Market Commentary

The domestic stock market indexes returned to new highs to end a volatile 2nd quarter. After selling off in May, the market rallied in June based on the assumption that the Federal Reserve would cut interest rates later this year. All eleven sectors contributed to the S&P 500 advance in June with Materials leading the way. With the recent rally, the S&P 500 is now up 18.54% through June 30th.

Two items stand out from the recent rally: (1) the rally is not global in scope, with nearly two-thirds of foreign markets in downtrends (defined by 200-day moving averages that are falling) and (2) the domestic rally continues to be dominated by growth stocks. JP Morgan recently wrote that value stocks are currently trading at the biggest discount ever relative to growth stocks. The bank argues that is due to the rise of disruptive technologies that have given many growth companies near-monopoly power, the rise of passive index investing, weak global growth and easy access to cheap capital globally. To reverse the trend, we would need to see one of the following: regulations that foster competition, a stabilization of active investment manager's assets under management relative to passive investing, less policy uncertainty and either a reacceleration of global growth or a full blown recession that forces a repricing of growth stocks.

Although geopolitics is not currently impacting the stock markets, there are items on the horizon of some note. The potential escalation of the trade war with China and the possibility of open hostilities with Iran are just two of the recent headlines that have the power to derail the rally. Also, although investors appear to be in love with the idea of an interest rate cut by the Federal Reserve, such actions do little to address the causes of falling rates, inflations expectations and growth. Over time, low rates drive less spending and do little to spur capex and appear to be accompanied by declining loan demand and falling money velocity.

Moving forward, we believe that the evidence suggests that we should be cautious in the short-term, being diligent regarding asset allocation and diversifying across sectors and individual names. Although growth has outperformed value, we plan to continue to buy both growth and value stocks in Portfolios. Value stocks usually have better dividend yields and, overtime, this will add to the performance of the Portfolios. In addition, when the trend reverses, a portion of the accounts will continue to be positioned to take advantage of the change in momentum.