State of the Economy June 2019

The ten-year bull run continued this past quarter as the U.S. stock market brushed aside political threats and a slowing economy. Stocks recently climbed to new highs despite the escalation of a trade war with China. As the U.S. and China traded tariffs on imported goods, the market responded by posting its worst May since 2010. But, the potential for thawing trade relations between Washington and Beijing, coupled with the Federal Reserve suggesting a more accommodative monetary policy, helped snap stock prices back to new all-time highs in June. The Federal Reserve's power to determine interest rates clearly maintains a significant impact on the stock market.

The trade conflict between the U.S. and China could be moving towards a resolution heading into the G-20 summit meeting this week in Osaka, Japan. All eyes will be on President Trump and President Xi to end the conflict after each country has been trading tariffs over the past few months. In early May, U.S. officials accused Beijing of reneging on previously negotiated promises and responded by raising tariffs on more Chinese imported goods. Representatives on each side subsequently met to collaborate over the next few weeks with the goal of putting an end to the rising conflict. As the meetings continued, the U.S. refused to remove tariffs and China did not want to make concessions on matters of principle. However, Mr. Trump and Mr. Xi have emphasized their personal rapport throughout the dispute and recent commentary from U.S. Treasury Secretary Mnuchin signaled there is a path to an agreement. The market could receive a substantial boost heading into next week if positive news comes out of Japan.

The Federal Reserve decided to hold interest rates steady last week but signaled they may actually cut rates in the near future. The Fed cited uncertainty over whether the U.S. trade policy would improve in the months ahead, which could lead to a sharper slowdown for the economy. Their indication represents a major shift in economic policy compared to the past few years where the Fed had been slowly raising interest rates. Investors cheered the news by pushing the U.S. stock market to all time highs. Investors will be focused on the Federal Reserve's upcoming meeting on July 30-31. If the Fed decides to cut rates, I expect the market to jump in the near-term. On the other hand, this decision will also signify that the Fed is not very confident in the economy going forward.

The lowering of interest rates by Central Banks across the globe is not an encouraging sign for future growth. The recent impact of tariffs as well as a decade of tepid expansion, are preventing the economy from generating significant inflation that Banks have been expecting. Investors looking for a conservative and steady return are consequently piling into government bonds causing yields to plunge globally. This past month, the ten-year bond yields fell to record lows in France and Germany with the ten-year German bond hitting -0.32%. In this situation, investors seeking safety in Germany would actually be locking in a negative return for the next ten years. In the U.S., the ten-year treasury recently touched below 2% for the first time since 2016. The surprise drop in interest rates has spurred a rush by individual borrowers to lock in low rates on mortgages. Additionally, multinational companies are responding to strong demand by issuing bonds earlier than originally planned to investors. Although the bond market appears to be signaling a significant slowdown in the economy, the stock market is not providing the same indication.

While investors in the stock market continue to benefit from all-time highs, the majority of the Millennial generation is failing to reap the benefits. New data reflects that Americans born between 1981 and 1996 are not reaching the prosperity every generation before them since the Great Depression. They have less wealth, less property, lower marriage rates and fewer children compared to generations at similar ages. Growth in property values and in the stock market this past decade helped older households recover from the recession, but Millennials have made little progress. Millennials as a group are better educated than any generation before them. However, the cost of loans, slow wage growth, and increases in cost of living have hampered their accumulation of wealth. Also, it is very possible Millennials and younger generations will not receive the same level of social security benefits during their lifetime. Additionally, they are expected to live longer life spans and will need more assets to help support their lifestyle.

It is imperative for young adults to gain a better understanding of their finances so they can make prudent financial decisions earlier in life. The margin of error is tighter than ever before.

Sincerely,

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