The Stonebridge Market Commentary

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Equity Market Commentary

What was the old saying? "Sell in May and go away?" Well for the first time in seven years it would have worked as we had the first down month of May in that time (Chart 1). So how did 2012 turn out? Like 2019, the 2012 market got off to a grand start, up nearly 12% in the first quarter much like this year's gain in the first quarter of 13.07%. Will history repeat itself? 2012's 13.39% return is a big target to hit. So far we are tracking right along with 2012. Trying to divine the future by looking at the past is an exercise fraught with peril. No two years are alike but many are similar. 2012 produced a 2.2% GDP growth, not far from current 2019 estimates. 2012 was of course an election year and we had tax increases and a fight over a bunch of tax measures that were set to expire if not renewed. This fight continued all year and was termed "the fiscal cliff". Just like now with the fight with China over trade, the uncertainty caused a slowdown in the economy as businesses put off projects and waited for clarity. Here's a chart of 2012 to ponder (Chart 2). By the way, that big drop in the fall of 2012 was largely due to people dumping stocks to lock in gains before a big jump in capital gains rates were due to kick in in 2013 if no deal was reached. The issue today is very similar. The economy slowed in the second quarter and the market marched to that tune. You'll probably notice that the low for the S&P in June was around 1280, less than half of today's 2780 level. Stocks have risen a lot in the years between 2012 and now so there is more profit at risk if the trade talks don't come to the rescue. It is great time to reassess risk tolerance and make adjustments to de-risk portfolios if necessary. This is not meant to be an all-encompassing "get out now" type of recommendation, just a thought about individual risk tolerance. The market is deeply oversold and we can probably anticipate a countertrend move is in the cards despite the uncertainty.

Friday we saw the President tweet that we would put a 5% tariff on goods imported from Mexico unless they helped to stem the tide of migrants crossing from Central America trying to get into America. That threat sent the markets down another 1% or so. Just what the market needed. Chart 3 shows our trade with Mexico. Onward to June.

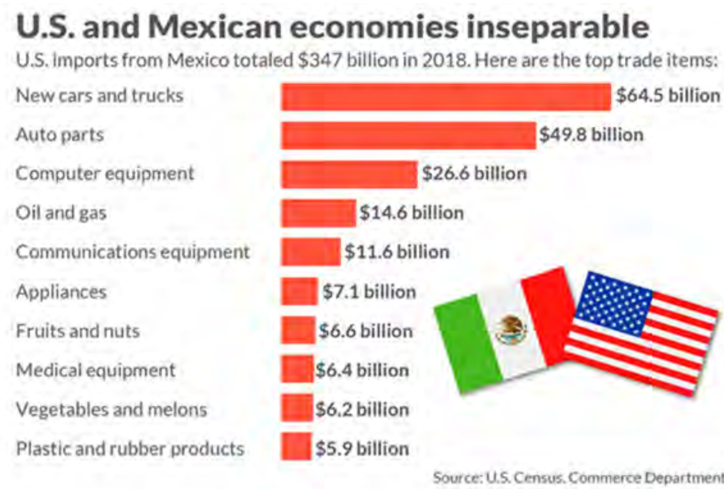
Chart 1

Chart 2

Fixed Income Market Commentary

The markets have a lot to mull over right now. Between escalating tariff and trade concerns that seem to expand and worsen daily to increasing signs the domestic economy may be losing steam, bonds have continued to provide a safe haven for investors. Rates have again tumbled as the insatiable demand for fixed income has shown no sign of letting up. The inverted Treasury yield curve persists on the short-end, a fact that in and of itself may be acting like a self-fulfilling prophecy in the increased demand for more security. The yield on the 10-year US Treasury yield plummeted from over 2.50% at the beginning of the month to 2.14% at the end. More and more the bond market is signaling it is anticipating that a rate cut from the Fed is in the offing this year. If that doesn't materialize, we could be setting up for some volatility in bonds as prices adjust down the road. While the Laufenberg Indicator isn't yet signaling a reversal of the bull market for equities, it may still be prudent to review that your portfolio's allocation to risk (equities) and safety (bonds) is still appropriate for your level of risk tolerance if you have not already done so recently.

Chart 3



Sources:
Data sourced through Bloomberg and Stockcharts.com
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