Q-1 2019 In Review

June, 2019

Market Review

What follows is Seslia's Q-1 market review, annotated through June, 2019

The first quarter of 2019 saw a broad recovery for equity and other financial markets from the debacle of the fourth quarter of 2018. This continued into Q-2.

Looking back at Q-4 of 2018, the markets overreacted negatively to the Federal Reserve's December rate hike; the prospect of additional rate hikes in 2019; the continued run off of the Fed's balance sheet, bonds acquired over the period of quantitative easing (quantitative tightening); the prospect of an uncertain trade war between the world's two largest economies, the United States and China; and the slowing of the Chinese and European economies with the perceived contagion translating into a US recession in 2019 or early 2020.

In January, the Fed announced that interest rates would not necessarily increase in 2020, that inflation remained below target levels with the real prospect that target levels may not be achieved or exceeded, and that quantitative tightening would be more circumspect. June, data evidenced a slow-down in global economies. Limited US economic growth skews the odds towards the Federal Reserve Board of Governors reducing short term interest rates at least once if not twice in 2019.

Progress with China trade talks stalled at the end of Q-1. The President hopes that his forthcoming meeting with the Chinese premier at the June G-20 meeting will remove obstacles and get the negotiations back on track. The market is not sanguine that this will occur and we may well be living with China- US trade restrictions through the conclusion of the US elections in 2020.

Mid quarter, the Administration conflated trade and immigration issue, which may adversely impact passage of the replacement NAFTA agreement, the USMCA, recently negotiated among Canada, Mexico and the United States.

The trade tensions and tariffs involving the US and China adversely impacted the Eurozone. JP Morgan reports that Eurozone production is down 2.5% from its peak in December 2017. US tariffs also further slowed growth of the Chinese economy. China's purchase of raw material and finished products from both emerging market economies and Europe has slowed.

China focuses on stimulating domestic consumer-oriented manufacturing to offset the impact of the increased import tariffs on US products. In February, JP Morgan reported that China's imports have declined 5.2% year-over-year in US dollar terms versus a 27% growth in July of 2018.

China is again deploying fiscal stimulus in the form of tax cuts, infrastructure spending and support for bank credit in an attempt to stabilize economic growth. This is a repeat of efforts previously deployed by the Chinese government. The beneficial impact is questionable. The Chinese economy is daily reorienting away from dependence on government spending to consumer spending.

Korea and Taiwan have also seen decline in exports.

Globally, the US economy and financial markets remain dominant. The US dollar continued to strengthen through the quarter. US unemployment in February was 3.8% and wage growth has picked up.

The stronger US dollar is attributable to the 2019 interest rate increases. This strengthening has had a negative impact on the US trade deficit. It has also adversely impacted emerging economies with significant US denominated debt. And, it has made the hedging of currency risk more expensive in a market environment struggling to produce interest yield to investors. This increased cost depresses the already low yield investors receive from higher-grade credit investments. The demand for yield drives investors to assume more risk. The equity markets have benefitted translating all of the above into one of the better equity market quarter performances in many years.

Both US Equity and debt markets ended Q-1up.

The ECB announced a new round of cheap financing for the banking sector to reduce the drag negative rates are having on bank profitability.

The UK economy continues to enjoy a strong labor market and rising wages and UL economic prospects remain positive despite the continued Brexit uncertainty.

In June, the British Prime Minister resigned paving the way for another member of her party to try and deliver a Brexit solution. The unwillingness of the European Union to negotiate further changes to the EU- UK separation draft agreement makes a hard Brexit in October, 2019 more likely.

Seslia News

In Q-1, Seslia completed the transition of client accounts away from Insigneo/Pershing.

Since March our attention is directed to repositioning clients' investments. We are endeavoring to invest surplus cash to ensure available funds are appropriately deployed to achieve higher investment return. We are also insulating individual investments from individual company vagaries through the use of Exchange Traded and Index Funds. Finally, we are reviewing the performance of our clients' managed fund investments (mutual funds), repositioning, as appropriate to pursue the opportunity for greater upside returns.

Market Indicators

Q-1 Indices performance (from NASDAQ)*:

Standard & Poor's' 500 Index- +13.1%
Dow Jones- +11.2%

Q-1 Bloomberg Barclays US Aggregate Bond Index*- 2.9%

*The above market data is provided for illustration purposes only and has limited applicability to investment portfolios differently constructed. The indices described serve as an indication of overall market performance for both US domestic and fixed income instruments.