GBA Financial

NEWSLETTER
OCTOBER 2019

COMMENTARY

Apologies in advance for getting the 1994 Billboard number #1 hit song, "The Sign" by Ace of Base, stuck in your head: "I saw the sign and it opened up my eyes, I saw the sign". Ace of Base had three hit songs in the top ten that year, cell phones were "cutting edge" and "way" more advanced than the cell phones in TV show "Saved by the Bell" (google it for a good laugh). Tom Hanks was the star in the number one movie Forrest Gump and Seinfeld was a popular TV show. Why are we breaking out these blasts from the past? Because we are now seeing some similarities to the market and economy as we did in the mid-to-late 90s. "History doesn't repeat itself, but it often rhymes," a quote often attributed to Mark Twain.

In February 1994, the Federal Reserve started raising rates, and over the next 12 months the Federal funds rate went from 3.25 percent to 6.0 percent in February 1995. The Fed, led by Alan Greenspan, quickly reversed course and lowered rates in July of 1995 just six months after raising rates. Then, followed it up with two more rate cuts. Sound familiar? Although, we currently haven't seen rates go up as fast as they did in the mid-90s, we did get a pretty quick reverse from the rate increase we got in December 2018 to the rate cuts we've seen in 2019. Another similarity to the mid-90s were trade negotiations and tariffs threats on the second largest economy and a big trade partner with the US. Today, that is China, back in the mid-90s, it was Japan. Lastly, and most recent, is the possibility of a Presidential impeachment. Former President Bill Clinton had a lawsuit filed by Paula Jones accusing President Clinton of sexual harassment and today, President Trump could face something similar pending the findings surrendering his communications with the Government of Ukraine regarding political opponent Joe Biden. But let's take a look at the market and compare the charts of the S&P 500 from the mid-90s and current times.

Both charts start off trending upward (green arrows) before trading in a consolidation range (red square). The current consolidation range is a little more volatile (including a failed breakout to the downside back in December 2018) and is lasting longer than the one from 1994 to 1995, but the similarities are there. Obviously, there is no guarantee that a break to the upside is coming or if a breakout would have the same trajectory that was seen in 1995. But, if we can avoid a recession and the Fed can create a soft landing, we think the markets are setup for a nice rally. If the S&P 500 index is above 2700 then we want to stay on the bullish side of the market and if the S&P 500 index goes below 2700, we need to re-examine at that time.

ECONOMIC HIGHLIGHTS

S&P 500	2,976.74
DIJA	26,916.83
NASDAQ	7,999.34
OIL	$54.07/BARREL
GOLD	$1,472.90/OUNCE
10-YEAR TREASURY FIELD	1.68%
UNEMPLOYMENT	3.70%
GDP	2.00% (Q2 3RD ESTIMATE)
CONSUMER PRICE INDEX (CPI)	0.1% (12 MO CHANGE +1.7%)
CORE CPI	0.3% (12 MO CHANGE +2.4%)

Employment Situation – Unemployment rate stayed as is at 3.7% even as participation rate increased from 63.0% to 63.2%.

Global Monetary Easing – September saw many central banks around the world provide economic stimulus. The FOMC cut the Federal Funds rate by 25 bps and is now targeting a rate of 175-200 bps. The European Central Bank also provided easing by dropping rates from -0.4% to -0.5% and restarting monthly bond purchases of 20 billion euros. Central Banks are trying to perform a soft landing and keep the economy from falling into a recession.

ISM manufacturing – dropped below 50 in August. In general, a reading below 50 indicates a contracting manufacturing economy. We (and many other investors) closely watch this indicator.

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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 are expected, but we currently do not project a recession looking out at the next six months. Our S&P 500 target at the beginning of the year was 2800 which, we revised in our August newsletter to a S&P 500 target of 3200. August and September are typically the worst months of the year for the stock market, so we'll see if October brings more treats than tricks. 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 to help protect on the downside if our bullish call does not play out. 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 individual accounts, 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	1.70%	4.25%	13.39%	10.84%
MSCI EAFE	-1.07%	-1.34%	6.48%	3.27%
BAR AGG BOND	2.27%	10.30%	2.92%	3.38%

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Barclays Capital U.S. Aggregate Bond Index, which used to be called the 'Lehman Aggregate Bond Index', is a broad base index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

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