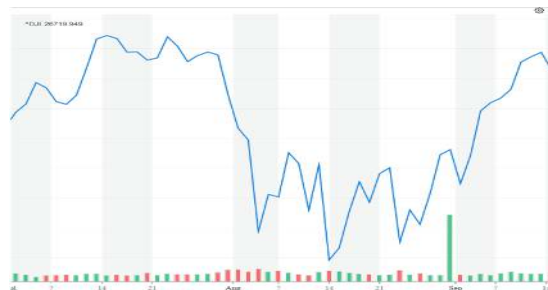


We ended the third quarter on an upbeat note, but words like choppy and wild do come to mind; mostly with respect to the month of August. It seemed every day in the month of August, the markets swung dramatically one way or the other.

The Dow Jones Industrial Average (DJIA) began the quarter at 26,809, peaked at an all-time market high of 27,399 on July 15, 2019, and ended the quarter essentially flat at 26,917 (after enduring the month of August).

The following is a chart (source Yahoo! finance) of the (DJIA), for the months of July, August, and September, which shows a “U” shaped pattern:



The major topics affecting financial markets this past quarter were the strength of the US economy, recession concerns, trade policies with China, and Federal Reserve interest rates.

### **Economic Strengths**

Our economy continues to shine. We have low unemployment, wage growth, consumer spending was up, and the housing market shows signs of strength.

For example, the unemployment rate, as of the last reported month, was 3.7%. This is just slightly higher than the previous 3.6%, a 49-year low. Personal income is up 4.6% in the past year, and spending has increased 3.7%. (August 2018-August 2019). New single-family home sales increased 7.1% in August, up 18% from a year ago.

### **Recession concerns**

With all the good news about the economy, the markets were still very concerned about a potential recession. Those worries stemmed primarily from a sharp decline in business investments, which analysts saw as a chink in the economy's armor.

*Thomson Reuters September 26, 2019 -*

*“Business investment declined at a 1.0% annualized rate last quarter, the government said in its third reading of second-quarter GDP on Thursday. That was the steepest decline since the fourth quarter of 2015. Business investment was previously estimated to have declined at a 0.6% pace.” -*

*“The growing consensus is that even with all the trade tensions wreaking havoc in markets and global supply chains, as long as consumers stay resilient, the U.S. will probably avoid recession.”*

Another reason the markets were so concerned about a recession in August, was due to the “inversion” of the yield curve. This simply means that the 30-year US Treasury bond yield was lower than the shorter-term treasury bonds. Usually, the longer-term bonds have higher yields to reward the longer-term investor.

Reasons for the inversion were many, including the fear of decelerating international growth, increased demand by the global market looking for yield, and the view that the Federal Reserve will cut interest rates faster than expected. (from “Bond Yields Keep Going Lower. This Is why it’s Happening, Barron’s August 15, 2019”)

### **China Trade Policies**

By far, the biggest topic in the third quarter revolved around potential tariffs.

Here is a small selection of tariff related articles:

- “Tariffs are being mentioned on 40 percent of earning calls” - CNBC July 25, 2019
- “The Dow Is Slumping Because Tariffs Matter More Than the July Jobs Report” - Barron’s Aug 2, 2019
- “Tariffs: Manufacturing a Recession” - Jeffrey Kleintop [schwab.com](http://schwab.com)
- “China’s Economy Aches All Over as Beijing Seeks Trade Fix with the US” - The Wall Street Journal, September 16, 2016
- “Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions” - [www.taxfoundation.org](http://www.taxfoundation.org)

Not all analysts thought the tariff issue was enough to be overly concerned about:

MarketWatch’s Brett Arends (“The Media is Lying to you About Trump’s China Tariffs”) wrote way back on May 15, 2019:

*“President Trump just hiked tariffs from 10% to 25% on about \$200 billion in Chinese imports. In other words, he just raised taxes by ... \$30 billion a year.”*

*“The total amount we all paid in taxes last year — federal, state and local — was \$5.51 trillion. This tax increase[tariffs] ..... is a rounding error.”*

*“Right now we export less to China than we do to Japan, South Korea and Singapore put together. That’s the point. So the effect of China’s new tariffs on the U.S. are yet another rounding error. Even if China banned all imports from the U.S., that would amount to only 0.6% of our gross domestic product. And we’d sell the stuff somewhere else.”*

### **Federal Reserve Rates**

The federal reserve board’s primary mandate is twofold: to keep inflation moderate and unemployment rates low. The primary vehicle to assist their mandate is through the federal reserve fund interest rate. All other interest rates, from loans to savings accounts are tied to this fund rate. The federal reserve board chose to cut the rate by .25% in September. This rate cut was noteworthy because inflation is moderate and unemployment low. However, many analysts believe the rate cut was to ward off a potential recession due to the tariff negotiations.

If we become overly concerned by daily events we cannot control, it makes it hard to focus on the fundamentals. But markets, have always; eventually, return to fundamentals.

*The US continues to benefit from the tailwinds of tax reform and deregulation put in place over the past two years, and the economy continues to march on despite uncertainty surrounding trade (which the Fed can't fix anyway). There is no recession on the horizon, and no need for government intervention [i.e.rate cuts]. – Brian Wesbury*

Be patient, stay invested, be rewarded.

We are here for you. Any time you have questions, please do not hesitate to call.