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What was old… is new again

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We don't have to tell you this year has been disappointing for nearly every asset class. Fixed income and equity market indices in virtually every sector, style, credit quality and duration are negative YTD. There are always places of opportunity and commodities, cash and energy were the sparse bright spots so far this year. Let us just highlight the fact that cash is an asset class that has performed this year.

Inflation, recession, interest rate hikes and negative returns are realities wearing on all investors. We have not had a negative calendar year for the S&P500 since 2018 and this year is likely to deliver us back to the averages of a bear market every 3-5 years. While we marked the technical definition for a recession in the first half of the year (2 negative GDP quarters), a recession that we actually feel is likely in front of us. By this, we mean rising unemployment, a challenging housing market and sacrifices in consumption.

The Federal Reserve has indicated they intend to continue raising interest rates to bring inflation under control. The rise in the federal funds rate will make housing less affordable, borrowing for business growth less profitable and goods more expensive, all in an effort to arrest more insidious inflation in the labor and housing markets. This will be a Fed induced recession as they "*bring housing and labor markets into balance"*.

This part of the economic cycle is never pleasant, but it is a requirement for long-term investors to endure in order to enjoy the inevitable rise of the capital markets. Even with the backdrop of YTD performance, most portfolios are still positive by 6-8% on a 3 and 5-year basis, and that includes the last negative calendar year 2018.[1]

As we look ahead to preparing for the recovery and expansion phase of the economy, what was old is new again. Medium sized, value companies focused on the industrial growth of the world are particularly appealing. We believe fixed income will provide total return with meaningful income to balanced portfolios. A bottoms up, stock specific focus over a "rising tide" lifting all boats approach is warranted. Health care, energy and staples will provide performance and income. We believe dividend-yielding stocks will enjoy some favoritism over debt-laden growth stocks.**

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The strategy to mitigate these negative factors began months and years ago. All of you have chosen to be pro-active in seeking the financial strength, health and preservation that financial advisors offer. Investing in energy and commodities has been as meaningful as avoiding some of the hardest hit parts of the market. Harvesting tax losses and raising cash have also contributed positively.

Some comforting news as we weather the storm in front of us: Participation in declining markets has been mitigated and proceeds will be deployed to securities that will benefit from the changing economy ahead. We are experiencing a very negative level of sentiment. A high degree of bearishness abounds as evidenced by the currency markets around the world. This is often cited as a necessary variable for market bottoms. The most profitable days in the market follow the most damaging, so we are rewarded for patience and discipline.

We believe Americans are generally in decent financial shape with higher FICO scores and the ability to find employment. Corporations are equally better shored-up for a recession, with stronger regulatory and accounting requirements having forced increased discipline, since the last major economic downturn.

We are moving into the seasonally stronger months of the year and that is helpful, but we do advocate restraint in withdrawing for unplanned expenses between now and yearend. Time is one of the most important components to successful investing. Being forced to sell during negative markets is corrosive to all portfolios. Financial discipline will be the stalwart to navigating through this storm.

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1. Average Historical Stock Market Returns for S&P 500 (5-year up to 150-year averages) - Trade That Swing

*Keeping in mind index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

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