

# Q2 2019

# MARKET RECAP

JUL 10, 2019

## TRADE RESOLUTION STILL PENDING

Following a strong first quarter, Q2 2019 continued the positive momentum in April before posting the first negative month of the year in May and then subsequently rebounding in June. As painful as May felt, it was actually right in line with the historical expected drawdown following a first quarter as strong as the one we had this year. The second quarter saw US equity markets move higher on the whole, driven by easy money, fiscal stimulus, and monetary stimulus. The trade war with China is still very much up in the air but investors are holding out hope for a resolution. An escalation would be unpleasant for all parties involved and we have already seen U.S imports from China decline markedly. Nonetheless, the S&P 500 is up nearly 19% in the first half of the year despite all of this uncertainty. Historically, years that have started this strong have seen flat returns in the second half. There remains potential upside should a trade resolution be reached and the macroeconomic data simply is not as bad as people are fearing.

However, concerns about slowing growth remain with Manufacturing PMI numbers slipping to multi-year lows around the globe. The Q1 GDP reading for the US was a strong 3.1%, 26% faster than the average during this expansion, and brought average real annualized GDP growth to almost 3% for the past 8 quarters. Q2 GDP is expected to decelerate to 1.5-2.0%, which is more in line with the long-term forecasted growth rate. That is to say, it is slower, but still expansionary. The labor market remains tight, with low unemployment and more job openings than unemployed persons. Productivity continues to be strong, with Q1 posting the largest year-over-year gain since Q3 2010. The average productivity gain over the past 4 quarters has been 1.7%, which is 54% above the expansion average of 1.1%. Inflation is still low. The economy appears to be fundamentally sound for the most part but is showing signs of wear around the edges.

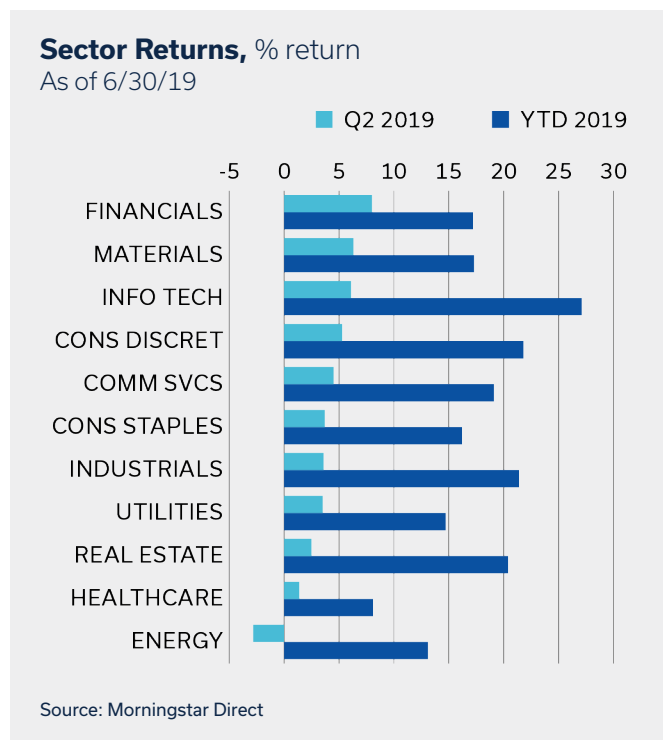
## RATE CUTS?

As it was in the first quarter, the Federal Open Market Committee's dovish tone was again one of the bigger developments in Q2.

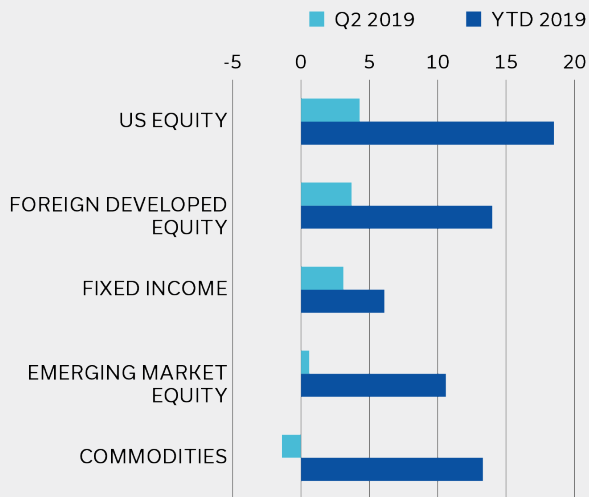
The June meeting continued the dovish trend started in January and March. While the dot plot median remains at 0 cuts for the balance of the year, the markets are pricing in 2 cuts, on average. It's important to remember that as recently as December, the Fed was forecasting 2 rate hikes. The 10 year-3 month Treasury yield spread has been inverted for over a month and continues to garner headlines as a predictor of recession. As was the case when this spread initially inverted back in the first quarter, it is important to remember that inversions are not great recession predictors by themselves. As the curve has been consistently inverted for several weeks now, we note again that the lead time until a recession is typically 55 weeks and that during that time, markets have historically moved higher.

## CONTINUED GLOBAL UNCERTAINTY

Looking outside the United States, the environment is also



**Asset Class Returns, % return**  
As of 6/30/19



Source: Morningstar Direct

increasingly uncertain. As economic data has continued to deteriorate, central banks, most notably the ECB, are prepared to take measures to prevent a recession. European GDP is low but positive. Brexit remains localized and appears that it will continue to be. China's stimulus should help things in the second half of the year as it takes hold on the world's second largest

economy, and a trade resolution would certainly boost things further. Markets do not like uncertainty and as we said above, it seems as though the worst case scenarios for China are priced in with surprises more likely to be to the upside.

As we move into the back half of 2019, the global economic environment continues to be uncertain. U.S. data is showing signs of slowing but does remain mostly expansionary. With the strong first half in the equity markets, valuations are now slightly above historical levels (P/E of 16.7x current vs 16.2x historical) but are still well below what one would consider over-valued. Outside of the U.S., much hinges on China, a trade settlement with the U.S., and the efficacy of its stimulus. We remain optimistic about seeing positive results which may provide a lift to the global economy later this year.

Sincerely,



Kim David Arthur  
CEO and Portfolio Manager

Performance Data from the following indices: Commodities – S&P GSCI TR USD, US Equity – S&P 500 TR USD, Fixed Income – BBgBarc US Agg Bond TR USD, Foreign Developed Equity – MSCI EAFE NR USD, Emerging Market Equity – MSCI EM NR USD, Communication Services – S&P 500 Sec/Commun Services TR USD, Cons Discret – S&P 500 Sec/Cons Disc TR USD, Cons Staples – S&P 500 Sec/Cons Staples TR USD, Energy – S&P 500 Sec/Energy TR USD, Financials – S&P 500 Sec/Financials TR USD, Healthcare – S&P 500 Sec/Healthcare TR USD, Industrials – S&P 500 Sec/Industrials TR USD, Info Tech – S&P 500 Sec/Information Technology TR USD, Materials – S&P 500 Sec/Materials TR USD, Real Estate – S&P 500 Sec/Real Estate TR USD, Utilities – S&P 500 Sec/Utilities TR USD. Main Management, LLC ("Main Management", or the "firm") is an investment adviser registered under the Investment Advisers Act of 1940. The firm was founded in 2002 and provides investment management services primarily to high net worth, family groups, foundations/endowments, and serves as a sub-advisor to third-party investment advisors & broker-dealers. The information contained herein was prepared using sources that the firm believes are reliable, but the firm does not guarantee its accuracy. The information reflects subjective judgments, assumptions and the firm's opinion on the date made and may change without notice. The firm is not obligated to update this information. Nothing herein should be construed as investment advice or a recommendation to purchase or sell securities. The information is not intended as an offer to provide advisory services in any state or jurisdiction where such offer would not be permitted under applicable registration requirements. All equity investing entails risk of loss. The firm cannot assure any potential client that it will achieve the investment objectives discussed in these materials. In addition, potential clients should not assume that their returns, if any, will be comparable to returns that the firm earned in the past. The firm and its clients, affiliates and employees may, from time to time, have long or short positions in, and buy or sell, the securities or derivatives (including options) thereof, of the ETFs mentioned in these materials and may increase or decrease their positions. Upon request, Main Management will furnish additional information regarding the firm's policies for calculating and reporting returns. Past performance does not guarantee future results. Indices are unmanaged and do not take transaction costs or fees into consideration. It is not possible to invest directly in an Index. Performance figures assume reinvestment of dividends and capital gains.