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October 4, 2019

The Markets Rebound as Trade Tensions Cool

Dear Great Lakes Wealth Clients and Friends,

The markets have a lot to contend with as we close out the third quarter and the month of September. Financial fundamentals are taking a back seat to political considerations and trending sentiment partly because the data has been mixed, we believe job gains and wage growth should support consumer spending growth into 2020, more than offsetting a slow patch in business investment, while the Federal Reserve (Fed) has again lowered short-term interest rates to ensure against downside risks.

Adding to the mix are impeachment inquiries, unsettled Brexit, growth concerns in Germany and China, and pending U.S. elections. Trade negotiations between the U.S. and China remain uncertain, though officials are set to meet in both October and November, increasing optimism for a mini-deal. However, we suspect fluctuating sentiments between the two countries to fuel market volatility through the 2020 election.

On the other hand, it appears that cooling trade tensions between the U.S. and China, an additional Fed rate cut of 25 basis points (bps), and solid domestic U.S. economic data all added to spark a rebound in risk-asset performance this month, which led the S&P 500 to rise to within 1% of all-time highs. The U.S. dollar also rose to its highest level since May 2017, and the 10-year Treasury yield bounced approximately 25 bps after it hit its year-to-date lows and lowest level (1.46%) since July 2016 on September 3.

In September, the Fed addressed a liquidity crunch in the repo market, which briefly spiked money market rates. In response, it may also bring forward the start of a mini quantitative easing, according to Fed Chair Jerome Powell.

The month ended positively for the S&P 500 (1.72%), Dow Jones Industrial Average (1.95%), NASDAQ (0.46%) and the Russell 2000 Index (1.91%). The quarter also ended positively for the S&P 500 (1.19%) and the Dow Jones Industrial Average (1.19%), but negatively for the NASDAQ (-0.09%) and Russell 2000 Index (-2.76%).

	12/31/18 Close	9/30/19 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	23,327.46	26,916.83	+3,589.37	+15.39%
NASDAQ	6,635.28	7,999.34	+1,364.06	+20.56%
S&P 500	2,506.85	2,976.74	+469.89	+18.74%
MSCI EAFE	1,719.94	1,895.72	+175.78	+10.22%
Russell 2000	1,348.56	1,523.37	+174.81	+12.96%
Bloomberg Barclays Aggregate Bond	2,046.60	2,219.97	+173.37	+8.47%

Performance reflects price returns as of 4:00 p.m. ET on September 30, 2019

Here is a look at some key factors we are watching, both domestically and abroad:

Economy

- Recent economic data has been mixed, reflecting continued strength in consumer spending, but general weakness in manufacturing. Fed Chair Powell noted that businesses are reporting that trade policy uncertainty has discouraged them from further investment.
- Strong household sector fundamentals should continue to support consumer spending growth and offset weakness in other sectors, but a deterioration in labor market conditions would shift that outlook.

Equities

- Overall, we maintain a generally positive bias toward equities. It is too soon to tell whether the recent improvement for cyclical sectors, like banks and industrials, is sustainable – however, if the trend continues for these deep cyclical sectors and former leading sectors rebound, we see this movement as a market positive.
- We expect the third quarter to end with flattish earnings growth, however, we do expect more supportive growth from the average stock, led by companies with more exposure to the U.S. and less exposure to overseas markets.
- While overall the technology sector is faring fine, the tech-heavy NASDAQ has underperformed slightly due to former leaders, like software and IT services, falling slightly as former lagging sectors, like semiconductors and hardware, perform above their norm.
- Earnings season and the upcoming trade talks need to be closely monitored in the coming weeks and we expect any market reaction to impeachment proceedings to be short-lived. We view short-term volatility as yet another buying opportunity.

Fixed Income

- The federal funds rate is now in the 1.75%-2.00% target range. We believe there is a high probability that central bankers will cut once more before the end of the year.
- With many economic and geopolitical factors at play, interest rates have fluctuated from week to week. However, we believe the long-term outlook continues to reflect lower rates as, for example, the 10-year Treasury has rallied and pushed rates down 35% year-to-date.

International

- Year-to-date, 46 central banks around the globe have cut interest rates. In addition, key banks such as the European Central Bank (ECB) have announced yet another asset purchase program. The combined balance sheets of the ECB, Fed, Bank of Japan and People's Bank of China have ballooned to nearly $19.4 trillion. This has been a key factor in bringing interest rates down and will continue to affect rates as long as this accommodative monetary practice continues.
- Despite continued uncertainty over Brexit in the U.K., the pan-European equity markets in September had their best monthly performance since June.
- Chinese economic data continued to slow during September, and the country's policymakers also loosened policy around both monetary and fiscal initiatives. Local Asian markets were buoyed by perceived warmth between the U.S. and China regarding trade, and a trade deal between the United States and Japan was signed.
- Global markets continue to offer typically lower valuations and higher dividend yields, although they are based in economies where global investors remain concerned about the potential for future growth. We continue to monitor foreign markets closely looking for investment opportunities.

Bottom Line

- As trade negotiations and global affairs progress, we'll be keeping an eye out for movements that might particularly affect investors and their financial plans.
- We expect volatility to continue in the coming weeks and believe investors should remain patient to take advantage of buying opportunities during weaker periods – and use market pullbacks to add to your portfolio. Volatility continues to create opportunity!
- As a result of the current stock market worries due to Tariffs, current impeachment talks, Brexit, etc., we will be looking for opportunities in assets with favorable Q3 earnings and stable forecasts, and good "risk vs. reward" technical indicators.
- We are entering the seasonally strong part of the year for investing, November to April.

- We currently recommend that clients can add to all 12 of our strategies - which one(s) is right for you? That just depends on your risk tolerance, ultimate objective, etc.
- Our current approach – Discipline and patience when both buying and selling.

As always, we'll continue to keep you updated. If you have any questions or would like more information on becoming a Great Lakes Wealth client, call us at 248.378.1200

Sincerely,

GREAT LAKES WEALTH

Your Investment Team at Great Lakes Wealth

Wall Street Solutions with Main Street Values!