Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – AUGUST 1, 2019

Lofty expectations lead to disappointing results. Or,
Buy the rumor. Sell the news.

Markets, be they for produce or metals or financial instruments, are really just collections of people. Even in today's laser-fast world of digital trading made by computer algorithms, the short-term interactions between supply, demand, and prices is the collective result of millions of small decisions by people – e.g. programmers, traders, retirees, savers, secretaries, and janitors. And since humans are still such a significant factor in the setting of daily prices, we bring with us all our psychological quirks.

Consider your own expectations when on the couch after a long week. Your spouse quickly clicks on a streaming movie of which you've never heard. You had no time to read its summary. You don't even know if it is a comedy or drama or something in between. In short, you have next to no expectations. Ninety minutes later, you are pleasantly surprised and have a favorable view of the film. In fact, at work the next week, you might even suggest it to a co-worker.

The co-worker takes your casual recommendation as an enthusiastic endorsement. She watches it the following weekend and his thoroughly disappointed. *I thought you said it was good!*

After a rough May in terms of market performance, we peculiar humans have eagerly bid up prices of stocks. June and July continued a robust 2019, this time focusing on a possible mid-cycle rate cut by the Federal Reserve. Day-after-day, week-after-week, investors debated whether it would be a 50 b.p. trim or 25. For 36 straight trading sessions, prices became so complacent that they didn't move more than 1% in either direction. Yet still, they managed to grind inexorably higher as traders anticipated financial Christmas presents in July. Expectations were lofty.

The gifts were delivered yesterday. And they were exactly as the consensus had come to anticipate. The Fed voted to reduce rates by 0.25%. Yeah!

Prices tumbled by more than 1% on the news.

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Based upon our movie example alone, you can probably see why. Expectations had run ahead of themselves a little. Investors had bought the rumor and sold the news. We can't claim to have predicted the exact reaction to the Fed decision ahead of time. But in retrospect, it makes complete sense. Yet, investors ought not read too much into the initial downdraft.

Fundamentals remain supportive of prices in their current range. Earnings, growth, and trade have all shifted in the right direction over the past several weeks. Over ¾ of companies have beaten 2Q earnings expectations. Revenue growth is running at over 4% Y-O-Y and most companies have reaffirmed their full year guidance. The trade saga continues, but anecdotal evidence of a resolution has improved.

And even though monetary policy hasn't meaningfully altered toward an aggressively expansionary path, it remains accommodative to business activity. Interest rates are low and there is no expectation of an increase this year in any sector of the press or government. Folks have begun to pencil-in a rate cut for the September Fed meeting. It is probably too early to contemplate such a move and therefore could prove to be one of those lofty expectations in the making. But we shall see.

In short, times are good. Our economy is running at or near full employment with no sign of widespread wage inflation. Stock valuations are approaching the top end of what has long been a fair value range, but are in no way irrational. We continue to recommend that clients remain focused on achieving their goals in the risk responsible manners we have helped them build.

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

Jason Born, CFA
President

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-932-1211