Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – SEPTEMBER 1, 2019

Knock 'em down!
Roll 'em 'round!
Go! Defense! Go!

With the fall and football seasons upon us, we were recently reminded of all the efforts taken by participants on and off the field. And here, we refer not only to players, but staff, band members, announcers, concession workers, bus drivers, and cheerleaders. In the uncomplicated, quixotic era of our youth, whenever our team didn't have the ball, our cheerleaders would simply shout, DEFENSE! The fans would respond by clapping twice. That humble chant could go on for many minutes. In hindsight, it is humorous just how satisfying it had felt back then.

Clients are wisely asking questions about shifting from an offensive strategy in their portfolios to a defensive one. They are quite right to note that the recovery since the Great Recession had become aged compared to others. And there are a couple more explicit signs that not everything is rosy. The Treasury Yield Curve has inverted in the 2-year versus 10-year maturities, a traditional sign of an end to swinging times. Global manufacturing activity has stalled in recent months as companies elect to reduce inventories rather than build new.

Nonetheless, we continue to believe there are reasons to remain cautiously optimistic. First, we'll address what we think might be the most worrisome sign listed above. The yield curve inversion has been fairly accurate at predicting recessions (with a lag time of well over a year). It is always dangerous to start tossing around the idea that "it's different this time" with regard to markets, because usually it's not different this time. However, there are some very important STRUCTURAL changes in the bond markets that were NOT in place during ANY of the prior yield curve inversions. Things like negative interest rates, bloated central bank balance sheets, and politically charged central bank environments are new. The details of these changes could be the topic of an entire commentary on their own. So, suffice it to say that these changes might mean the strength of the inversion signal is weakened.

Second, manufacturing activity grew at quite astounding rates in the past two years. As measured by the World Manufacturing PMI, growth has faded, contracting a tiny bit for a couple months straight. Likewise, global trade volumes declined a fraction for the last few months. If this were to continue, then it may be the first domino to begin a cascade of events leading us directly into the next recession. However, it is too early to tell. And, since so many other indicators don't point to an imminent recession, we must interpret these weaker readings as either transient or red herrings.

Moving onto the more positive aspects of the economy, consumers remain confident, with the latest report at 18-year highs! Personal spending continues to expand. And personal debt levels remain well below anything we saw leading into the Great Recession. Unemployment claims are low. Inflation is tame. Economic growth is in the middle of its historic range. Corporate revenue and earnings growth as a whole remain firm. And the service economy (versus the manufacturing economy mentioned earlier) is still expanding globally, adding employment and seeing low, steady, wage growth.

And finally, onto trade, the topic that newscasters and peers can't seem to stop discussing. We didn't list it above as a glaring negative sign because RIGHT NOW it still is NOT. Clearly, the China/US trade talks and punitive tit for tat tariffs act as a governor against economic growth. However, quietly in the background, the US has entered into new trade agreements with four of our top seven trading partners. Canada, Mexico, South Korea, and Japan have all reached trade deals. Two more, the UK and Germany, are closing in on deals that probably won't be able to be finalized until after the BREXIT drama unwinds on Halloween. In number terms, more than $1.5 trillion of trade have been negotiated and agreed upon. China accounts for another $660 billion and is significant. But by itself, the current course of the disputes ought NOT completely destroy growth.

In short, with all the caveats you might expect, we believe that the more appropriate cheer for us may be offensive rather than defensive. ***1st and 10! Do it again!***

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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President