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Dear Valued Investor:

We hope you have had an enjoyable summer! Thus far, temperatures have been at a maximum for much of the country, while typical summer storms have been at a minimum. A parallel can be drawn for the financial markets: Major stock indexes are hovering near record levels, while other asset classes like bonds and gold also have participated in gains with little volatility in recent weeks.

In a normal economic environment, stocks, bonds, and gold typically do not experience simultaneous growth. But, these are not normal times: Domestic economic growth is steady, global demand is weakening, trade uncertainty prevails, and central banks around the world are once again lowering interest rates—more than 10 years *after* the economic and financial crisis!

Indeed, the U.S. economy has exhibited trend-like growth in the range of 2.5% for the first half of 2019. Despite weaker business investment due to the trade uncertainty, growth has been supported by a fully employed consumer, who is benefiting from improving wages and a lack of threatening pricing pressures. These trends have led activity in the developed world, where Europe struggles with Brexit and several unsettled political dynamics, and Japan, where demand is wobbly ahead of the looming consumption tax.

Yet global investors have found favor with risk assets. Is this a sign of confidence in global economic activity? Or is it reflective of a mindset that believes the world's central banks will once again come to the rescue, lowering interest rates to boost global demand and support asset prices?

While we'd like to believe it is due to confidence, we suspect it is more of a mindset. For example, the U.S. Federal Reserve just reduced interest rates by one quarter of a percentage point (0.25%), and indications are that at least one more rate cut is coming before year-end. The European Central Bank and the Bank of Japan have also committed to more accommodative policy actions in the months ahead. Lower interest rates can boost economic activity by reducing financing costs for home and auto loans, while also factoring into improved valuations of financial assets.

Unfortunately, the uncertain international trade situation has caused businesses to limit investment, pressuring global growth. Until clarity on trade emerges, we look for the markets to focus instead on decreasing interest rates, rather than increasing activity. This environment may lead to temporary bouts of volatility, potentially weighing on asset prices and investor sentiment.

As we've stated previously, we will continue to focus our efforts on the underlying fundamentals supporting economic activity—and remind investors that while the economy is slowing, it is still growing. Solid economic prospects can help keep corporate profits afloat, especially if we see progress in U.S.-China trade talks and rebounding global activity.

We encourage you to contact your financial advisor with questions, and we wish you a delightful rest of the summer.

Sincerely,

John Lynch

John Lynch
EVP, Chief Investment Strategist
LPL Research

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