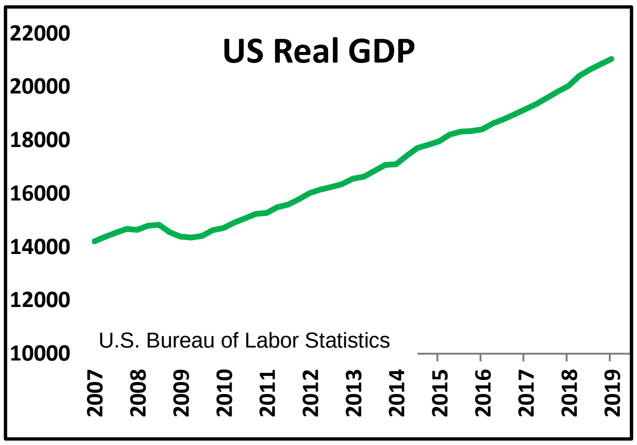
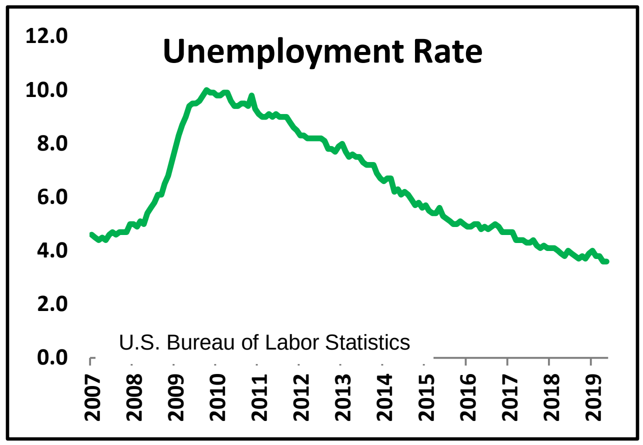
July 2019

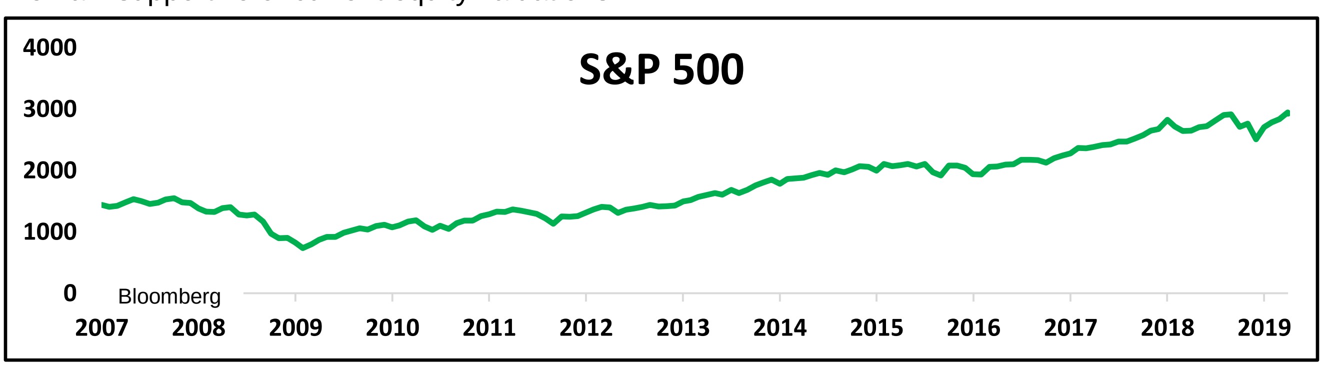
A Decade Later

It has now been a full decade since global stock markets and economies bottomed. Despite more than a handful of fits and starts, both have enjoyed long healthy runs. The US economy peaked in 2008 with GDP of $14.7 trillion and a 5.0% unemployment rate and is on track in 2019 to deliver GDP of $21.3 trillion with an unemployment rate that has been below 4.0% for well over a year. Importantly, the tight labor market is finally beginning to reward the entire labor pool with increased wages. Combined with tax reform, this is leading to increased after-tax incomes for most Americans. With the financial crisis still a recent memory, many households have taken care to repair their personal balance sheets and are only now starting to increase usage of credit. As a consumer based economy, these are all positive signals for continued growth.

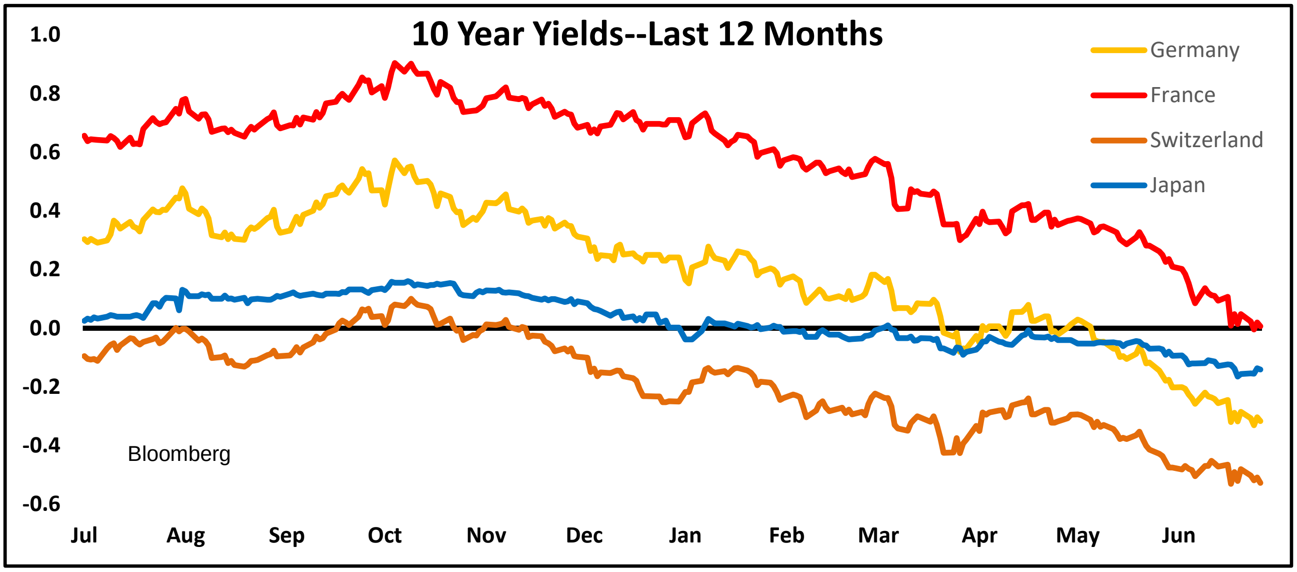




Equity markets reflect this, and have provided substantial returns over this period increased more than fourfold from the climactic bottom in March of 2009. This year alone has seen the strongest start to a year in decades with double-digit returns across all indexes. Stocks have benefited from a reversal in tone from the Federal Reserve. Their previous stance of continued methodical rate hikes despite little inflation, weakening global growth, and an ever-strengthening dollar was the catalyst for the sharp declines experienced in December. Looking forward, the Fed, having left rates unchanged for six months, is beginning to signal to the market that they may be on hold for longer than they originally planned. Combined with a still growing economy, these low rates remain supportive of current equity valuations.



While helpful for stock prices, the current interest rate environment leaves more than a little to be desired for traditional income-seeking investors. The combination of Fed policy and plunging rates globally have conspired to pull ten-year treasury yields back towards 2% from 3.25% last November. At this level, government bonds provide little real income after taxes and inflation. While historically unappealing, compared to the $13 trillion of bonds globally with negative yields, US markets look like an oasis in the global fixed income desert.



As always, there are clouds on the horizon; including potential trade issues with China, further military escalation with Iran, slowing economic growth domestically and abroad, and the beginning of a 15-month presidential election cycle.

Often times, these clouds come into and out of focus for investors and inject volatility into the markets. December was an example of that volatility. In fact, over the past 100 years, nearly 40% of the time stocks produced a negative monthly return and almost 30% of the time for an entire year. Despite these short term setbacks, over time, no asset class has built more wealth for investors than stocks. Since the economy and earnings growth over time, producing higher highs and higher lows through economic cycles, so too do share prices.

We can all agree that the nearly 8% annualized returns since the last peak, in 2007, were not linear and were subject to periods of elevated volatility and significant negative returns. To participate in this asset class effectively over long periods, investors must first be allocated correctly so that they are not tempted, frightened, or forced to sell at the wrong time. This allocation has to take into account an individuals' time horizon, risk tolerance, and income needs. Despite the reduced income available across traditional fixed income markets, continued and possibly increased allocations towards fixed income remain necessary to balance portfolios and mitigate overall risk levels. This is a collaborative and dynamic process. If undertaken correctly, investors with at least a five-year time horizon, an appropriate asset allocation, and a reasonable withdrawal rate should be able to navigate the adversity that will accompany any storm these or future clouds produce.

If you have any questions or concerns regarding your allocation or anything else as always, please give us a call. In the meantime, enjoy the summer!!