Quarterly Market Commentary

Second Quarter 2019

Markets Continue to Set Records in the Second Quarter of 2019

Stock markets in the U.S. and mostly around the globe turned in a good second quarter, which when combined with a good first quarter, created fantastic YTD returns for investors. In fact, the returns were historic, especially for the last month of the second quarter. Consider this:

- The 30-stock DJIA and broad-based S&P 500 posted their best June in 81 and 64 years, respectively;
- The DJIA delivered its best first half of the year since 1999;
- The S&P 500 delivered its best first half since 1997;
- The technology-laden NASDAQ recorded its best June in nearly 20 years.

Markets had a lot to digest in the second quarter and there were two main themes that kept influencing the upward momentum: hopes of a trade truce between the U.S. and China and shifting Federal Reserve bank policies with respect to short-term rates.

Throughout the quarter there were certainly lots of positive economic data points to digest, but there were plenty of not-so-positive data points too. Same thing with corporate earnings – earnings were generally positive, but there were some hiccups along the way.

Index Returns	*Close*	*YTD*
DJIA	26,600	14.0%
S&P 500	2,942	17.3%
NASDAQ	8,006	20.7%
MSCI EAFE	1914	11.3%
Bond Index*	2170.54	6.06%
10-Yr Treasury Yield	2.01%	-0.68%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD.This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

Sector Performance

For the second quarter, 10 of the 11 S&P 500 sectors were painted green, with Energy being the only sector in the red. More impressive, however, is the fact that year-to-date, every single sector is in positive territory, ranging from the low of up 7%+ (Health Care) to a high of up 26%+ (Information Technology). Returns like that point to broad-based market growth.

Sectors	*2Q2019*	*YTD*	*1-Year*
Energy	-3.50%	11.13%	-15.63%
Consumer Discretionary	6.08%	21.00%	9.67%
Information Technology	7.08%	26.12%	13.85%
Real Estate	2.20%	18.48%	14.04%
Utilities	2.01%	12.82%	15.11%
Healthcare	2.40%	7.12%	11.40%
Communication Services	3.93%	18.34%	12.71%
Materials	7.53%	15.96%	1.64%
Consumer Staples	4.12%	14.46%	12.93%
Financials	8.66%	15.92%	4.79%
Industrials	4.89%	20.20%	8.62%

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The Fed Signaled No More 2019 Hikes

Two days before the quarter ended, the Fed held the line on interest rates and formally suggested that no cuts were coming in 2019. The central bank suggested that one or two cuts might happen, but not until 2020.

Despite the Fed's stance, it didn't stop Fed-guessers from thinking a rate cut was imminent. In fact, market traders started betting on Fed cuts as soon as the end of July due to Fed Chair Powell's press conference where he said, "many participants now see the case for somewhat more accommodative policy has strengthened."

As such, according to the CME FedWatch tool, by the end of the quarter, the fed funds futures market pointed to a 100% chance of an easing of monetary policy next month. And traders started placing real bets on the CME exchange assuming that there was a 64% chance of one rate cut and a 36% probability of two cuts.

Not to be outdone by traders, the press created headlines designed to sell newspapers when they wrote titles like: "Divided Federal Reserve holds the line on interest rates" (from CNBC) and "A Split Fed Decision" (from the Wall Street Journal). The fact is that the Federal Open Market Committee voted 9-1 to keep the benchmark rate in a target range of 2.25% to 2.5% – hardly a split decision (St. Louis Fed President James Bullard voted to cut rates).

News of the Fed's decision pushed the 10-year yields to end the quarter at 2.00% and the 2-year to 1.74%.The 10-year U.S. Treasury – the benchmark used to decide mortgage rates and the most liquid and widely traded bond in the world – steadily declined for most of

the quarter and has declined consistently since about November 2018, when it stood at 3.24%.

The U.S. and China

The investing world was tuned into tensions with China throughout the quarter, as it has been since the summer of 2018. Toward the end of the second quarter, however, attention turned to the annual meeting of leaders from the largest economies in the world – the G20, for short. It's an important meeting at it included leaders from 19 countries and the European Union and accounts for 85% of the world's GDP and close to 70% of the world's population.

President Trump went to the G20 summit in Japan with a full agenda, including a resolution of trade disputes with China, building consensus to apply tougher sanctions against Iran and talks of denuclearization with North Korea. While all are important and will impact markets in the U.S. and around the world, the trade dispute with China and sanctions against Iran appear to be more economically driven.

Mixed Economic Data

The quarter's economic data was generally positive, but there were some worrisome spots too.

- S&P 500 earnings dipped 0.4% in the first quarter from the same period a year ago and are projected to decline 2.6% and 0.3% in the second and third quarters, respectively, according to FactSet;
- Gauges of manufacturing activity in the Chicago, Kansas, and Dallas regions fell into contraction territory, and overall durable goods orders contracted more than anticipated;
- The Department of Commerce reported on the last day of the quarter that consumer spending remained solid, with personal spending and income registering solid gains;
- Weekly jobless claims rose a bit at the end of the quarter, but unemployment levels remain at a 50-year low; and
- The Conference Board's measure of consumer confidence fell at the end of the quarter, reaching its lowest level in two years. From the Conference Board's release:

"After two consecutive months of improvement, Consumer Confidence declined in June to its lowest level since September 2017 (Index, 120.6)," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board."

The IPO Market Came Roaring Back

The IPO market was very quiet during the first quarter of 2019 and then came roaring back to life. Some observers worried that 2019 would see too many IPOs as there were more than 200 expected to debut and there was concern that some interesting ideas might be lost in the Uber and Lyft IPO noise. Well, that didn't happen.

In the second quarter of 2019, 62 IPOs raised $25 billion, the most active IPO market by sheer number in four years and the most money raised in five years. And the average return was a staggering 30%.

Could the 2019 IPO market eclipse the all-time record of $96 billion? Maybe. But remember that all-time IPO record was established in 2000.

Top Stocks for the DJIA So Far in 2019

The DJIA is up 14% YTD, but there are some very large names that have more than doubled the index. Consider:

- Microsoft – up 32%
- Visa – up 32%
- American Express – up 30%
- Walt Disney – up 27%
- Cisco Systems – up 26%

The rest of 2019 will be an interesting six months and likely dominated by continued chatter about the Fed and trade agreements with China. And the likelihood of the above five names remaining as the top five performers of the DJIA isn't very high. But maybe.