

# summaries



the official newsletter of sigma investment counselors

October 2019

## MARKET COMMENTARY

The third quarter of 2019 was volatile as tariff negotiations, US politics and global interest rate fears provided consistent doses of market uncertainty. That being said, equity prices ended the quarter largely unchanged from three months earlier, while bond prices exhibited significant increases due to a decrease in overall interest rates. In sum, financial markets on average continue to sit well above prior year-end values.

A review of 2019's third quarter and year-to-date results are show below.

Benchmark Returns as of 9/30/19	<u>Q3 2019</u>	<u>YTD</u>
<b><u>Domestic Equities</u></b>		
S&P 500 Large Cap	1.70%	20.55%
S&P 400 Mid Cap	-0.09%	17.87%
S&P 600 Small Cap	-0.20%	13.46%
<b><u>International Equities</u></b>		
MSCI EAFE Developed Int'l	-1.07%	12.80%
MSCI Emerging Markets	-4.25%	5.89%
<b><u>Bonds</u></b>		
Barclays U.S. Aggregate Bond	2.27%	8.52%

Tariffs on \$125 billion of Chinese goods went into effect on September 1, to which China retaliated with additional tariffs on \$75 billion of US goods. While a full-blown trade war does not appear to be in the cards, a prolonged trade dispute does appear to have had an effect on the US manufacturing sector. The US Manufacturing PMI (Purchasing Managers' Index) sits near 10 year lows as companies try to navigate trade uncertainties. On the other hand, consumer spending continues to account for nearly 70% of US gross domestic product and up until this point, a relatively strong consumer has kept domestic economic growth modestly positive. A domestic labor market with an unemployment rate of 3.7% (near a 50 year low), paired with very modest inflation has been a net positive for consumers and the economy as a whole.

The Fed moved forward in July with the first US interest rate cut since 2008. This 0.25% cut was followed by a second 0.25% cut in September in an attempt to combat fears of weakening global growth and a modestly inverted US Treasury yield curve. It is important to note that while an inverted yield curve has preceded previous US recessions, not every instance of an inverted yield curve has led to a near-term recession. Further, as interest rates have fallen, bond prices have risen, once again proving that an allocation to the fixed income markets can be a valuable hedge during periods of equity market volatility. This is especially true for clients who are relying upon distributions from their portfolio.

local independent personal accessible  
interactive creative local independent personal  
knowledgeable thoughtful ethical experienced

We are expecting US politics to remain a contributor to overall market uncertainty as rhetoric builds into the 2020 election. Whether it is the topic of potential impeachment or policy platforms that could cause material disruption within specific sectors (i.e. US healthcare reform), volatility is likely to persist. Rather than trying to sidestep this volatility, it is our general mindset to take advantage of potential opportunities as they arise, which oftentimes consists of buying into weakness.

In sum, we continue to be in what has often been described as the most unloved equity bull market in history. The fact that investor sentiment remains fairly negative along with almost daily prognostications of why investors should

cash out their portfolios and sidestep the next downturn gives us the sense that we may not be near a market top. However, giving material consideration to each client's risk tolerance in establishing and maintaining an appropriate asset allocation remains a critical aspect of executing any well thought out plan.

As always, we would like to thank you for the confidence that you have placed in our firm. Please feel free to reach out to your advisor directly if you would like to discuss any of the above content within the context of your overall portfolio and financial plan.

Christopher W. Frayne, CFA, CFP®

The views in this publication are as of October 2019 and are for informational purposes only and do not represent any recommendation of any particular security or strategy and should not be considered investment advice. The publication is prepared for educational purposes and the information presented has been gathered from sources believed to be reliable.

**Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives**