PATTERSON WEALTH MANAGEMENT
15415 CLAYTON RD.
BALLWIN, MO 63011

WWW.PATTERSONWEALTHMANAGEMENT.COM
JPATTERSON@PATTERSONWEALTHMANAGEMENT.COM

DIRECT: 636-779-0664
TOLL FREE: 800-536-8770
FAX: 636-537-8779
CELLULAR: 314-477-1686

June 6, 2019 Dow Jones Industrial Average: 25,539

Will the Summer Bring Market Doldrums or a Market Resurgence???

The month of May was a long month! The typical month of May brings about graduations, and the Memorial Day parties, but this May also brought with it a market selloff of approximately 6.6% for the S&P 500 Index and over 7.9% for the NASDAQ Composite.

The selloff was mostly a product of a GEOPOLITICAL tensions: the breakdown in the China Trade talks, the ongoing drama of the exit of Great Britain from the European Union / Brexit- which has now resulted in the resignation of Prime Minister Theresa May. These factors gave market traders a good excuse to take profits, as the S&P 500 Index hit its all-time highs on April 30th.

The month of June started with the indexes still in good shape for the year, even after enduring the May correction, source: Bloomberg, as of 5/31/2019:

Dow Jones Industrial Avg.:	6.38%
S&P 500 Index:	9.78%
NASDAQ:	12.33%

In my opinion, there is one thing that is lost in the 24-hr. news cycle…the primary reason for the decline in the 10-year Treasury. Consider the backdrop of the German government 2-year bond that has a negative yield of -0.64%, along with the 10-year bund that also has a negative yield of -0.20%. These negative yields cause sovereign wealth investors to go looking for positive yields. As foreign investment dollars increase the demand for U.S. Treasury bonds, this causes the prices to move higher, which then pushes the yield on the bonds lower.

You will hear some pundits say that as yields have fallen, this means that a recession is about to hit. My contention is that due to the strength of the current U.S. economy: the lowest unemployment rate since 1969, a recently lowered corporate tax structure, and the strong consumer...foreign investors and governments feel comfortable with investing in the bonds backed by the United States.

Market Doldrums or Market Resurgence???

I have always been a believer in the "Sell in May and Go Away" adage/investment strategy. Historically, the 50-year average return differential from being in the market from November to May and being out of the market from May through October has been roughly 7.27%.[1] However, this strategy has not been a very successful approach in the last 6 years. The most recent 6-year period has shown that the strategy has only generated a positive differential of +0.66%, calculated through April 26, 2019.[2] So, as opposed to incurring potential tax liabilities in moving your investments to cash over the summer- it may benefit the average investor to simply buy and hold over the summer.

[1] Data Source: Bespoke, October 29, 2015, "November Seasonality"
[2] Data Source: Navellier MarketMail, April 29, 2019, "April was Great, but Don't Sell in May (or Go Away)

Certainly, this past May (2019) would have proved to be a good time to sell…to avoid the 6% draw-down. But, on the "flip side of the coin" on June 4th & 5th, the Dow Jones Industrial Average moved over 700 points on the news that the Federal Reserve would support the stock market/economy if the "Trade War / Tariffs Spat" would start to dampen growth in the economy.

I bring this market moving news to your attention because the stock market seems to mainly be trading on a minute-by-minute trade news, economic news, or random tweet. So, the idea of being out of the market, or trying to time the market, given a calendar, has just become more difficult due to the "knee jerk" reactions of various market-moving news.

My expectations are that this summer will probably drift sideways, as the trade talks continue to gather momentum.

- I expect Mexico and The USA to resolve the recent 5% tariff threat (having to do with immigration).
- In my opinion, the China trade deal will be much more difficult to make finally happen, due to the more nationalistic position that China has taken. Additionally, the China delegation has been perceived to have been dealing in a "lack of good faith". Renewing the goodwill of sincere negotiations may be difficult to overcome.

  The 25% tariffs on imported goods that are being imposed on China are expected to reduce their GDP in the following manner:
  "the Organization for Economic Co-operation and Development (OECD) is forecasting China's growth rate to slow to 5.5% in 2020, then fall below 4% in 2025 and below 3% by 2030"
  Navellier MarketMail: May 20, 2019.

  Whereas, the tariff effect on The USA will much less, since we do not export nearly the same amount to China. So, there SHOULD be an incentive to make a trade deal from China's perspective…whether, The USA will agree to a deal that China is willing to offer is the big question.

Lastly, something to put on your radar- I recently read a research report on the potential of China to DEVALUE THEIR CURRENCY to offset the negative effects of the tariffs. This research was more of a weekly article, and contained the writer's opinion, but his contention was that China has devalued their currency once before and they could do it again.

> "We should not forget that the December 1993 yuan devaluation sowed the seeds of the Asian Crisis of 1997-1998. The 1993 34% yuan devaluation capped a period when the yuan was devalued from 3.73 in 1989 to 8.73 in 1994. The trouble is that the Chinese economy is now 20 times larger, so a devaluation to counter U.S. tariffs and create the necessary inflation to inflate away part of the mountain of debts in the Chinese financial system will have a much bigger effect on the global economy than it did in 1993." Navellier MarketMail: May 29, 2019.
> **The Calm before the Chinese Trade Storm**
> by Ivan Martchev

I hope that you have a good summer. Certainly, feel free to contact me with any questions that you might have at 636-779-0664.

Jeffrey S. Patterson
Investment Portfolio Manager

#LGB / Let's Go Blues!