A Beautiful View To Your Financial Future℠

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Second-Quarter 2019 Market Review ~ Well-Being!

July 2019 - Well-being, the satisfactory condition of an individual or group. Is it physical, mental, emotional, or financial? Or perhaps all of the above?! In the words of John Lennon, "imagine" a country where the government's goals include the well-being of its citizens/people. Kudos to New Zealand!

In May, the island nation released its first "Wellbeing Budget" (https://treasury.govt.nz/publications/wellbeing-budget/wellbeing-budget-2019). While acknowledging the importance of economic growth, the spending plan seeks to improve the quality of growth by raising living standards and the happiness of the country's citizens/residents. To set priorities for the budget, they used evidence and expert advice to determine where they could make the greatest difference to the well-being of New Zealanders. The "wellbeing analysis" resulted in five priorities: improving mental health, reducing child poverty, supporting indigenous people, thriving in a digital age, and transitioning to a low-emissions economy.

Success will be measured not just by the condition of finances and the economy, but also by "wellbeing" indicators such as environment and health quality, as well as cultural and social quality of life. What a novel idea, putting the interests of the people first!

Stock and bond markets provided investors a state of financial well-being during the second quarter and first half of 2019. It was a seesaw quarter for stocks, up in April, down in May, and a rebound in June. April continued the first-quarter uptick, bolstered by optimism for a trade deal with China and efforts by central banks to adopt policies to stimulate growth. Domestic stock bellwethers moved ahead to all-time highs. But stocks were roiled in May due to flare-ups associated with the China trade war.

The first week of June marked the bottom for stocks during the quarter. The Dow Jones Industrial average had declined six weeks in a row, while the NASDAQ Composite index slipped into correction territory (a loss of 10% or more from a recent high) on news that Congress would initiate extensive antitrust investigations of tech-giants Facebook, Google, Amazon, and Apple.

With the rally from over-sold, it was the best June for the Dow Jones Industrial average and Standard & Poor's 500-Stock index since 1938 and 1955, respectively.

As the closing bell rang for the second quarter of 2019, the Dow Jones added 2.6%, the Standard & Poor's 500 (total return) rose 4.3%, and the NASDAQ gained 3.6%. For the first six months of the year, the Dow Jones climbed 14.0%, the S&P 500 (total return) jumped 18.5%, and the NASDAQ surged 20.7%. It was the best first half for the S&P 500 since 1997. The S&P 500 closed at a record high on the second-to-last day of the quarter.

Low and negative sovereign bond yields, as well as flight-to-safety buying, pulled interest rates lower during the quarter. Falling interest rates propelled bond sector returns higher across the board, ranging from 2.50% to 3.75%. For the first half of 2019, bond sectors swelled from a little more than 5.0% (Municipals) to nearly 10.0% (International Emerging Markets).

After slightly inverting at the end of the first quarter, the Treasury yield curve somewhat normalized for the first half of the second quarter, but then turned and remained inverted for the balance.

(The yield curve is the relationship between short-term and long-term interest rates, usually measured by comparing the yield for three-month U.S. Treasury Bills with 10-year Treasury Notes. Normally, long rates are higher than short-term rates due to the risk of loaning money for longer periods of time. The exception is an "inverted" curve, when short-term rates are higher than long-term rates.)

At quarter end, the yield on the 10-year U.S. Treasury note was 2.01%, sinking 40 and 67 basis points for the second quarter and first half of 2019, respectively. The three-month Treasury bill closed at 2.10%, shedding 30 and 36 basis points for the second quarter and first half of 2019, respectively.

The Federal Reserve left interest rates unchanged during its two second-quarter meetings. Despite much speculation by market pundits to the contrary, the Fed said it expects no interest rate cuts in 2019, but with increased economic uncertainties, forecasts one in 2020. The central bankers cut their inflation forecast to 1.5% from 1.8%, while estimating gross domestic product of 2.1% and average unemployment of 3.6% for 2019.

Below are rates of return for selected market indices for the second quarter and first half of 2019, and the three, five, and 10-year compound annual returns as of December 31, 2018.

	2Q:2019	YTD-2019	3-Year	5-Year	10-Year
Equity (Stock) Indices					
Domestic					
Russell 1000 - Large Cap	4.25%	18.84%	9.09%	8.21%	13.28%
Russell Midcap	4.13%	21.35%	7.04%	6.26%	14.03%
Russell 2000 - Small Cap	2.10%	16.98%	7.36%	4.41%	11.97%
Real Estate (FTSE NAREIT Equity REITs)	1.24%	17.78%	2.89%	7.90%	12.12%
Commodity (S&P Global LargeMidCap)	-0.56%	6.92%	12.43%	-1.29%	4.83%
International					
MSCI EAFE Developed Large Cap	3.97%	14.49%	3.38%	1.00%	6.81%
MSCI EAFE Developed Small Cap	1.92%	12.88%	4.11%	3.42%	10.88%
MSCI Emerging Markets	0.74%	10.76%	9.65%	2.03%	8.39%
Global - MSCI All Country IMI	3.55%	16.43%	7.06%	4.72%	10.32%

	2Q:2019	YTD-2019	3-Year	5-Year	10-Year
Fixed-Income (Bond) Indices					
Bloomberg Barclays					
Global Aggregate - Unhedged	3.30%	5.57%	2.70%	1.08%	2.74%
Global Aggregate - Hedged	2.92%	6.00%	2.91%	3.34%	NA
U.S. Aggregate	3.08%	6.11%	2.06%	2.52%	3.48%
U.S. Treasury TIPs	2.87%	6.15%	2.11%	1.69%	4.37%
U.S. Corporate High Yield	2.50%	9.94%	7.23%	3.83%	10.72%
Municipal	2.13%	5.09%	2.30%	3.82%	5.16%
International Emerging Markets	3.76%	9.39%	5.05%	4.23%	9.05%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloomberg.com