# MARKET AND ECONOMIC REVIEW & OUTLOOK

*AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT* *CHARLOTTE, NORTH CAROLINA*

Golf was never my game. It wasn't for lack of interest. I played on several military courses during the Army years thinking I might be able to transition from the contact sports of my youth to a more refined and less painful sport. I soon found that it just might be easier (and less painful) to block a defensive tackle than to get a tiny white ball to yield to my will. Alas, like most worthwhile pursuits in life, golf demands a certain level of commitment combined with a little natural ability in order to produce positive results. I still lack both when it comes to golf, so I decided to stick with fishing instead. At least I don't have an audience when I snag a $6 lure in low hanging branches.

Tiger Woods, on the other hand, exemplifies the results of a life committed to the game of golf. His rise to golf greatness was legendary. Of almost equal legend, unfortunately, was the devastating breakdown of his personal life and fall from grace which played out for the whole world to see in sometimes graphic detail. Along with his personal travails was a struggle with back pain and the resulting decline in his performance and status in the world of golf. The young man who once seemed to have unlimited potential had fallen back to earth with his professional golf ranking ultimately declining below No. 1000.[i] As recently as a few years ago, even Woods himself questioned whether he would ever play competitively again. Yet an amazing thing happened – Tiger came back! He won the Masters on April 14th, 2019. In the eyes of many, including Brian Costa of *The Wall Street Journal*., "it capped one of the greatest career revivals in the history of sports."[ii] Whether you follow golf or not and whether you like Tiger or not, it's hard to not be inspired, once again, by an individual who simply would not quit.

Speaking of comebacks – the U.S. stock market made quite a comeback in the First Half of this year. With the S&P 500 index down -13.52% in the 4th quarter of 2018 and down -4.38% for the year, things looked a little bleak during the holidays and into early January. As noted in the chart below, the U.S. stock market came roaring back with double-digit gains through the first six months of the year. It would appear that like Tiger Woods, this market seems not quite ready for retirement.

| Index Description | 2nd Quarter | 2019 YTD | 1 Year Avg | 2018 |
|---|---|---|---|---|
| DJIA | 3.21% | 15.40% | 12.20% | -3.48% |
| NASDAQ | 3.87% | 21.33% | 7.78% | -0.29% |
| S&P 500 | 4.30% | 18.54% | 10.42% | -4.38% |
| MSCI EAFE | 3.68% | 14.03% | 1.08% | -13.79% |
| Russell 2000 | 2.10% | 16.98% | -3.31% | -11.01% |
| Bloomberg Barclays U.S. Agg. Bond | 3.08% | 6.11% | 7.87% | 0.01% |

Source: Morningstar, Raymond James as of 4:30pm ET 6/28/19

According to Jack Hough of *Barron's*, the S&P 500 just finished its best first half-year performance since 1997.[iii] I remember the late 1990's quite well. Fun times, right? But I remember the early 2000's also. Not so fun. The chart above is a stark reminder of the potential growth opportunities of the equity markets coupled with their inherent volatility. It illustrates the importance of not chasing returns but carefully positioning investments for potential return while simultaneously balancing for risk management. As a reminder, that's our goal at Gaskin Asset Management.

GASKIN ASSET MANAGEMENT

7615 Colony Road, Suite 100, Charlotte, NC 28226
(704) 544-7990 • (800) 407-2249 • (704) 544-7454 (fax)
www.GaskinAsset.com

## 2nd Half 2019 Outlook

The threat of further tariffs is diminished in the near term following the much anticipated meeting of President Trump and Chinese President Xi Jinping on Saturday at the Group of 20 (G20) summit in Osaka, Japan, reports Washington Policy Analyst Ed Mills. The pair made commitments to restart trade negotiations, resume certain shipments to Huawei, and for China to purchase a to-be-defined amount of U.S. agricultural products. Mills thinks the immediate market reaction will be positive. However, it's unclear what the long-term implications may be, and no timeline was set for the next round of talks.

On the domestic front, odds of a downturn have increased in Raymond James Chief Economist Scott Brown's view, but he still believes a recession isn't likely within the next 12 months. However, he notes the inverted yield curve does signal an expectation that short-term interest rates will fall. For now, the Federal Open Market Committee has opted to leave short-term interest rates as is after its June policy meeting, as expected. He adds that most Fed officials seem to agree that the case for a rate cut this year has strengthened.

Following the first round of presidential debates by the Democratic candidates, several leading topics emerged – including health care policy, inequity in the tax code, antitrust scrutiny, climate issues and geopolitical challenges – which are likely to make headlines over the next year and potentially impact the market, says Mills. He will be watching for ideological differences between the candidates to gauge the direction of various policy proposals and help assess market risk in the event of a presidential changeover post-2020.

Here is a look at what's happening in the economy and capital markets, as well as key factors we are watching:

**Economy**

- According to Brown, May's increase in tariffs on Chinese goods weighed on the U.S. economy, with factory output in decline, alongside a slowing global economy.
- Following its decision not to change short-term interest rates, he says the FOMC promised to closely monitor the economic outlook and "act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective."
- In his post-FOMC press conference, Fed Chair Powell noted concerns about low inflation and a reemergence of cross-currents – principally trade policy uncertainty and worries about global growth – but indicated that officials wanted more information and to see whether the cross-currents might recede.
- Investors are anticipating a 25-basis-point cut in the federal funds target range at the July policy meeting.

**Equities**

- The performance of the U.S. equity market relative to the rest of the world has continued its positive trend, reports Joey Madere, senior portfolio analyst, Equity Portfolio & Technical Strategy. China's equity market, as well as U.S. companies with outsized exposure to China, was also outperforming in the several days leading up to trade talks this past weekend. This positive momentum is helping to make up for underperformance in May, and is likely to continue in the short term on optimism following the G20 summit.
- Madere points out that there has been plenty of sector rotation taking place beneath the surface. The stall in interest rates has led to some profit-taking among high-yield utilities and REITs. The technology sector is on the verge of all-time highs, and health care's trend drastically improved in June.
- The slow growth, low interest rate and narrow yield curve backdrop continues to generally favor growth over value. Madere continues to favor large-cap companies, as technical trends for small caps remain stubbornly weak.

**Fixed Income**

- Corporate and municipal bonds have rallied along with Treasuries, although municipal and corporate curves remain positively sloped.
- Despite many countries' efforts to stimulate their economies with accommodative monetary policies, senior fixed income strategist Doug Drabik reports that the Bloomberg Barclays Global Aggregate Negative Yielding Debt Index reflects that the world's negative debt has risen by 30% this month to a record $13 trillion –which he feels is a clear indication of an unhealthy global economy. The negative global rates make the U.S. bond market more attractive and put a cap on our bond yields.

**International**

- According to European strategist Chris Bailey, global markets typically made forward progress during June, despite major global fund management surveys showing feelings of caution among investors.
- While uncertainties continue in European politics, equity markets were buoyed this month by hopes of a trade breakthrough at the G20 summit and further central bank stimulus, he explains. During June, both the European Central Bank and the Bank of Japan talked about the potential for further stimulus.
- Bailey says Chinese economic data continued to slow this month, although not enough to negatively impact markets.

**Bottom Line**

- Raymond James' Scott Brown thinks the risk of a recession in the next 12 months is low. We agree.
- We continue to be constructive on U.S. equities, but ultimately feel that a diversified asset allocation is crucial to helping investors ensure their portfolios stay balanced over time and in various market conditions.

Robert J. Gaskin, CIMA®
Managing Principal
Senior Financial Advisor, RJFS

[i] Costa, Brian. "Woods's Win Is One for The Ages", The Wall Street Journal. April 15, 2019. P.A1
[ii] Costa, Brian. "Woods's Win Is One for The Ages", The Wall Street Journal. April 15, 2019. P.A1
[iii] Hough, Jack. "Taking Apart Second-Half Growth – How Earnings Add Up", Barron's. July 8, 2019, P.13