YHB Investment Advisors, Inc.
Integrity • Independence • Insight

2nd Quarter, 2019

Markets At A Glance

Period	S&P 500	DJIA	INT'L (EAFE)	Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
2nd Quarter	4.3%	3.2%	3.7%	0.6%	2.6%	1.8%	0.8%
12 Months	10.4%	12.2%	1.1%	1.2%	6.9%	6.1%	1.8%

Another volatile quarter ended with solid gains. U.S. large cap stocks continue to lead other markets. International stocks lagged again, with emerging markets in particular suffering from trade and tariff concerns. Interest rates fell as markets priced in expectations that central banks would start cutting interest rates in response to the slowdown in economic growth.

Uncertainty over trade disputes and the global economic outlook helped drive a market sell-off in May. The U.S. Federal Reserve and other central banks responded by signaling that they would ease monetary policy if necessary. In response, markets rebounded sharply in June with the S&P 500 hitting an all-time record high. Inflation remains subdued, giving the Fed more flexibility if they do decide to cut rates.

As expected, economic growth and corporate earnings are decelerating after a strong 2018. The depth and length of the slowdown is still in question. Stock valuations are pricing in an optimistic scenario, where earnings and growth level off while still in positive territory, then resume growing at a faster rate later this year and next year. A major concern is the effect of tariffs and trade war news on business confidence. The impact extends far beyond goods and services that are directly impacted by tariffs. As the level of uncertainty rises, businesses become less likely to invest and make longer term commitments. Some of this is already showing up in economic data releases. The disruption this is causing to global supply chains goes much deeper and may last longer than the headlines, presenting another headwind for the global economy.

The markets are sending conflicting signals. While the Fed's change in direction on interest rates has been viewed positively so far, the only reason for the Fed to cut rates meaningfully is if the economic outlook is much worse than current expectations. At the same time, stocks are at all-time highs on the assumption that lower interest rates will prevent a recession and the longest economic expansion on record will continue. The path to further gains in the near term is a narrow and treacherous one. We expect the large market swings to continue.