FIRESIDE
CAPITAL ADVISORS, INC.

Market Commentary – August 2019

“Trading” Punches

A couple of months ago we pointed out that trade disputes and interest rates were the two primary issues driving the stock and bond markets. Specifically:

“The recent drivers of short-term volatility in the market continue to be trade (tariffs) with China, and questions about what the Federal Reserve (the Fed) will do with short-term interest rates.“ And*, “getting to a trade agreement with China by way of on-and-off again meetings, tariffs (threats and real), tweets, speeches, etc. will continue to produce a volatile market.”*

As summer nears its end, those are still the topics getting all the attention, and we’ve experienced more volatility than expected. Nevertheless, the global stock market is up a respectable 11.1% for the calendar year, but down 1.9% for the trailing 12-months. (see chart below: one year, global stock market all-country world index)

Since we last wrote, data on the U.S. economy has continued to be good, but not great. The unemployment rate is at historic lows, inflation is low, and growth has been “ok”. However, Jerome Powell, the Chairman of the Federal Reserve, *lowered* interest rates last week in a preemptive move to ward off a weaker economic environment. The decision to lower interest rates by a quarter of a percent didn’t come as a surprise… it was widely telegraphed. However, there is disagreement regarding whether the cut was needed at all, or if the Fed should have done more. During the Q&A session after the announcement Powell noted that this cut was expected to be a one-off “insurance” cut to protect the economy. Those in the camp that thought there should be more economic stimulus became spooked that more stimulus may not come as quickly as expected, or at all.

President Trump took the Fed’s move as insurance for a more aggressive stance against the Chinese in the trade dispute, to which China quickly replied by devaluing their currency. All of this uncertainty has investors questioning what’s coming next, thus running to safety. The stock market has dropped about 5% in the last week as a result.

We think the recent drop has been beneficial in that stock valuations are more in line with historical averages, and some of the speculators have left the market. We may very well see more volatility to the downside (the market is “only” 5% below its all-time high), but at current levels, stocks are reasonably priced relative to corporate earnings, and companies are generally healthy.

Please give us a call or send an email if you have any questions about your portfolio specifically, or the markets or economy in general. As always, we’re monitoring events to make prudent decisions on your behalf.

Thank you,

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Index Performance (as of 8/5/2019)

	One Month	Year-to-date
Global Stocks	-5.7%	11.1%
U.S. Stocks	-4.9%	14.6%
International Stocks	-6.7%	6.7%
U.S. Bonds	1.5%	7.4%

Interest Rates (as of 8/5/2019)

	Yield	6-Month change
2-Year Treasury	1.6%	-0.9%
10-Year Treasury	1.8%	-0.9%

Global stocks are represented by the iShares MSCI ACWI ETF (ACWI) which tracks an index covering approximately 85% of the global investable equity opportunity set. The United States makes up roughly 55% of the index, 35% is from developed international markets, while 10% is based on emerging market equity.

U.S. stocks are represented by the iShares Russell 3000 ETF (IWV) which tracks the Russell 3000 index. This index includes large, mid, and small companies in the United States. Approximately 23% of the index is made up of mid and small-cap companies.

International (non-U.S.) stocks are represented by the Vanguard FTSE All-World ex-US Index Fund ETF (VEU). This ETF covers both developed (80%) and emerging (20%) international markets. Further, it includes both large and mid-size companies.

U.S. bonds are represented by the iShares Core U.S. Aggregate bond ETF (AGG). This ETF tracks the Bloomberg Barclays U.S. Aggregate Bond Index replicating the composition of the investment-grade U.S. bond market. Approximately 45% of the index is derived from government bonds, 25% from corporate bonds, and 26% from agency mortgage bonds.