Another Solid Correction Behind Us

By Bob Deitrick, CEO, ChFC
July 2nd, 2019

You may recall last December, when it appeared as though the sky might have been falling, Steven and I went out of our way to convey to clients that this was an anomaly, for what remained a strong market, driven by tweets and headlines. We went on to tell you: "this too shall pass." Fortunately, we were correct. We also conveyed to each of you then that "corrections are painful, yet they are healthy for the market." That was true in this case as well.

Stocks closed out the 2nd quarter last Friday on a very high note, boosted by bank stocks, as investors looked optimistically at the meeting last weekend between President Trump and Chinese President Xi Jinping.

The Dow Jones Industrial Average rose 73 points on Friday, to 26,600, with J.P. Morgan Chase outperforming its peers. The 30-stock DOW rallied over 7% in the month of June, notching its largest June gain since 1938. The S&P 500 advanced 0.6% to 2,941.74, led by the financial sector. For the month, the S&P 500 jumped 6.9%, its best June performance since 1955. The S&P 500 is up more than 17% this year, marking its biggest first-half gain since 1997! The NASDAQ tech index rallied 7.4% in June.

But Wall Street's gains were kept in check as traders awaited the Trump-Xi trade meeting. The two leaders met Saturday at the G-20 summit in Osaka, Japan and the result, at first glance, appeared successful. The market was looking for some good news on the trade war and we got it, with Trump and Xi agreeing to hold off on imposing additional tariffs on their products and to resume trade talks.

To start the 3rd quarter, the S&P 500 got off to a great start Monday and Today with new record highs

The S&P 500 jumped 0.8% on Monday and .3% today to close at 2,973 - a record closing high. We also saw an intraday record of 2,977.93 yesterday as we continue to close in on the 3K mark. The Dow Jones Industrial Average gained another 69.25 points Tuesday to end the day at 26,786 as both Nike and Apple outperformed. The Nasdaq Composite jumped the most yesterday and today, boosted by chipmakers and Apple, and closed at 8,109.09 today! Apple is back above $200, at $203 per share.

Chipmakers and other tech stocks surged Monday on the news of the Huawei reprieve; shares of Qualcomm and Broadcom which climbed 1.9% and 4.3%, respectively. The other good news was that the all-important volatility index, the VIX, dropped considerably and fell below 15 to close at 12.93 today!

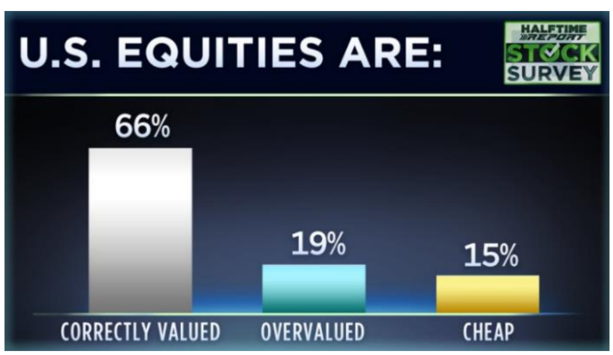
The markets appear to be content with the cooperative tone from the G-20 meetings. There was a great deal of bearish sentiment going into Friday, but President Trump realized, as I have said multiple times, his legacy and ability to have any chance at re-election in 2020 are a function of his trade war ending. We are not out of the woods yet. The G-20 meeting comes after the U.S. had hiked tariffs on billions worth of Chinese imports last month, escalating the ongoing trade war between the two countries. However, the fact that Trump conceded on Huawei, for the time being, was huge toward potentially getting this deal concluded.

June's sharp gains came as the Fed opened the door toward a more dovish monetary policy leading into the summer and fall. The Fed commented last week it will "act as appropriate" to maintain this current economic expansion. This comment lifted market expectations for a July rate cut. Lower interest rates will not do much macroeconomically, but it would clearly be good news for stocks.

The market has the perception that the Fed is going to get relaxed more quickly. But we think the market may have expectations of more than what may take place. We suspect the Fed may have one rate cut this year to appease the market, then wait longer on any further easing. Time will tell, but the good news last weekend between Trump and Xi and the trade war concluding is key. Here is what we believe is likely to take place as we move into the 2nd half of 2019:

- *We at PFP believe that overall the market view remains optimistic.*
- *We believe most equities are correctly or fairly valued.*
- *We believe there is better than a 50% probability that the Fed will cut interest rates at its meeting at the end of this month.*
- *We at PFP continue to believe that the United States is still the best country in which to invest.*
- *Tech, financials, health care and consumer cyclicals remain our top sectors for the 2nd half.*

As noted earlier, the S&P 500 posted its best first half in two decades, and most Wall Street professionals who responded to a recent CNBC survey said they think stocks can keep climbing. More than 50% of respondents to a recent CNBC survey said their outlook is positive, with 65% saying that the U.S. is the most attractive place to invest. The S&P may be at an all-time high, but 66% of respondents said equities are valued fairly. Keep in mind that although we hit a record today, the market has hit this same point four times now over the past 17 months, only to retrace back, so we are not at a euphoric point (as we were in 1987) by any means. The survey below was sent to strategists, investors and traders, including those who appear on CNBC's Fast Money Halftime Report.



Stocks closed out the second quarter on a high note as it was the Dow's best June since 1938 and the S&P's best since 1955. Having said that, the ongoing threat of this trade war and a global slowdown needs to end – and in our view - the sooner the better. Have a great week! Please call us if you have any questions at all.