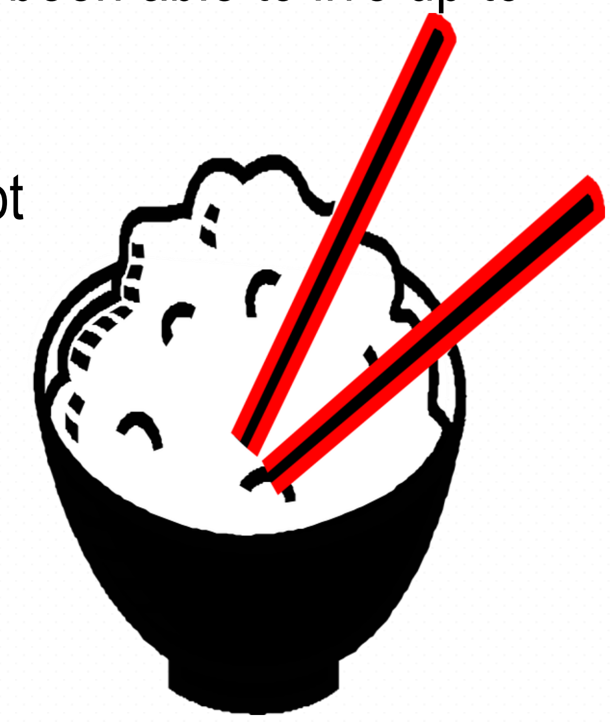
My favorite food is Mongolian beef. For years when our office was located in the River North area, I would order from a small Chinese restaurant called Nans, which had the best Mongolian beef I had ever tasted. The restaurant eventually moved to the Lincoln Park area and at times on my way home from work I would stop and pick up an order. Then suddenly, one day they closed. I have tried many other places, and none have been able to live up to my expectations.



If I were still eating Chinese food as much as I used to do, I would not be surprised if one of those fortune cookie messages read, "Even we don't know what is going on with trade tensions with China." The experts don't know. I don't know, and sometimes I feel that the negotiators don't even know. I wish I was a fortune cookie so that I could tell you what is going to happen next, but Washington has become very unpredictable with regard to its economic policies.

I was a bit surprised the other day while watching CNBC and heard one of the guest moderators indicate that the S&P 500 Index was mostly flat since the January 2018 highs. I did the calculation and sure enough over the last 19 months the S&P 500 Index is down 1.1%. Why have the stock markets not done well over this time? Some of it would have to do with the Federal Reserve raising rates last year, an economic global slow down and trade wars. So let me address all three of these issues.

On July 31st, the Federal Reserve cut rates for the first time in more than a decade. I did not feel this was warranted at this time since we are near all-time lows in unemployment and the economy is still growing, albeit at a slower pace. I would prefer to see the Fed lower rates when the economy actually needs it – such as back in 2008. The stock market reacted positively to the current rate cut, but when Fed chair Jerome Powell started to speak about why they thought it was necessary and what they might be doing going forward, the markets started to reverse course.

In his summary statement he stated, "The outlook for the US economy remains favorable and this action is designed to support that outlook. It is intended to insure against downside risks from weak global growth and trade policy uncertainty, to help offset the effects these factors are currently having on the economy, and to promote a faster return of inflation to are symmetric 2% objective. All of these objectives will support achievement of our overarching goal, to sustain the expansion with a strong job market and inflation close to our objective for the benefit of the American people."

A few minutes later he followed this all up by saying that one of the main reasons why the Fed's view changed from increasing rates just nine months ago to cutting them now was that manufacturing output had declined along with business investments in 2019. He further stated that the Fed was not in a rush to decrease rates in the near future. After these comments, the S&P dropped and by the end of the day was down 1.3%

The following day, the White House announced a new round of tariffs, 10% on another $300 billion of Chinese goods that would start in September. Then China countered by announcing that they would suspend the purchase of all agricultural products from the US. Over the next three trading days the S&P 500 Index lost another 3%. On August 13th, the White House backed off the original date and stated that the new round of tariffs would instead be imposed in mid-December. The markets reacted favorably and closed up over 2% during this trading session.

It appears that the trade war with China is not going to end anytime soon as we see both sides dig deeper into the sand. We need to recognize that volatility will remain while this issue persists. This will lead to more businesses limiting their investments and consumers spending more money for goods, putting even more pressure on global growth.

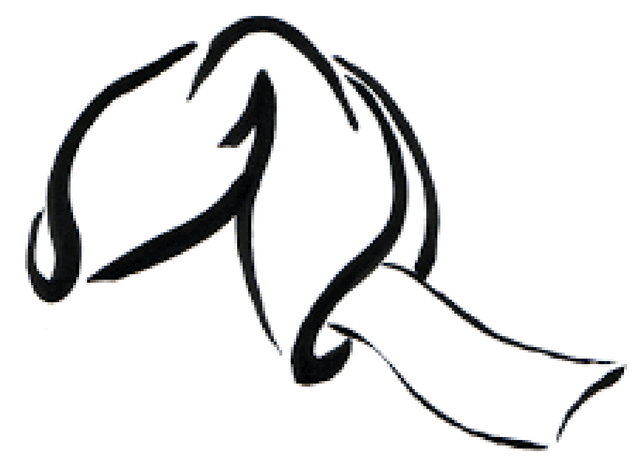
We do know that over the last year there has been a global slow down, but it has been much better than expected. We are finishing up second quarter earnings reports and while earnings are down roughly 0.7% year over year, this is much better than the -2.7% that was expected. Please remember that even while the economy is slowing down, it is still growing. Hopefully we will see progress in the US-China trade talks and rebounding global activity.

Unlike the S&P 500 Index underperformance the last 19 months, there have been two investment asset classes that have done extremely well since last January 2018 highs: the bond and real estate markets. As of yesterday the Barclays Aggregate Bond Index is up 9.3% the last 19 months, while the Dow Jones US Real Estate index is up an impressive 14.9%. In fact the bond market is up 8.3% year-to-date which is the best performance that we have seen in any given year since 2002 when it was up 10.3%. This is one of many reasons why we want to have bonds and real estate be a part of everyone's portfolio.[1]

Here is hoping the next fortune cookie message that I get reads: “Here is the new number for Nans” or more importantly, “There will be an agreement on trade between the US and China very soon.” If you have any questions please reach out to me. Take care and have a great rest of the summer.

Sincerely,

Gregory Bork Jr.



1. Market performance in this report were provided by Yahoo Finance Historical Data