LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks reversed course in May as major indexes all declined. Large stocks in the S&P 500 Index declined -6.4% in May bringing their year-to-date gain down to 10.7%. Small cap stocks in the Russell 2000 Index were down -7.3% for the month and up 9.3% YTD. International stocks in the MSCI EAFE also declined -4.8% for the month and up 7.6% for 2019. Emerging markets stocks were down -7.3% in May reducing their year-to-date gain to just 4.1%. Bond yields reduced sharply leading the Barclay's U.S. Aggregate Bond Index up 4.8% year-to-date.

Revised GDP numbers have indicated the U.S. economy remained robust through the first quarter, despite less business investment and a slight decline in corporate profit growth. Strong inventory investments and higher amounts of exports allowed U.S. GDP to grow at a 3.1% annual rate. This compares favorably to GDP growth from the fourth quarter of 2018 which showed economic growth of only 2.2%. Many economists expect a slower rate throughout 2019 due to a weakening global economy and waning effects of the 2017 tax-cut boost. However, the U.S. economy is still projected to perform well due to low unemployment numbers and rising incomes.

Trade disputes between the U.S. and China began to escalate in the beginning of May when President Trump announced that the U.S. would increase tariffs from 10% to 25% on $200 billion of Chinese goods. Both countries have also engaged in non-tariff barriers, such as a U.S. ban on products made by Chinese technology company Huawei, limits on U.S. semiconductors companies doing business with China, as well as potential restrictions of rare-earth minerals. Despite the strength of the U.S. market, many analysts expect weakness from overseas to spread as tariffs increase, potentially threatening the ten-year economic expansion. Although a near-term deal is unlikely, both sides will continue to negotiate until an agreement acceptable to both parties is reached.

Trade tensions between the U.S., Mexico, and Canada appeared to be improving until President Trump announced at the end of May that the U.S. will impose a 5% tariff on Mexican imports until the country curbs the number of illegal immigrants entering the U.S. The President also said this tariff could reach a rate of 25% if action is not taken.

Recently, the Federal Reserve has been using a wait-and-see approach regarding interest rates. At the end of May, the 10-year U.S. Treasury was yielding 2.14%. At this point, economists believe that the yield curve is almost completely reliant on trade developments and they expect it to continue its modest inversion until there is more clarity on the outcome.

At the end of last month, Special Counsel Robert Mueller commented on his report regarding Russian interference in the 2016 presidential election. Since his statements, talks of impeachment have begun to resurface within the House of Representatives. For a sitting President to be removed from office through impeachment, a two-thirds majority is required within the Republican-controlled Senate. Therefore, we do not see this action being fulfilled. If articles of impeachment are introduced, it will likely cause disruption in the markets. However, we do not believe that it will equate to any long-term decline.

Stocks have been on an upward trajectory for the past ten years and it would not be uncommon to enter a consolidation period or for volatility to increase. While stocks are near their all-time high, it may be a good time to realize some of these gains by selling securities to raise cash for the year ahead. Additionally, this also provides an opportunity to adjust your portfolio to better reflect risk tolerance levels. If you have special needs for cash coming up, please let us know so we can plan accordingly. If you have any questions about your account, do not hesitate to contact us.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET