GBA Financial

Newsletter
September 2019

COMMENTARY

August was, in my opinion, pretty annoying. Five points if you guess what I'm going to bash…. the media!

If you were to only look at the headline news every day in August, you would think we were down a billion percent (okay, maybe less than that) and that the global economy is in shatters. When in reality, with the exception of a few days in August, the markets have basically gone nowhere for the entire month. This consolidation range we are experiencing now might be similar to the consolidation we saw in October-November 2018. It could resolve itself lower, leading to another selloff like it did last December. Or maybe, it resolves itself higher like we have seen so many times throughout this bull market. I don't know, nobody knows…especially the media.

You might be wondering, "When will there be a bear market (decline of 20% peak-to-trough) and an economic recession?" This is a question we receive fairly often and a big question we think about every day. There are quite a few economic indicators that are starting to flash red – stock valuations, inverted yield curve, high-yield option-adjusted spreads, and low levels of unemployment (low unemployment typically leads to wage growth, which is inflationary and causes Fed tightening). The trade war with China is already over a year old, and the timeline of its resolution is anyone's guess (we think 2020 before the next election, but are not ruling out China gambling against a second term for President Trump). Brexit is still making a mess across the pond and the Federal Open Market Committee (FOMC) is trying its best to stay independent so as to not be pressured into a decision by the actions of the White House. Many factors could contribute to global slow down, but one question we continue to ask ourselves is, when a recession does come, do many investors see it before it happens and position themselves for it? That question is tough to answer "yes." Still, there are enough signs that investors should be cautious in the right areas of their portfolio. We believe the best course of action at this time is to move or stay relatively conservative in your fixed income allocation, while staying aggressive in your equity allocation. Getting out of equities too early can have the same effect as getting out too late.

ECONOMIC HIGHLIGHTS

S&P 500	2,926.46
DIJA	26,403.28
NASDAQ	7,914.74
OIL	$55.10/barrel
GOLD	$1,529.40/ounce
10-YEAR TREASURY FIELD	1.51%
UNEMPLOYMENT	3.70%
GDP	2.00% (Q2 1st estimate)
CONSUMER PRICE INDEX (CPI)	0.3% (12 mo change +1.8%)
CORE CPI	0.3% (12 mo change +2.2%)

Consumer Confidence – In the face of all the trade tension and stock market volatility, consumer confidence is still near all-time highs.

Inflation – For the second straight month, Personal Consumption Expenditures (PCE), Producer Price Index (PPI) and Consumer Price Index (CPI) are all tracking below 2.0% (Fed's target rate). The Fed doesn't want the word deflation creeping into investors' minds and will likely cut rates to fight any idea of deflation

Yuan Devalued – China responded to US tariffs by letting its currency value fall to an eleven-year low vs the U.S. Dollar. From a trading perspective, a weaker Yuan will give China a competitive advantage.

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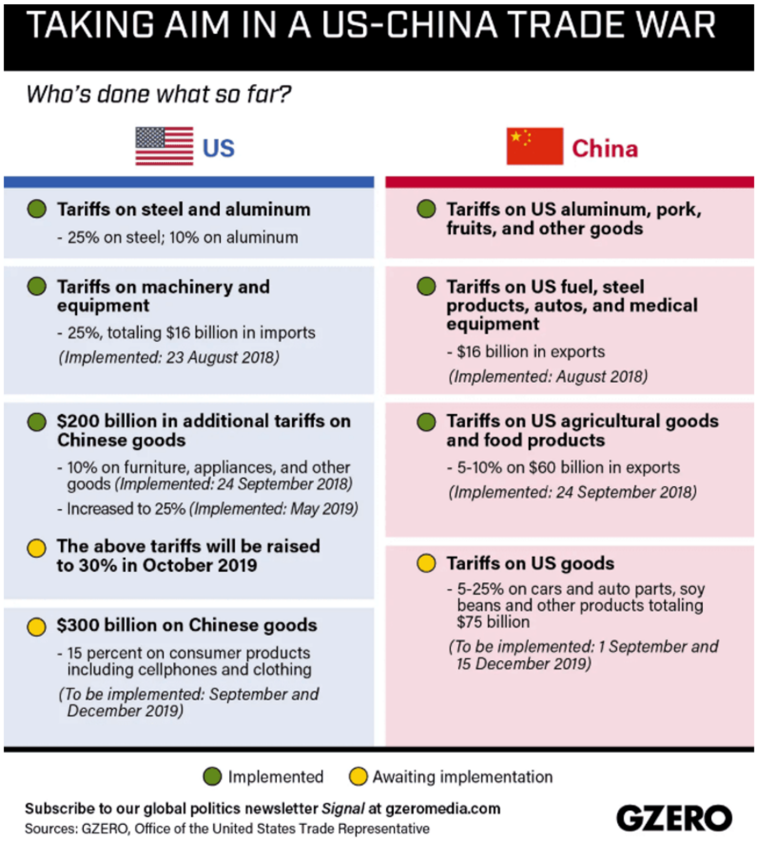
The US-China trade war continues to grab headlines and will most likely be a topic for another six-to-twelve months. This graph shows a good summary of what has happened and what is currently waiting to be implemented. As of this writing, we expect the U.S. to implement additional tariffs on consumer products at the beginning of September.



The next FOMC meeting is September 18th. Most investors anticipate at least a 25bps cut to the current Federal Funds rate. If this happens, we anticipate little reaction on the news as the market has mostly priced this in. Anything other than a 25bps cut (no cut or 50bps cut) will most likely move the market, as will the comments regarding the future of the Feds moves from Fed Chairman Jerome Powell.

Our long-term view (multiple years) of equity markets is bullish. The market is still in the middle part of a secular bull market, with the previous two secular bull markets lasting 17 years. Inside of a long-term secular bull market, a bear market and a recession is expected, but we currently do not project this for 2019. Our S&P 500 target at the beginning of the year was 2800. We revised that to a S&P 500 target of 3200 just last month. The market looked poised to breakout, but a tweet from President Trump on tariffs with China sent the market down. August and September are typically the worst months of the year for the stock market, so if we can hold these levels we may setup for a year-end rally. 3200 may be tough to reach, but not out of the question. In Fixed Income, portfolios are maintaining over-weights in International and Floating Rate bonds. We will gradually be looking to move into U.S. Government Bonds and Mortgage-Backed Securities, as the fixed income position moves more conservative. Our research team is constantly evaluating our products and tactical positions inside both the fixed income portfolio and equity portfolio by looking at both larger trends and short-term opportunities. With daily monitoring of accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	6.87%	2.92%	12.70%	10.11%
MSCI EAFE	1.88%	-3.26%	5.91%	1.89%
BAR AGG BOND	4.11%	10.17%	3.09%	3.35%

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