Major U. S. equity market investment themes from the second quarter leaked into the third quarter producing volatile trading but little movement. The U.S. – China trade conflict captured investors attention and seesawed markets while the Federal Reserve lowered rates twice during the quarter, in July and September. That combined with slowing global economies, (the U.S. economy is in fairly good shape however), produced an environment which can be a harbinger of economic downturns. Despite this, domestic equities outperformed their foreign counterparts again. For the quarter, the S&P 500 growth was up+1.7% vs. +4.3% in the second quarter. The DJIA was up +1.8% while the NASDAQ composite was up only +0.2%. On the bond side, the Barclay’s Aggregate Bond index gained +2.3% benefitting from the two rate cuts yet falling short of the gain achieved in the second quarter.

Employment and wage growth continue in the US and unemployment across the board continues to be the lowest in years. However, both employment growth along with manufacturing output are slowing a bit. Trade and tariff issues are still unresolved and result in cautious business investment environment. These along with immigration, drugs and health care problems will not be addressed anytime soon due to the impeachment inquiry that is now underway.

Internationally, markets are generally exhibiting weakness. The market in China continues to decline and was off -4.2% for the third quarter which exceeded the drop off -2.6% in the second quarter. Tariffs continue to take a toll. New trade talks are scheduled but solutions seem far away. The U.S. has been treated unfairly for many years and is now looking for significant change in trade practices. Except of Japan which was up +2.9%, the other major overseas markets declined. In the U.K., the Brexit debacle continues “Resolution” is scheduled for late Fall…maybe….

Talks may be on again with North Korea on nuclear disarmament. At best this will be a long process fraught with security issues.

Iran continues as a major problem. Things are quiet at present after many provocations, verbal and physical, the U.S. and it’s allies have shown remarkable restraint related to military actions. Sanctions are taking a very heavy toll on the Iranian economy. Let’s hope these spurs them to talk about resolutions/elimination of their nuclear and terrorist activities. Doubt it!

Market results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 9/30/2019** | **12 MONTHS Ending** **9/30/2019** | **THREE YEARS Ending** **9/30/2019** | **FIVE YEARS Ending** **9/30/2019** |
| **DJIA** | 1.8% | 4.2% | 16.4% | 12.3% |
| **S & P 500** | 1.7% | 4.3% | 13.4% | 10.8% |
| **NASDAQ Composite** | 0.2% | 0.5% | 15.9% | 13.5% |
| **Barclay Agg. Bond** | 2.3% | 10.3% | 2.9% | 3.4% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 9/30/2019** | **12 MONTHS Ending** **9/30/2019** | **THREE YEARS Ending** **9/30/2019** | **FIVE YEARS Ending** **9/30/2019** |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | -0.5% | 1.9% | 14.6% | 11.0% |
|  Value | 1.5% | 1.9% | 9.4% | 7.3% |
|  *Small Cap* |  |  |  |  |
|  Growth | -4.2% | -7.5% | 11.5% | 9.6% |
|  Value | -0.6% | -9.4% | 4.9% | 5.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
|  Europe | -1.4% | -0.9% | 6.2% | 3.2% |
|  Latin America | -3.4% | 26.7% | 11.3% | 1.8% |
|  Japan | 2.9% | -6.8% | 6.4% | 6.7% |
|  Pacific ex Japan | -3.0% | 0.2% | 6.0% | 4.3% |
|  China Region | -4.2% | -1.7% | 5.6% | 4.7% |
|  India | -5.1% | 1.9% | 3.9% | 4.1% |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | 5.3% | 18.5% | 5.6% | 6.3% |
|  Intermediate | 2.0% | 9.4% | 2.6% | 3.0% |
|  Short | 0.8% | 4.6% | 2.1% | 1.8% |
| Government Bond |  |  |  |  |
|  Long  | 7.6% | 24.2% | 3.7% | 6.5% |
|  Intermediate | 1.6% | 8.1% | 1.8% | 2.2% |
|  Short | 0.6% | 4.1% | 1.3% | 1.2% |
| Municipal Bond |  |  |  |  |
|  Long  | 1.9% | 9.0% | 3.1% | 3.7% |
|  Intermediate | 1.4% | 7.6% | 2.6% | 3.0% |
|  Short | 0.5% | 3.4% | 1.4% | 1.2% |

**Market Outlook**

Not much change from last quarter except for craziness going on in Washington and its’ resulting gridlock. The domestic economy continues in pretty good shape but some weakness is evident (business investment is slowing but consumers are still spending despite slippage in consumer confidence). Third quarter corporate profit performance will be an important indicator.

Overseas unresolved trade and tariff negotiations continue to be problem areas. North Korea and Iran continue to be major hot spots. The unrest in Hong Kong and peripheral Chinese influence also has the potential to trigger additional market volatility. For now, short term solutions are not in sight.

So, continue to hold your current equity and bond/cash allocation targets. Bond positions should be short term. If you have any concerns about your allocation targets, please bring this up as part of our quarterly review.

**MSM FINANCIAL STRATEGIES**

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