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ECONOMIC UPDATE AUGUST 2019

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Stock performance was mixed in July. Large stocks in the S&P 500 index finished the month up 1.44% bringing its year-to-date return up to 20.24%. Small cap stocks in the Russell 2000 index had a marginal gain of 0.58% for the month bringing their year-to-date return to 17.66%. International stocks didn't fare as well; stocks in the MSCI EAFE index were down -1.27% for the month reducing year-to-date returns to 12.58%. Emerging market stocks had a monthly return of -1.69% bringing their year-to-date returns down to 7.38%.

The Fed announced at the end of July that they would cut the Fed Funds Rate by 25 basis points. This is the first reduction since 2008. The Fed Chairman cited escalating trade tensions and a potential slowdown in the global economy as reasons for the cut. The yield on the 10-year U.S. Treasury bond ended the month at 2.04%. The Barclays Aggregate Bond Index was up 0.22% for the month and 6.35% year-to-date.

Second quarter earnings reported by S&P 500 companies at the end of July have been negative. Out of the companies that have reported thus far, 78% have beat earnings estimates, but total earnings were down -3.5% even though revenues were up 4.7%. Earnings are down despite share buybacks.

Initial readings for second quarter GDP growth came in at 2.1%. This figure is better than expected as many analysts projected growth in the 1.5-2.0% range. It is a pullback though from the 3.1% growth we experienced in the first quarter. Household consumption continued to provide the greatest contribution at 2.9% with government spending also adding an unusually large 0.9%. A decline in business spending, however, inhibited growth slightly.

At the end of July, Congress approved legislation to suspend the debt ceiling for two years and raise spending by $324 billion over two years. Congress was eager to reach an agreement before its August recess.

Looking internationally, the outlook with China is mixed. U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin traveled to Shanghai July 29th to meet with Chinese officials for the first in-person talks since the G-20 meeting in June. Investors were optimistic that a deal will eventually be reached as markets reacted to this news favorably. However, the President's announcement on August 1st of new tariffs was a setback in negotiations and was not well received by the market. Elsewhere, the European Central Bank appears to be preparing for quantitative easing in efforts to stabilize the eurozone economy from global headwinds brought on by trade tensions and the imminent departure of the U.K. from the European Union.

Markets may remain somewhat volatile throughout the rest of the summer. Diversification can help to smooth out some of the bumps along the way. Additionally, with the record-long bull market, stock indices are near their highs making it an opportune time to rebalance stock allocations to levels in line with risk tolerance. Please contact your advisor with any questions.

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