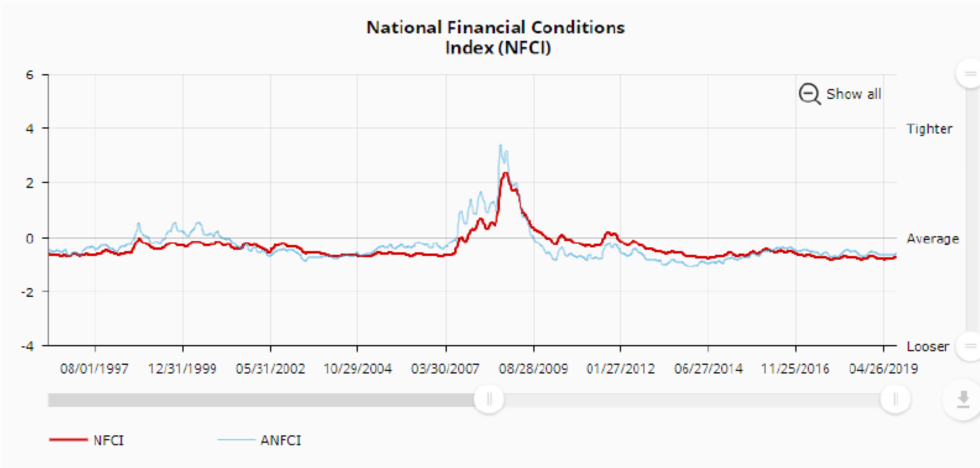
So What Gives?

Last week we discussed how our emotions will usually get in our way of making good decisions regarding our money. If we look at the newspaper or evening news, it looks like the world is falling apart and it's time to hunker down and "wait this out." It's as if Hurricane Dorian were forever on our doorstep. Like I said last week, emotionally I can absolutely agree, but when I take a moment to reflect on the actual conditions it gives me a bit of a different picture. That's not to say that there aren't bad data points, but to point out that there are in fact data points that don't look so bad. I've shown you the chart below before. It is the AAII investor survey. It consistently shows a very negative outlook from investors (which emotionally we can verify that), but from a contrarian standpoint, that means that the markets haven't priced in much good news and can give us a buffer on the downside and potential fuel for the upside. Keep in mind, when everyone is bullish, who is the next marginal person to invest?



I was going to show you this next chart last week, but Andrew said five pages was too much. I agreed with him, especially since I got tired of writing it, never mind reading it! The next chart looks at how "easy" or "tight" financial conditions are. Basically, how easy is it for companies and people to get credit and finance the things they desire. Like everything, there are exceptions to the rule, but in general, this chart shows financial conditions are pretty easy right now and have been since the Great Recession. As you can see in the chart, things can change pretty quickly, so while it's not an issue today, it could be a problem if something in the economy causes conditions to tighten.

The National Financial Conditions Index (NFCI) and adjusted NFCI (ANFCI) are each constructed to have an average value of zero and a standard deviation of one over a sample period extending back to 1971. Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions. Similarly, positive values of the ANFCI have been historically associated with financial conditions that are tighter than what would be typically suggested by prevailing macroeconomic conditions, while negative values have been historically associated with the opposite. For details, see "Introducing the Chicago Fed's New Adjusted National Financial Conditions Index."



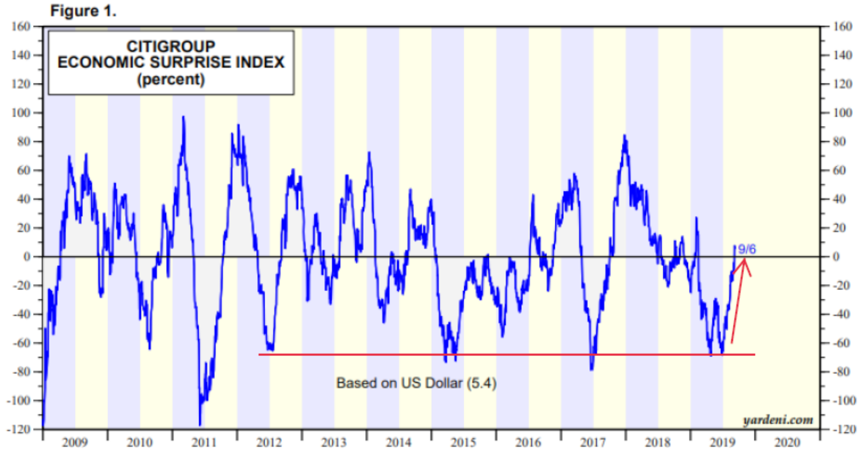
	Current	Previous	1 month ago	3 months ago	6 months ago	12 months ago
Index	08/30/2019	08/23/2019	08/02/2019	05/31/2019	03/01/2019	08/31/2018
NFCI	-0.7	-0.72	-0.77	-0.8	-0.8	-0.81
ANFCI	-0.6	-0.61	-0.66	-0.67	-0.66	-0.69

More information on the NFCI and ANFCI can be found in "Monitoring Financial Stability: A Financial Conditions Index Approach."

Finally, we've seen the Citigroup Economic Surprise Index make a sudden shift after having gone down since the beginning of 2018 (which conveniently enough is about how long the markets have gone sideways). You can see that the index bottomed in the same area that it had several times since 2008. Is this a precursor to better markets going forward? Maybe companies starting to feel better about the future? Maybe it's telling us the market is starting to say there will be a deal with China in the near future. I don't know any more that anyone else, but I do think it's interesting that the index has bottomed in that same area that it bottomed four other times. The future is still yet to be written and we can only try to paint a picture with the colors we have.

Citigroup Economic Surprise Index

Figure 1.



Note: Blue shaded areas denote first half of each year.
Source: Citigroup.

While we don't look at the world through rose colored glasses, we do try and look at all data points to try and put this complex puzzle together. These data points, as well as others, are reasons we remain ***cautiously optimistic***, while still understanding that we are at the latter stages of this cycle. One of the benefits of the slow growth economy we've had is that animal spirits haven't gotten out of control. We continue to be vigilant and should it become necessary to make changes prior to our traditional month end, we of course will. In the meantime, we always invite your questions and comments.

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