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Hinds Financial Group Quarterly Economic Outlook and Review Q3 2019

THE ECONOMY

The US economy's growth slowed modestly in the third quarter. The Bureau of Economic Analysis reported its third estimate of second quarter 2019 gross domestic product (GDP) of 2.0%, in line with the prior estimate, but lower than the first quarter's 3.1% reading. The employment situation moderated further in the latest month, with an average of approximately 156,000 jobs added each month of the quarter. The unemployment rate held steady at 3.7%. The Fed modified its interest rate policy by lowering the federal funds rate target two times, to a range of 1.75% to 2.00%. Economists expect the Fed to lower the fed funds rate at least once more by the end of the year. The global economic environment continued to decelerate, driven by trade uncertainty, the lingering questions regarding how Brexit will be resolved, and heightened geopolitical risks. Eurozone economic growth slowed after growing in the prior two quarters, led by a decline in household consumption. China's economy has also decelerated significantly since the onset of the trade frictions with the US.

DOMESTIC EQUITIES

Equity markets tracked the news on the trade front, posting gains in July before dropping sharply in August then recovering in September as both the US and China seemed to soften their respective stances. The market's recovery was also partly based on the Fed's decision to lower interest rates for the second time in the quarter. Within that context, the S&P 500 Index finished the quarter with a gain of +1.7%. Within the large cap segment, growth stocks slightly outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly underperformed large caps, and finished the quarter with a total return of -2.4%. Small cap value outperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of +0.2%. Commodities were modestly lower, with the Bloomberg Commodity Index losing -1.8% for the quarter.

INTERNATIONAL EQUITIES

International stocks had a difficult time during the quarter, and were generally not able to match the performance of U.S. equities. In the Eurozone, economic growth has slowed for several reasons, including ongoing uncertainty around Brexit and the impact of global trade tensions and geopolitical disagreements. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, declined by -1.8%. Regional performance was largely negative for the quarter. Japan was the strongest performer on a relative basis, with a return of +3.1%. Latin America was the poorest relative performer, declining -5.6%. Emerging markets performance was weak, as the MSCI Emerging Markets Index was lower by -4.3%.

BONDS

Bond prices and yields were buffeted by several factors during the quarter, foremost of which was the deceleration in economic growth resulting from the escalation in the trade war with China. Other issues prompting investor concern were the ongoing drama surrounding the UK's Brexit decision, and geopolitical tensions with nations such as Iran. The Fed responded to the moderating growth in the US by lowering interest rates twice during the quarter, bringing the target federal funds rate range to 1.75%-2.00%. The slowing growth produced a rally in bond prices, and a drop in yields. Economists expect this trend to continue, as seven Fed committee members anticipate cutting the fed funds rate by an additional 25 basis points this year. The fed funds rate is now expected to end 2020 at current levels, as opposed to an expectation of 2.4% three months ago. Total returns on fixed income securities were positive across most of the market segments.

OUTLOOK

While growth has moderated somewhat in 2019, the current US economic expansion is now the longest in history. The US economy is very resilient, so far withstanding the negative impact of the heated trade war, heightened tensions with Iran and the deep and growing political divisions in Washington. While the Fed has stepped in to provide an insurance policy to the markets in the form of two interest rate reductions, growth is dependent on a cooling of the tariff tit-for-tat. Many economists believe there is reason to feel optimistic that President Trump and China's President Xi Jinping will soon find common ground, as China's economy has slowed significantly and President Trump seeks re-election next year. It is somewhat difficult to assess the importance of the recently inverted yield curve. While inversion has typically presaged a recession 9-12 months in the future, analysts are not quite as confident in this environment, believing that unprecedented foreign demand for US Treasury securities may be creating distortions in the curve. In addition, stock prices do not yet seem to be signaling a recession is on the horizon, as they have recovered from an August swoon to once again approach record highs. The consensus among economists is that at this point a recession does not seem likely until near the latter part of 2020.

- ***S&P 500 Index***: "*The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*"
- ***Russell 2000 Index***: "*The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*"
- ***NASDAQ Composite Index***: "*The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based index.*"
- ***Bloomberg Commodity Index***: "*The Bloomberg Commodity Index is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index; and no group can represent more than 33% of the index. However, between re-balancing, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.*"
- ***MSCI All-Country World Ex-USA Index***: "*The MSCI All-Country World Ex-USA Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Ex-USA consists of 48 country indexes comprising 22 developed and 26 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indexes included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.*"
- ***MSCI Emerging Markets Index***: "*The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*"

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