MARKET COMMENTARY

3rd Quarter 2019 November 6, 2019

SILVER HAWK PRIVATE WEALTH

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After two consecutive quarters of positive returns across a wide range of asset classes, the US stock market in 3Q19 was less predictable with heightened volatility. US stocks returned 1.70% over the quarter as measured by the S&P 500 TR index, and bonds (as measured by the Bloomberg Barclays aggregate bond index) returned 1.63%.

The Federal Reserve, after raising interest rates in December of 2018, reversed course by cutting their Fed Funds policy rate at the July and September meetings. July's rate cut was the first reduction in the policy rate since 2007, which was a response to a global financial crisis unfolding and after unemployment and inflation started to rise. The Fed's mandate is to maintain stable prices in the economy, and full employment. When they raised rates last year, unemployment was at 3.7% and inflation was near their 2.0% target at 2.19%. They were successfully meeting their mandate, and yet they raised rates.

The Fed continues to claim they are making policy decisions based on the "data" but their actions are becoming more in-line with a market forecaster, rather than a defined lever that should be reactive to changes in employment and inflation. The Fed's past policy decisions have led to recessions, and they are not perfect; however, making policy decision based on forecasts and "uncertainty" surrounding the trade war leads to unpredictable policy decisions, and markets tend to become more volatile when the Fed

Sean Puckett, CFA, CAIA
Chief Investment Officer

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Unemployment is at historical lows, inflation is in check, and despite a downturn in ISM manufacturing data, the US Economy has shown resilience through the trade war and global growth downturn. Now with a simulative monetary policy in place, companies are left conflicted where they do not want to expand in the face of a slowdown, but the cost of expansion is now lower which should stimulate spending and hiring.

I think the actions by US companies over the coming quarters will give a good indication of what is to come over 2020. They have been holding more cash, and scaling back hiring to avoid getting over their skis if another downturn is around the corner. But, if the cuts during 3Q19 begin to stimulate spending and expansion, the downturn may have been avoided and we could see the current expansion continue well into 2020.

For our investors, we always teach the importance of true diversification into asset classes outside of the public equity and fixed income markets. This market is becoming more unpredictable to us as each quarter passes, which can largely be attributed to the unpredictable actions of our Fiscal and Monetary Policy makers.

Uncertainty tends to breed emotional responses in the market, and investment decisions based on emotion tend to not work out so well in the end. We have always communicated the importance of reducing or eliminating emotion from the decision-making process, and we accomplish this through rules-based asset management. This allows us to make rational, optimal decisions based on evidence and historical precedent no matter what the market environment is.

In conclusion, the US economy seems to be holding on with the help of stimulative fiscal and monetary policies, company earnings are exceeding analyst expectations, and the market is reaching back toward all-time highs. We continue to follow our rules-based asset management system for clients and keep the conversation focused on their goals, achievements, and progress rather than the daily or monthly market headlines.

We are expecting increased volatility during the fourth quarter as we reach previous all-time highs, and expect the US-China Trade deal optimism to fade as we remain pessimistic that a trade deal will be reached any time in the next two quarters or beyond.

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