

market update

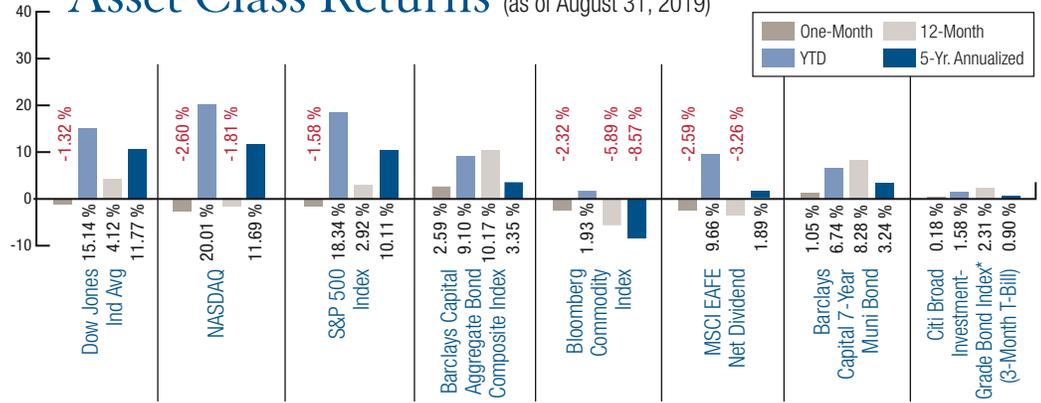
From the Office of Jeff Sgroi, CFP®



“An investment in knowledge pays the best interest.”

– Benjamin Franklin

Asset Class Returns (as of August 31, 2019)



Material prepared by Raymond James for use by its Financial Advisors

Market & Economic Synopsis

- Oil prices swing wildly after Saudi processors suffer drone attack, then report disruption will be short-lived.
- S&P 500 soars over 3,000, nearing July 2019 highs, as optimism prevails over U.S. – China trade talks.
- U.S. Treasury yields rally from short-term lows, bucking the trend for negative yields throughout global fixed-income markets.

- Apple and Microsoft reach \$1T in market capitalization.
- Hurricane Dorian levels Bahamas, but weakens before reaching the U.S. mainland.
- Top Democratic candidate field whittled down to ten, 14 months prior to 2020 U.S. Presidential election.

Market Update

By all standards, the first eight months of the 2019 market performance in the United States has been phenomenal. The S&P 500 enjoyed its best start to a year since 1997. Investment-grade bond performance is off to a blistering pace, with its best performance since 1995. Even gold and other benign performers in this bull market have contributed this year.

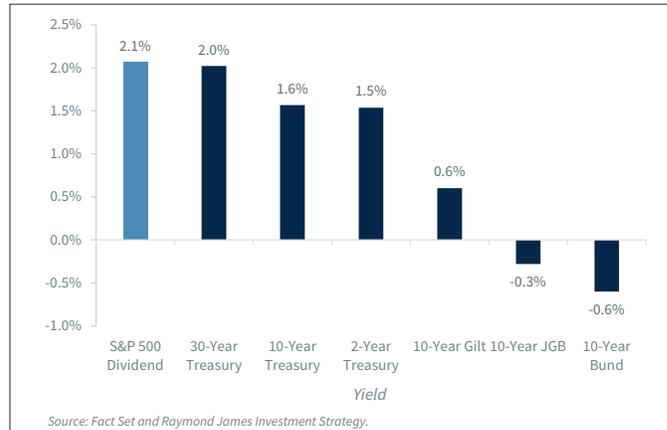
Naturally, the question I hear most often from clients is “How much longer can we expect this to last?” I recently attended a webinar hosted by Larry Adam, Raymond James’s Chief Investment Officer, where he outlines six reasons why the bull market can continue. Here is what I learned:

Valuations Not Yet Elevated

Despite being within 2% of all-time highs, valuations are not currently elevated and are in line with the five-year average. Much of the recent market downside movement is due to the concern of a global economic slowdown if U.S. – China trade rhetoric (and tariffs) escalate. This scenario could lower P/E multiples.



Although a bad stock market can be significantly uglier than a bad bond market, low fixed-income yields make a compelling case to own and hold U.S. equities.



Positive Earnings Growth

Earnings growth is expected to be positive in both 2019 and 2020, which should support a move higher for equities. Corporate earnings drive the stock market, and as the chart below indicates, corporate profitability continues to expand at a blistering pace.

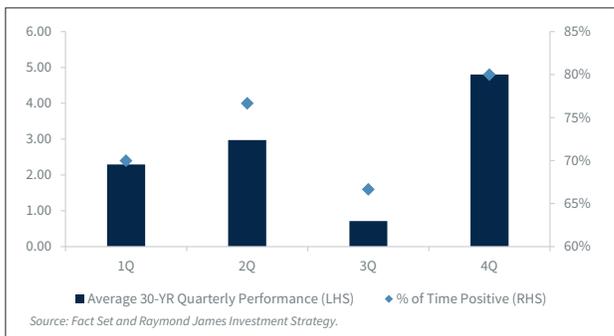


Global Hunt for Yield Supportive of U.S. Equities

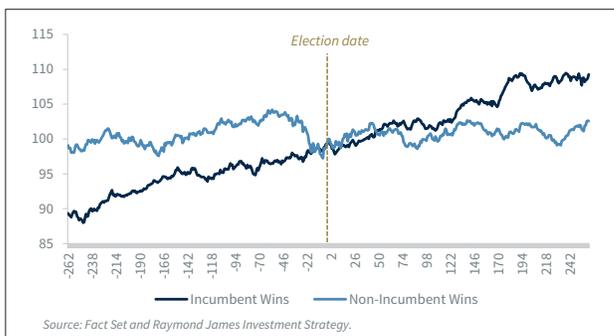
The S&P 500 dividend yield is currently higher than that of all developed market sovereign yields, making equities more attractive.

Positive Upcoming Seasonality

Seasonality should be supportive for equities in the near term, as the fourth quarter has historically been the strongest quarter of the year for the S&P 500. 2018 was an exception to that trend, when we experienced a 20% dip in the S&P 500 in the fourth quarter. Be prepared for a “Santa Claus rally” in 2019.



Year Prior to Election is Positive for Equities



Bull Markets Historically End With a Bang

This chart is one of my favorites. It validates the non-scientific chart of emotions investors go through during a full investment cycle whereby, at the top of the bull market, investors experience euphoria. Few investors I speak with are euphoric about the current investment cycle we are in, leading me to believe that this bull market will not end until we see a healthy pop upward, even from current levels.

Market Top	-24am	-12am	-9am	-6am	-3am	-1am
9/16/1929	50.7%	41.4%	22.2%	22.9%	5.4%	
3/10/1937	118.6%	26.7%	28.3%	15.5%	8.4%	2.8%
7/14/1943	22.7%	43.3%	34.0%	26.3%	12.1%	6.4%
5/29/1946	56.9%	27.4%	25.8%	13.0%	11.4%	2.8%
8/2/1956	60.5%	15.6%	17.4%	12.5%	3.3%	6.0%
12/12/1951	23.4%	27.8%	14.4%	9.8%	6.9%	2.2%
2/9/1966	21.9%	7.8%	4.7%	9.6%	2.3%	1.0%
11/29/1968	34.8%	14.7%	21.3%	10.7%	9.8%	4.4%
1/11/1973	30.7%	16.0%	9.5%	12.0%	9.8%	0.9%
11/28/1980	47.7%	31.6%	25.1%	25.4%	15.1%	9.7%
8/25/1987	79.9%	35.9%	35.7%	18.6%	19.4%	8.9%
3/24/2000	38.2%	20.4%	16.1%	19.6%	4.7%	12.9%
10/9/2007	30.9%	15.9%	10.8%	8.3%	2.2%	7.7%
Average	47.2%	25.7%	21.9%	15.7%	9.9%	5.5%
Median	36.5%	26.7%	21.3%	13.0%	9.8%	5.4%
7/26/2019	22.1%	6.6%	13.8%	13.6%	2.9%	3.8%

As always, there are no guarantees that the bull market will continue in what feels like an unabated run upward. As mentioned in previous Market Updates, a misstep by the Federal Reserve, or messy negotiations with China could at any point derail equity markets. As always, we will do our best to decipher the data and adjust accordingly.

From the Homefront

Autumn is an amazing time in the Mountain West for so many different reasons. This year I am trying my hand at archery hunting and was fortunate to draw a deer tag. It is a long season (most of September), which is both a blessing and a curse! It is fortunate to have the flexibility to hunt many weekends and evenings, but sometimes the pressure and time limitation of a shorter season is advantageous in that it ratchets up the level of intensity!

This is, of course, back to school time as well. Stella, Lily and Hannah (4th, and 1st grades, respectively) had huge smiles heading off on their bikes to start the school year.



This autumn seems like a time for firsts. Hannah asked if I would coach her and Lily’s soccer team this year. Since the program was short coaches, I enthusiastically signed up. Although we have started the season at 0-2, we made big strides from the first game to the second!



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