

September 4, 2019

Dear Valued Investor:

The Dog Days of Summer were on full display this past month, as a variety of concerns pushed stocks and bond yields lower. After reaching new record highs in late July, the S&P 500 Index dropped approximately three percent in August as trade concerns pressured investor sentiment around the world. Impacts of U.S.–China trade tensions reverberated throughout the economy and financial markets in recent weeks, including weakening global manufacturing data and plunging sovereign interest rates. As a result, safe-haven assets like gold, government bonds, and utilities outperformed in August.

Escalating trade tensions early last month dashed hopes of a quick resolution. Both sides need to show strength as China is dealing with protests in Hong Kong and preparing for the 70th anniversary of the People’s Republic of China this October, while President Trump is gearing up for the U.S. presidential election. While global manufacturing has borne the brunt of the trade damage, the latest round of tariffs will impact more consumer goods.

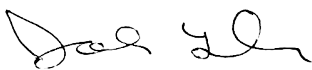
Fortunately, the U.S. consumer remains in good shape, bolstering the economy. The unemployment rate is low, wages are rising, and debt as a percentage of disposable income remains near four-decade lows. Personal spending has driven U.S. output, which during the first half of 2019 remained slightly above the average for the economic expansion. We believe the key to sustaining growth is renewed strength in business investment, which likely requires progress on trade.

The inverted U.S. Treasury yield curve reflects these uncertainties. An inversion occurs when short-term interest rates exceed longer-term rates and typically indicates pending economic weakness, or recession. Considering the relative strength of the U.S. economy and expected interest rate cuts from the Federal Reserve (Fed), we’re not convinced recession is imminent. Instead, we believe the shape of the yield curve reflects a run on U.S. Treasuries based on the global search for yield. More than \$17 trillion in global sovereign debt offers negative yields, where lenders pay borrowers for the “privilege” of loaning them money.

Another message sent by the yield curve is that monetary policy is too tight given trade uncertainty, so the Fed needs to respond promptly with lower interest rates. Of course, we will have a recession someday, and now that we’re in the longest expansion ever, anticipation is high. Yet reviewing fundamentals, even with trade, we’re hard pressed to project contraction soon. It is conceivable, though, that a variety of global events, including the uncertainty of trade and the U.S. election, may cause businesses and consumers to “sit this one out” in the fourth quarter of 2020 and the first quarter of 2021. We assign odds of that recessionary scenario at 1 in 3.

In conclusion, fundamentals of the U.S. economy remain solid even as trade uncertainty weighs on investor sentiment. We would interpret the yield curve inversion as a signal that the Fed is too tight, not of imminent recession. Also keep in mind that stocks have historically performed well in the 12 to 18 months following inversions. We recommend suitable investors continue to focus on economic and market fundamentals while maintaining diversified portfolios. If you have any questions, please contact your trusted financial advisor.

Sincerely,



John Lynch
EVP, Chief Investment Strategist
LPL Research

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

All performance referenced is historical and is no guarantee of future results.

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The gold market is subject to speculation and volatility as are other markets.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

This research material has been prepared by LPL Financial LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC).

Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL is not an affiliate of and makes no representation with respect to such entity.

If your advisor is located at a bank or credit union, please note that the bank/credit union is not registered as a broker-dealer or investment advisor. Registered representatives of LPL may also be employees of the bank/credit union. These products and services are being offered through LPL or its affiliates, which are separate entities from, and not affiliates of, the bank/credit union. Securities and insurance offered through LPL or its affiliates are:

**Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed
Not Bank/Credit Union Deposits or Obligations | May Lose Value**