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Pause?

Global Markets and Regions

	3rd QTR	2019 YTD
US	1.60%	20.60%
Developed Europe	-1.80%	14.40%
Asia	-1.20%	8.30%
Emerging Markets	-3.63%	6.20%

US Markets

	3rd QTR	2019 YTD
Dow 30	4.10%	15.40%
Large Cap Cos.	1.26%	20.56%
Mid. Cap Cos.	-0.37%	17.86%
Small Cap Cos.	-1.15%	13.73%
Bonds	2.28%	8.38%

A year ago last October, the markets had just begun a three month swoon that resulted in market declines of 15% to 20%. Those are full blown Bear Market metrics. Concerns about an economic recession were the prime topic of discussion for market analysts and investors. The proximate causes of that concern were the escalating trade war with China and weakening global economic conditions. The Federal Reserve was in the midst of four Fed Funds rate increases, raising the probability of, or as many were speculating, the certainty of a recession. The mid-term Congressional elections saw control of the House of Representatives shift to the Democrats with their interest in impeachment of the President. We asked the question “Do We Have a Recession” in our newsletter. The answer to that question has been no, at least not yet.

The US economy has continued its growth trend as measured by most of the data. Unemployment continues to stay at historically low levels. Jobs are plentiful and workforce participation (the percentage of the population actively looking for work) continues to expand. Wages are growing faster than inflation. Consumer confidence and spending are still strong. The data do not show a recession. On the other hand, the rate of improvement in the economy is clearly slowing. Incremental gains in the data points are smaller, but they have not gone negative. The market is concerned none the less.

All of the negative background issues of last year are still present. By some measures they have gotten worse. By some measures they have gotten better. The China trade issues have made only small progress toward resolution. But progress is being made.

The European situation is still unresolved with the British exit (Brexit) from the European Union coming up quickly with no clear indication of what the post Brexit rules will be. The major component

economies teeter between outright recession and no discernible growth. Their ongoing experiment with negative interest rates as a means of trying to encourage growth has had all sorts of unintended consequences. Progress is slow and the process is messy.

The Federal Reserve has shifted its policy on interest rates from increases to cuts rather than continuing to pursue a "normalization" of monetary policy and continue unwinding the Quantitative Easing strategies left over from the Great Recession. They are focusing more on economic data and recognizing the impact of the trade disputes on growth. They are also paying more attention to effects of the negative interest rate polices of other Central Banks. Their use of these strategies has changed the ways economies respond to Central Banks in ways that no one fully understands yet.

While the markets have fully recovered from last year's fourth quarter swoon, they have struggled to extend to new highs. The impact on corporate earnings as a result of the global turmoil has been evident as the year has progressed. Earnings growth is clearly slowing down. Consequently, market volatility has increased. It is possible that this trend could continue. Steady consistent earnings growth is what keeps markets calm and rising.

The extended list of global economic headwinds appears to be slowly working to some sort of resolution. The Chinese economy has performed relatively worse than the US economy. The trade war has resulted in a dramatic slowdown in China. This has had significant spillover effects to the global economy. The US economy is doing better, but could be doing much better if there was some sort of durable resolution or at least progress in that general direction. A resolution is in everyone's best interest.

We are entering a Presidential election year. Historically they are not always the strongest return years, but they tend to have an upward bias. One of the exceptions to this pattern was George W. Bush's 2nd term, which featured the Global Financial Meltdown. Politics did not cause the financial crisis. It had been building for years, if not decades and happened to present itself in an election year. This year we have a hyper-partisan political division in the country. While annoying or entertaining, depending on your view of politics, unless it threatens the economy in a serious manner, it probably won't matter. Markets generally follow the economic data. To the extent politics can influence that data it will matter. The current default Washington economic policies are generally supportive of economic growth. So it will take something else to knock the economy down. The market will be keeping a close eye on things.

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