

What Happened?

- Finally we had a slightly slower month in the markets with the exception of the incessant growth of tech stocks in the NASDAQ.
- Stocks opened the month lower but rallied on the hope that the Fed would cut interest rates and on positive news of trade discussions between the US and China. This led the S&P 500 to a new record high.
- However, at the end of the month the Fed announced that they would be cutting rates 0.25% and maybe only once, this was at odds with the market's hope that it would cut 0.50% and leave the door open for more.
- Then more disappointed was added on the last day of the month when President Trump announced they would go ahead with an additional 10% tariff on Chinese goods, reversing the progress that the market had hoped for earlier this month.

Index	July	YTD 2019
S&P 500	1.3%	18.9%
Dow Jones	1.0%	15.2%
NASDAQ	2.1%	23.2%
Russell 2000	0.5%	16.8%
EAFE	-1.9%	12.4%
Emerging Markets	-3.7%	6.1%
Aggregate Bonds	1.0%	7.0%

Data from Morningstar as of 7/31/2019

What Did We Do?

- We continued with our slight overweight towards equities but have increased the domestic focus. Due to dollar headwinds and a slowing economy many of the international markets, while cheap relative to their historic valuations, still don't look quite ready to make a run yet.
- However, there are some areas in the US that are still somewhat fairly valued, so we are watching for the opportunity to rotate more into those sectors and asset classes.
- The news flow at the end of the month of a small Fed rate cut, the resumption of tariffs, and an average jobs number today does require us to continually reevaluate our position in US equities. Depending on the headline and economic news we will be adjusting our client accounts as needed.

What's Next?

- Our view that politics will play a big role in market returns over the next year remains. The main factor is that President Trump seems to be willing to do anything to ensure the stock market continues to grow as it is favorite proxy for the economy, and he plans to run on the strong economy. However, as the election in 2020 approaches we are seeing the effects of politics in different sectors as well. Both President Trump and Democratic candidates have discussed the issue with drug prices which have weighed on some healthcare stocks recently.

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- Potential headwinds to the market rally remain, however they are somewhat subdued, but we would not be surprised to see one of them become a catalyst for a brief market sell off. Those headwinds to watch for are:
 1. Earnings for the 2nd quarter will begin this month and many analysts believe that earnings may fall on a year over year basis, and analysts are also reducing their third-quarter earnings forecasts. Much of this is based on a slow down in demand but also continued uncertainties around the trade war.
 2. Speaking of the trade war, the trade war is the second headwind. The market is rallying today (July 1st) on news that there will be no new tariffs and talks will continue. This is not the same thing as an actual solution, and we remain unconvinced that either side will be willing to give in enough to make the currently sought-after deal happen in the near future.
 3. Although the Fed said they will not raise rates, the market seems to think that means they will be cutting rates this year. That may prove true, but we also think the market may be getting slightly ahead of itself and may have a small tantrum if the Fed does not cut as the year goes on.
 - Overall, we remain slightly in favor of equities over cash or fixed income at the moment. If those headwinds stay subdued, or if we continue to see them becoming less of an issue (as we did in June), then there is no reason why stocks can't continue this run higher.
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If you have any questions or would like to discuss how any of this could impact your portfolio, please contact Alex directly at Alex@AnfieldWealth.com.