HollisWealth®

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Hello,

Please find our most recent newsletter. I would like to take this opportunity to address some of your market concerns. After a near bear market in the final three months of 2018, we have experienced a sharp reversal during the first half of 2019, with two important material market-shaping events. First, the U.S. Federal Reserve met to discuss interest rate policy – specifically the potential for interest rate cuts, which proved positive for equity and bond performance. Second, President Trump and Chinese President Xi Jinping met at the G20 to discuss the trade dispute between the two countries. Afterward, both sides agreed to delay any further tariffs. Market sentiment often moves like a pendulum and after swinging toward very negative sentiment near the end of 2018, markets have swung quickly back toward positive sentiment. Unfortunately, through the month of August, President Trump continued the threats to impose potentially devastating tariffs. While markets have reacted positively to the initial news from G20 summit, the details are sparse and don't provide a clear plan for rolling back tariffs. We're stuck with 25 percent tariffs on $250 billion of goods as soon as early September. This uncertainty will continue to cloud the global trade story until a concrete resolution is reached.

Despite a continuing trade dispute and a bit of weakness in the U.S. economy, the S&P 500, Dow Jones and Nasdaq are up for the 2019 calendar year. The U.S. Federal Reserve meeting on June 19 helped boost both the stock and bond markets by raising hopes of multiple interest rate cuts –a positive for markets. U.S. company earnings for the second quarter will be important for determining whether rising wages, interest costs and tariffs resulting from the dispute with China will affect record profit margins.

Central bank policy - The narrative has changed remarkably since 2018. Central banks were increasing rates and now they're discussing cutting interest rates multiple times while providing additional monetary stimulus. In the U.S., the markets are pricing in nearly three interest rate cuts of 25 basis points each this year to drive the target for the Federal Funds rate to 1.50-1.75 percent. Central Banks in Europe, Canada, and Japan may follow suit.

Looking forward - Despite the market rally, when you look at the big picture it would be wise to manage expectations going forward. The odds of a recession are still low, but the global economy is slowing, which will weigh on company profits. Mark Twain said, "History doesn't repeat itself, but it does rhyme." We are beginning to see economical patterns similar to those that developed in previous periods where returns were lower than average. It may serve investors to be less optimistic and play a bit more defense at this point in the cycle.

In the next few months we will be reaching out to our clients to book reviews and to reposition investments to be more conservative. If you wish to address it right away, please contact my office.

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