July 2019

Monthly Market Commentary

Summer is officially in full swing and we would like to wish you and your families a very happy 4th of July. We are halfway through the year with major global markets recouping most of their losses from the fourth quarter sell-off. This year marks one of the best starts for the first half market performance relative to history, with only brief clusters of elevated volatility. Having said that, we would like to be cognizant of the fact that there is a disconnect between market performance and economic reality. A lot of optimism of a resolution on trade disputes between the US and China are being priced in while investors are not paying enough attention to incoming economic data. Further, the FED has shown signs that it may be ready to cut interest rates as early as July if data continues to be weak. This is a complete reversal in policy seen just a few months back. As we have highlighted in our previous comments about the economic slowdown, it is what probably warranted the FED to reverse its course. Second quarter earnings season has kicked off and we believe expectations remain elevated despite negative revisions over the last couple of months. Our biggest concern is that we may be only getting started with a series of negative earnings over the next few quarters as companies compare against their peak cycle stimulus induced earnings in 2018. On the flip side, markets have made substantial gains despite falling earnings estimates. This means that multiple expansion has accounted for more than 100% of the rally that may not be sustainable unless earnings start to improve. Considering the risk/reward, we are comfortable holding elevated levels of cash and would only deploy it at an opportune time as micro and macro factors improve fundamentally.