The U. S. equity market settled down in the second quarter after several months of wild swings. In 2018’s second half, the S&P 500 flirted with bear market territory. Then in the first quarter of 2019, the market snapped back sharply, as the S&P 500 posted gains in energy and other economically sensitive stocks. For the most part, things have been calmer over the past 3 months with the S&P 500 moving from +13.7% growth in the first quarter to +4.3% growth in the second quarter. For the second quarter, the DJIA gained +3.2%, the NASDAQ Composite rose +3.6% and the Barclay’s Aggregate Bond Index was up +2.9%.

Employment and wage growth continued in the U.S. while unemployment, across the board, was the continued at the lowest level in many years. Also, as expected, the Federal Reserve did not raise short term interest rates in June. In fact, we may see a reduction in rates if inflation stays lower or weakness in the economy is detected ( a reduction in rates will boost bond values as interest rates and bond prices move in opposite directions). Trade agreements and tariffs, however, are still problem items and could cause problems. Immigration on the southern border is a major humanitarian and governmental crisis. Democrats and Republicans do not have the will to solve the issue, especially in an election cycle.

China’s performance was not great in the second quarter – down – 2.6%, after a bang up +21% increase in the first quarter. U. S. tariffs are taking a toll on China’s markets (and to a lesser extent the US markets as well). The good news is that trade talks may get back on track. Except for China and India the other major international areas had positive results. Because of India’s growing importance, – 1.7% stock market decline is something to watch. Oh, and by the way, the U.K. Brexit problem has not been resolved and the Prime Minister May has resigned. The new Brexit target resolution is scheduled for the Fall. Finally, North Korea nuclear talks may be on again.

Iran deserves special mention. It has become an even more serious threat to both the US and Israel (the whole world, really). As it continues to build nuclear cap, ability and fund terrorist groups worldwide. US economic sanctions are taking a heavy toll resulting in Iran being more aggressive toward the U.S. Not a good idea. Hopefully, the situation will improve.

Market results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2019** | **12 MONTHS Ending**  **6/30/2019** | **THREE YEARS Ending**  **6/30/2019** | **FIVE YEARS Ending**  **6/30/2019** |
| **DJIA** | 3.1% | 12.2% | 16.8% | 12.3% |
| **S & P 500** | 4.3% | 10.4% | 14.2% | 10.7% |
| **NASDAQ Composite** | 3.9% | 6.6% | 18.2% | 12.8% |
| **Barclay Agg. Bond** | 3.1% | 7.9% | 2.3% | 3.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2019** | **12 MONTHS Ending**  **6/30/2019** | **THREE YEARS Ending**  **6/30/2019** | **FIVE YEARS Ending**  **6/30/2019** |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | 4.6% | 10.9% | 17.4% | 11.4% |
| Value | 2.8% | 6.6% | 10.4% | 6.9% |
| *Small Cap* |  |  |  |  |
| Growth | 3.5% | 2.7% | 16.2% | 9.1% |
| Value | -0.9% | -8.8% | 7.3% | 3.3% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
| Europe | 3.5% | 2.4% | 8.7% | 1.8% |
| Latin America | 5.9% | 33.7% | 15.1% | 0.5% |
| Japan | 1.5% | -2.5% | 8.7% | 6.2% |
| Pacific ex Japan | 0.8% | 2.5% | 10.4% | 4.7% |
| China Region | -2.6% | -0.9% | 11.9% | 6.4% |
| India | -1.7% | 2.0% | 8.4% | 5.5% |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | 7.3% | 13.8% | 4.3% | 5.8% |
| Intermediate | 3.3% | 7.5% | 2.1% | 2.7% |
| Short | 1.6% | 4.3% | 2.0% | 1.6% |
| Government Bond |  |  |  |  |
| Long | 7.5% | 12.5% | 0.9% | 6.0% |
| Intermediate | 2.6% | 6.3% | 1.3% | 2.1% |
| Short | 1.4% | 3.6% | 1.0% | 1.1% |
| Municipal Bond |  |  |  |  |
| Long | 2.6% | 6.6% | 2.3% | 3.8% |
| Intermediate | 2.2% | 5.9% | 2.0% | 3.1% |
| Short | 1.0% | 2.9% | 1.2% | 1.2% |

**Market Outlook**

The domestic economy continues to chugg along but a reduced growth rate. The Fed will not increase short term rates this year and probably will reduce them. This would help the stock market as well as the economy. Quarterly corporate profit performance is a key driver of the market and we will know more about them in the coming weeks.

The international scene is murky at best – trade negotiation with China, Mexico and Canada, tariffs with China, North Korea and Iran and continuous bad behavior by Iran, etc, etc. The Iranian situation is the potentially most explosive. Time will tell.

Given all the uncertainties, we continue to advise against any new equity investments. Short term and possibly some intermediate term bonds could be attractive. Hold to your current equity and bond/cash allocations targets. Please contact us with any questions or concerns.

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**7/8/2019**

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