JJ BURNS

2nd Quarter Newsletter | July 2019

# 2019: 2nd Quarter Summary

### “Sometimes good things fall apart so better things can fall together.” *Marilyn Monroe, actress*

Yogi Berra was famously quoted as saying, “It's like déjà vu all over again.” As we noted last quarter, recent market gyrations seem to be in a repeating loop of an up period, a down period, an up period of recovery, and so on. The recently concluded second quarter behaved in just this fashion. The Fall 2018 S&P 500 bear market was quickly reversed through the first quarter and part of the second quarter; this recovery was then offset by a 6.6% decline in May, followed by a 6.9% recovery in June.

All major equity markets were positive for the second quarter, and expectations that the U.S. expansion would continue its record run, as well as some trade palpitations, pushed credit markets in the right direction as well. The current expansion, though ‘low and slow,’ is ready to set a post-war record. Commodities and the dollar moved pretty much sideways for the quarter despite these expectations.

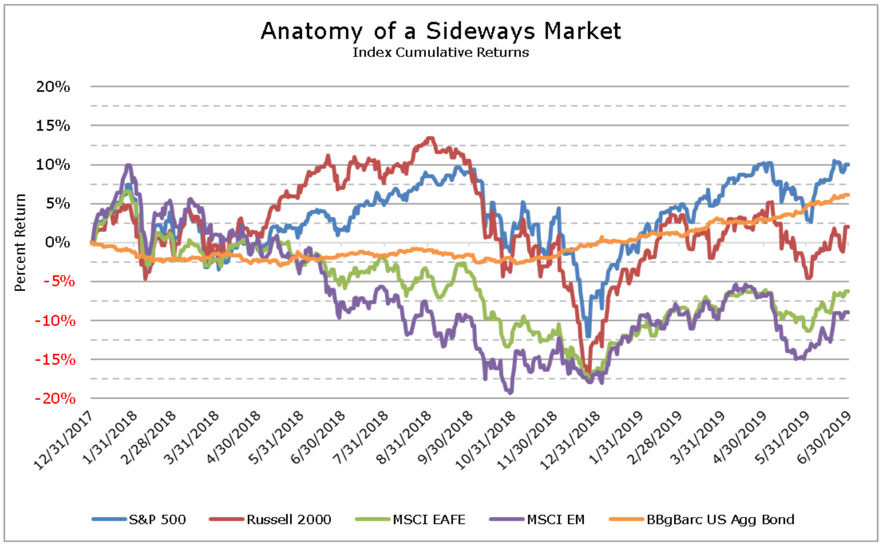
**Index Returns**
**as of 6/30/2019**

| Index | Q2 2019 | Q1 2019 | YTD JUNE 2019 | YEAR 2018 |
|---|---|---|---|---|
| **FIXED INCOME** | | | | |
| BbgBarclays US HY 2% Issuer Cap | 2.50% | 7.26% | 9.94% | <2.08%> |
| BbgBarclays Municipal | 2.14% | 2.90% | 5.09% | 1.28% |
| BbgBarclays Global Aggregate | 2.92% | 2.99% | 6.00% | 1.76% |
| BbgBarclays US Agg Bond | 3.08% | 2.94% | 6.11% | 0.01% |
| **U.S. STOCKS** | | | | |
| Russell 1000 [Large-cap Stocks] | 4.25% | 14.00% | 18.84% | <4.78%> |
| Russell 2000 [Small-cap Stocks] | 2.10% | 14.58% | 16.98% | <11.01%> |
| S&P 500 | 4.30% | 13.65% | 18.54% | <4.38%> |
| **INTERNATIONAL STOCKS** | | | | |
| MSCI ACWI Ex USA NR [All Stocks] | 2.98% | 10.31% | 13.60% | <14.20%> |
| MSCI EAFE NR [Developed Markets] | 3.68% | 9.98% | 14.03% | <13.79%> |
| MSCI EM NR [Emerging Markets] | 0.61% | 9.91% | 10.58% | <14.57%> |
| **REAL ASSETS** | | | | |
| U.S. Dollar | <1.09%> | 1.06% | <0.04%> | 4.40% |
| Morningstar US Real Asset Index | 0.74% | 6.67% | 7.46% | <3.17%> |
| Bloomberg Commodity | <1.19%> | 6.32% | 5.06% | <11.25%> |
| S&P GSCI Crude Oil Spot | <2.78%> | 32.44% | 28.76% | <24.84%> |
| S&P United States REIT | 0.84% | 15.77% | 16.74% | <3.79%> |
| S&P Global Ex US REIT | 2.91% | 11.99% | 15.25% | <6.52%> |

*Source: Morningstar, Inc. USD data with dividends and interest*

### “Go back?" he thought. "No good at all! Go sideways? Impossible! Go forward? Only thing to do! On we go!" *J.R.R. Tolkien, author of ‘The Hobbit’*

We follow the economic and market data just like other investors. Two things that have settled with us are (1) the swift build-up and collapse in global optimism that was present at the end of 2017, and (2) how sideways the markets have been since. We can see below that U.S. equity prices are, indeed, higher than year-end 2017, but not without significant fluctuations.

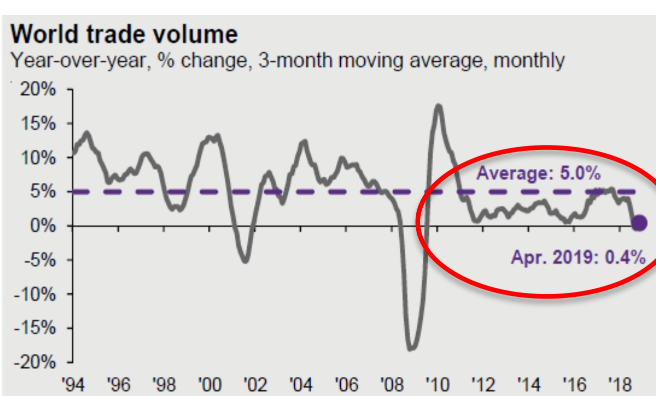


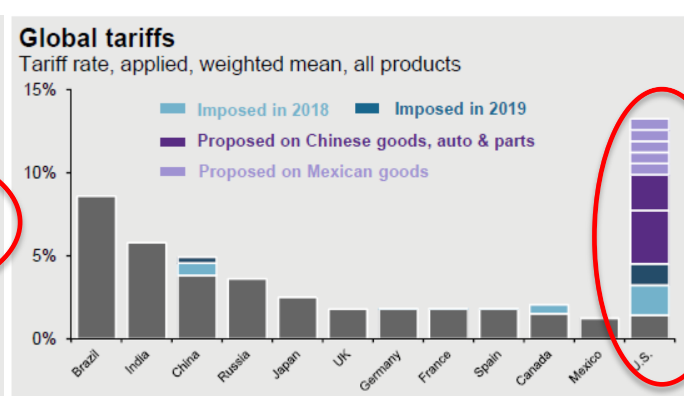

*Morningstar, Inc. Price returns for equity indices; total returns for the Bloomberg Barclays Aggregate Bond index.*

In the past 18 months, the S&P 500 has posted five of its worst seven monthly price returns over the past five years; the worst three have all occurred since last October. As we write this, however, the S&P 500 has just posted a new intraday record high, and forward valuations are in line with long-term averages. We think these conflicting signals and data are promoting these market reactions.

**"I think we build resilience to prepare for whatever adversity we'll face. And we all face some adversity - we're all living some form of Option B."** ***Sheryl Sandberg, author & businesswoman***

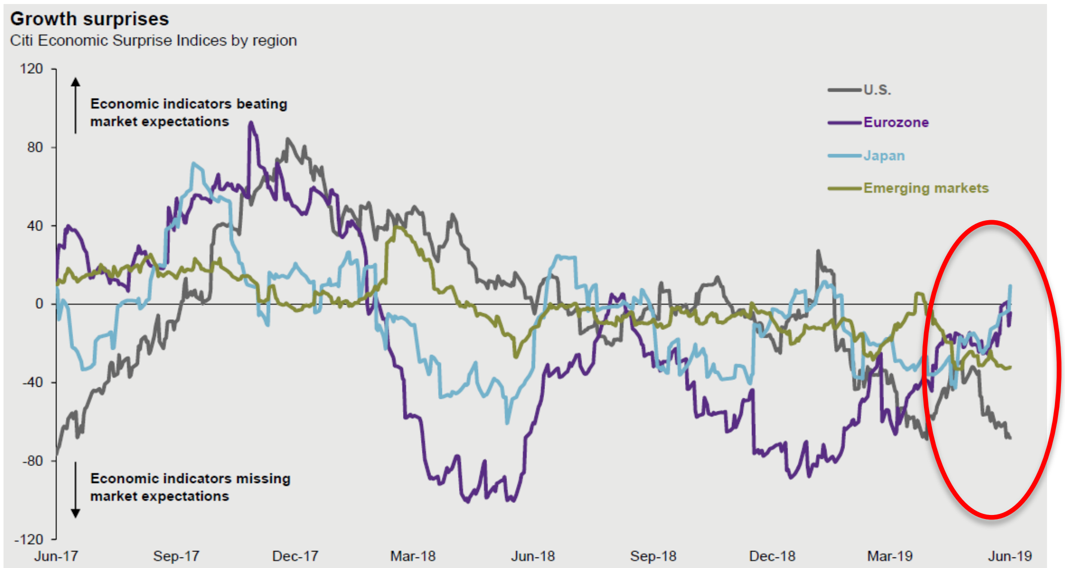
Our belief is that the slowing global economy is promoting investor anxiety, and periodic flare-ups of worry around policy outcomes are causing these sharp sell-offs and recoveries. The issues we identified last quarter are still unresolved: Brexit (with a change in PM thrown in), China's economic slowdown, expectations of Fed policy reversal (now to easing, not tightening) and the rising U.S. deficit. A new issue that is making headlines is the differences in Washington over the budget and spending increases, which may be held hostage during debt-ceiling negotiations. However, the issue most often cited as concerning investors remains the global 'trade wars' promoted by the Trump administration. While the effects and results (real and expected) can be debated, the overhang on corporate policy and global growth is real. The following graphs demonstrate the decline in global trade volume (left), and the changes in tariffs in the past 15 months (right). Regardless of the trade war resolution, it is now expected that (1) tariffs will not be completely reversed, and (2) some global supply chains may be permanently altered away from previous relationships (e.g. U.S. agricultural sales to China). These issues may take years to get sorted out with unknown effects.




*JPMorgan Asset Management*

Investors are reacting irrationally to the conflicting market signals we see. Markets dip and recover based on news and expectations, and still focus more on negative indicators rather than positive ones. We still see slow growth ahead in the U.S., controlled inflation and low interest rates here and abroad, and continued job growth. The following graph illustrates the changing trends in regional 'economic surprises'; while the U.S. is showing some roll, global conditions appear more stable. Coupled with lower equity valuations, this implies selective investment opportunities may be available in other markets.




*JPMorgan Asset Management*

**"If everyone is moving forward together, then success takes care of itself."** ***Henry Ford, industrialist***

Despite the FinMedia fascination with the inverted yield curve and the expected start of a recession and other gloomy reports, we're optimistic for the rest of 2019 and early 2020 at minimum. Recognition by the Fed and the ECB that more accommodative policy is necessary is an important tailwind; Trump's need to close a trade deal with China before the 2020 election is another. While the actual effects of these policies may be muted, the markets' reactions will likely not be. This does not mean the other issues we described above are less important, but we think they will be subject to some 'can kicking' before being resolved. An orderly progression of results and increased diplomacy, as well as a recognition of shard interests, would also serve to continue the record U.S. expansion and stabilize growth abroad.

Our final comment is to note the recent 75th anniversary of the D-Day invasion in France. Operation Overlord was a feat of meticulous planning and heroic sacrifice, conceived to overthrow fascism and restore freedom to much of the world. The last surviving American veterans who attended ceremonies this year will most likely not attend another. Queen Elizabeth II, who spoke in Normandy, was 18 at the time of the invasion. The brave assault made by Allied soldiers from 12 nations began the campaign that led to a post-war world based on shared ideals and values, which later saw the creation of a global-trade structure designed to promote harmony and prevent future military conflicts. Though it is an imperfect system, re-emphasizing these values and friendships today would be a great step forward, economically and politically, for all nations.

As always, please take time to review your financial plan and portfolio(s) and contact us with your comments and questions.

—Your Wealth Management Team at JJ Burns & Company

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.