Intrinsic Investors

Investors Quarterly

Timely Insights into Markets and the Economy

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Equities

- Trade and Tariff Tantrums appeared to *ease* as the quarter came to a close. Earlier in June, Mexico blinked over the border dispute, pledging to assist in stemming the flow of illegal immigration in return for the U.S. delaying the implementation of harsher import fees – *for 45 days*. Stocks rallied from May's sell-off on the news. Time will tell how this one plays out.

- On the larger world-stage, we got *positive news* out of the G-20 meeting in Osaka, Japan where the U.S. and China seem to be dialing back the trade war rhetoric with both sides agreeing to resume talks and ease some of the recent sanctions for certain products. Larger and more important *hurdles* still need to be overcome, but it is generally seen as a positive for both sides to at least be talking to each other again.

- Leaving analysis of the "The Art of the Deal: The D.C. Version" to others to dissect, we can turn to the economy, growth, earnings and the impact on equitie**s**. Corporate America continues to benefit from *tax and regulatory reform*. Dialing back the uncertainty that had plagued corporate planners for the better part of the last decade has *propelled capital spending*, contributing to continued growth in *profits, earnings and share prices*.

- The most recent quarter saw earnings growth moderate slightly, but still chalked-up a *2.71% advance*. I'll take a win any day, but we will continue to monitor trailing and forecast earnings moving into the second half of the year. We are, after all, in the late phase of what has now officially become the longest expansion on the books. As of July 1st we are at *121 months of growth* and counting.

- Internally, clients will note our recent re-allocation in *iCore*, our main investment platform. Our last trade was in the large cap space and we managed to outperform style-neutral by *almost 2%.* We now find ourselves back in the Russell 2000 sleeve of iShares. This trade can be volatile at times, but it has been the driving force behind the *long-term outperformance* for the iCore model over the past 17 years.

Fixed Income

- Fixed income markets continue to hang on every utterance from the Federal Reserve over the future direction of interest rates. For those who recall, the Fed's last tightening in December sent equity investors to their fainting couches. So far this year, the Fed policy makers continue a *wait and see* strategy.

- There has been increasing talk of a *possible change in Fed policy*, including rate cuts. This, in the opinion of many analysts would be a mistake and actually hasten the onset of recession and accompanying bear market. The reasoning is that with the markets as focused as they are on the Fed, a move to *lower rates* might be interpreted as the Fed believing the economy is *slowing* and in need of relief on the interest rate front.

- I tend to *agree with this opinion*. Interest rates are still reasonably low by recent historical standards. Inflation, as measured by the Fed remains subdued. What would lowering the Fed Funds rate by .25-.5% accomplish? But many Fed watchers see this in the offing, if not in 2019, then in 2020. I would *expect a negative*, not positive reaction by equity markets if this route is pursued.

- As already noted, the economy continues to grow, although somewhat muted. Mixed economic signals don't negate the fact that *we remain in an uptrend* domestically. Global economic signals point to slowdowns overseas, but they still aren't having a noticeable impact on the world's largest economy. That's still us, by-the-way.

- All that said, we still have to contend with annoying facts like the inverted yield curve, which has been inverted since May. As I wrote last month, there are two factors at play with our Recession Predictor (click link to view). While the yield curve score remains *north of 100*, the predictor portion is still below 60%. That translates into a *blended score just below 80%.* We still have *room to grow*.

Conclusions

- It was another good quarter for equities (*up 2.59% on the Dow*) fueled by job growth, low unemployment and moderating interest rates. There are few signs of market over-exuberance. If anything, I sense investors are constantly looking over their shoulders, worrying about what brings this party to an end. That's actually a good thing. Keeps a lid on things.

- I noted in last month's missive that the sell-off in equities in May left the market undervalued for the year. We gauge this using our Relative Value chart (click on the link), which we update weekly on our website. Based on current readings the *market is fairly valued* at current levels.

- In spite of the *relative good news on the economy, rising stock prices and continuing low interest rate/inflation news*, there also continues to be a group of nattering nabobs of negativism constantly harping about pending doom. For these folks, if the market could walk on water, it would be proof that it can't swim! Can't help these people. More next time.

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