

What Happened?

- After four straight months of gains that saw many markets up over 15% for the year, global stock markets finally had a down month.
- I ended last month's letter by stating since earnings were positive, markets may continue higher unless we saw negative changes in the trade war/tariff rhetoric. Well, at the very beginning of May President Trump tweeted that he would be increasing tariffs on China again, and that quickly became the catalyst for markets to drop around the world.

Index	May	YTD 2019
S&P 500	-6.4%	10.7%
Dow Jones	-6.3%	7.5%
NASDAQ	-7.9%	12.3%
Russell 2000	-7.8%	9.3%
EAFE	-5.0%	7.3%
Emerging Markets	-7.3%	4.2%
Aggregate Bonds	1.8%	4.8%

Data from Morningstar as of 5/31/2019

- By the end of the month we now had fears of even more tariffs on more countries, an inverted yield curve, and some slight signs of a slowing economy. This caused many areas of the market that have done well, such as Tech, to drop by over 7% in May.

What Did We Do?

- As I mentioned last month, many areas of the market were up 15%+ and we were closely monitoring those positions as we had been overweight in most of them. After the tweet about the tariffs we have begun cutting our overweight in those positions and bringing our allocations back down to neutral.
- When markets become volatile normally the best thing for many investors to do is to rebalance back to their target allocation in order to pursue the return that their financial plan requires, which is exactly what we have done for most clients. That being said, there are a few events that I'll discuss in the next section that could lead us to returning to our overweight to equities, but those same items could also be a reason to underweight equities.

What's Next?

- The factors that lead to the sell off in May do not look likely to fade in June. However, there will be two big dates to watch for that will either send markets higher, or continue the drop:
 1. China Trade War – G-20 Meeting June 28th & 29th – As it stands both Presidents Trump and Xi Jinping will be attending the G-20 meeting and there are hopes that they will meet to discuss and potentially resolve the trade war issues. While they may not resolve everything, any positive signs would send the market higher while any negative reactions would sound the alarm bells for global trade. Unfortunately, at the moment the latter seems more likely.

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2. Federal Reserve Meeting – June 18th & 19th – The other main hope for markets, in the absence of earnings reports, is that there will be some market friendly news from the Fed about keeping interest rates stable or even deciding on a cut to rates. A rate cut at this time seems unlikely, but nevertheless the market seems to be expecting it, which could lead to further declines if the market believes the Fed isn't there to support it via rate cuts. If a cut does occur though, it could send markets higher.
- It's not all bad news though. Market fundamentals look a little more attractive now after the sell off as the S&P 500 is trading at 15.9 times its forward earnings compared to a little over 17 times in April. This is a popular measure of whether the market is "expensive" and is called the forward P/E ratio, and now that it has fallen back into its long run average range, US equities look more attractive.
 - Although history is no guarantee of the future, in the past when the S&P 500 has dropped more than 2% in May, it's average return in June is a +1.2%.
 - Over the longer term the main overarching themes are going to revolve around tariffs and an election year next year. President Trump wants to run on a strong economy, and his favorite scorecard for that (which is a bit flawed) is how the stock market is doing. This will cause an interesting dynamic if the market continues to sell off because of tariffs, will he pull back on the trade war rhetoric in order to bring the market back up leading into an election year? Our thought would be yes which would be a positive for markets over the next 18 months, but there is still a lot that could happen over that time.
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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.