FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW
SECOND QUARTER 2019

What Happened:

It was another good quarter. Stocks surged to new highs and bond returns were very strong due to falling interest rates. Remember the market correction in December? It seems like ancient history now.

Investor sentiment is a fickle thing. How can investors drive down stock prices in December by almost 20%, then turn around and push them up by the same degree in the first half of this year? After all, not much really changed in those seven months. Short-term market movements are triggered by events and circumstances that do not necessarily have meaningful significance to the long-term direction of stocks, such as the trade war with China and the monetary decisions of the Federal Reserve. We often encourage our clients to stay calm in turbulent times and instead stay focused on the factors that truly affect stock prices—the most important of which is corporate earnings. Solid earnings expectations for the remainder of 2019, coupled with low inflation and low interest rates, translates to a strong market. That is what's happening now.

It may not seem so, but overall market volatility is no higher today than it has been over the past 100 years. The primary difference today is that calm periods are calmer, while turbulent times are more turbulent. This could be a function of more investors involved in the markets now than in the past, as well as the increase of high-frequency algorithmic trading.

6/30/2019 YTD Performance:

S&P 500 Index (large stocks)	18.5%
Russell 2000 Index (small stocks)	17.0%
MSCI EAFE Index (international stocks)	14.0%
Barclays U.S. Aggregate Bond Index (bonds)	6.1%

Prognosis:

In July 2019, our ten-year economic expansion will officially become the longest in U.S. history. Of course, we know that expansions cannot go on forever, but this one remains relatively strong with GDP growth projected at 2.7% for 2019. Also worth noting, long economic expansions are not unheard of. Australia is enjoying it 28th straight year of growth. Other countries, Canada and the U.K. among them, had 15-year expansions in the 1990s and early 2000s. What's more, the Federal Reserve provided some weight to the expansion argument by indicating its intention to lower rates in 2019.

History also provides us with a reason to be optimistic about the markets going forward. Since WWII, in years when the first six months had returns of 10% or more, the second half performance was positive 80% of the time and averaged an additional return of 7.5%. Expect a bumpy ride, but history may be on track to repeat itself. We wish you all a great summer.

SCK