2ND QUARTER 2019 RETIREMENT PLAN NEWSLETTER

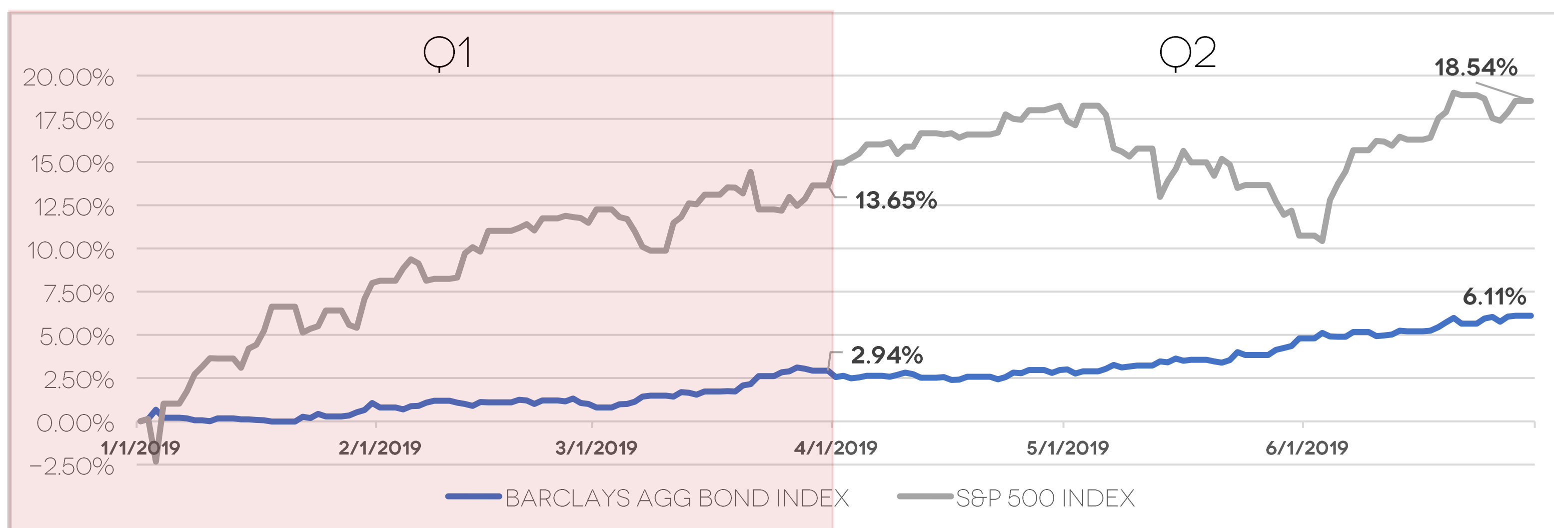
Current Issues and Trends for
Retirement Plan Participants

FAIRCOURT

Signals in the noise

HOW DID MARKETS PERFORM IN THE 2ND QUARTER?

Markets experienced a bit of whiplash this quarter, as investors were faced with a resurgence of trade and foreign policy disputes. While the S&P 500 sold off by over 6% in May, June ended on a high note to finish 4.3% in the green for the quarter. The Barclays Aggregate Bond Index followed the S&P higher to end the quarter up 3.1%. A market phenomenon often referred to as "risk on/risk off," made a comeback as well, meaning domestic stocks and bonds were often seen moving in tandem (rather than in a more uncorrelated manner, as is "traditionally" the case). Higher correlations between asset classes often indicate market confusion, as investors work to separate meaningful signals about long-term economic health from short-term market noise.



WHAT MOVED MARKETS IN THE 2ND QUARTER?

Market turbulence this quarter left us with a distinct sense of déjà vu. The sell-off during the 4th quarter of 2018 was spurred by heightened trade rhetoric and concerns over global growth, and—after a brief respite in Q1 of this year—we saw these fears once again take center stage. Escalating tensions over a potential two-front trade war with China and Mexico, muted business sentiment, and slowing economic growth numbers around the world left investors struggling to integrate two seemingly-opposite "buckets" of data.

In the positive bucket, we are witnessing something of a shift in monetary policy. The Federal Reserve, which has been following a well-communicated path of quarter-point interest-rate increases, responded to market turbulence by not only scaling back on the scope and pace of further tightening, but also by announcing at its most recent meeting that rate cuts may, in fact, be on the horizon. Lower interest rates = more money in the US economy—a positive, "growth-oriented" sign.

In the negative bucket, we have restrained business confidence, slowing economic growth around the world, and the looming prospect of a two-front trade war with Mexico and China.

As we note in our title, these competing economic realities beg the question: is current market turbulence simply "noise" unrelated to the long-term growth prospects of the economy, or are these disparate data points actually signals of an imminent recession? As of this writing, signs point to the former. If data in the negative bucket can broadly be attributed to action—or inaction—by the current administration, the upcoming election means aggressive rhetoric is highly unlikely to translate into aggressive action. The easiest path to re-election is a growing economy, and, when push comes to shove, the administration is unlikely to rock the boat.

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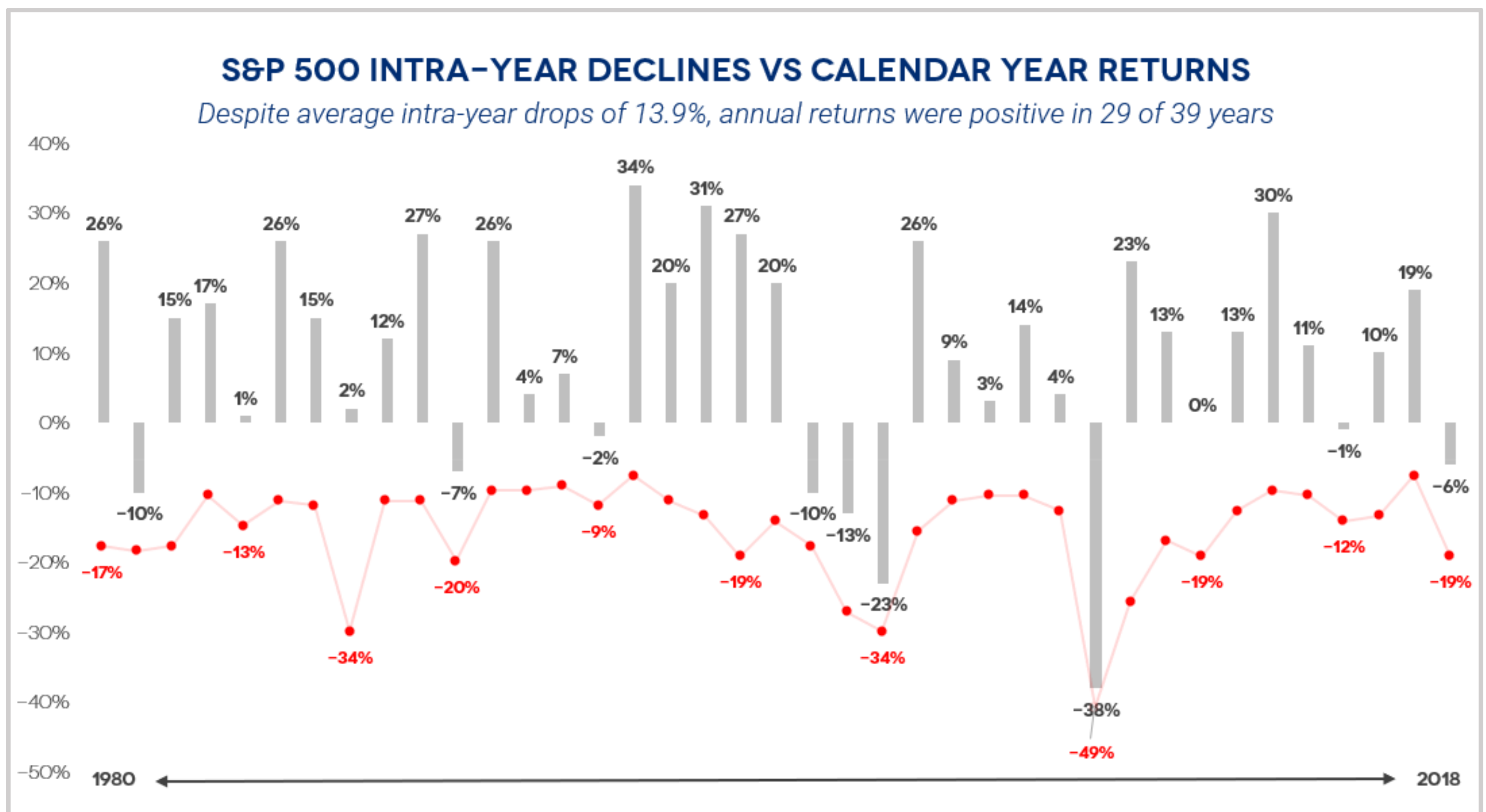
WHAT DOES THIS MEAN FOR RETIREMENT SAVERS?

In our last quarterly note, we discussed the importance of staying the course from a portfolio-allocation perspective. Not to, well, quote ourselves, but we specifically stated: *"Sure, right now it might feel like an account comprised of 100% small cap US stocks is the way to go, but what happens when, inevitably, markets hit another turbulent patch?"* We do not have a crystal ball, but our advice, in this case, was well-timed. As trade rhetoric and tension with Iran continued to escalate, we saw the S&P 500 fall by 6.35% in May. For perspective, a monthly dip of that magnitude ranks among the worst 5% of all monthly returns over the last 50 years.

We point this out not to be doom-and-gloom, but because, since the year started, the S&P 500 is up 18.5%. Investors—including retirement savers—who "sold the dip" would have locked in the losses of May, completely missing the overall positive return achieved by staying the course. If we've said it once, we've said it a thousand times: retirement saving is a long-term game. Ensure that your portfolio is appropriate for your age and timeline to retirement, but outside of that—don't touch it!

Questions about what that "appropriate portfolio" might be? Give us a call or shoot us an email—we're happy to chat!



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