

**Headlines**

Trade headlines have driven price action during much of the year. September and Q3 were no exception. A shift in the Fed’s stance and a reduction in trade tensions sparked a rally that took the S&P 500 Index to a new high in July (S&P 500 data—St. Louis Federal Reserve).

Despite a late July rate cut, an escalation in trade tensions in August created a brief bout of volatility. Yet, the peak-to-trough decline in the S&P 500 Index amounted to just 6.1%.

Economic growth and a Fed that was (and probably still is) in rate-cut mode (the Fed snipped another quarter-point from the fed funds rate in September) cushioned the downside.

But a renewal of trade negotiations—more headlines—and a de-escalation of tensions were well-received by investors. When September ended, the S&P 500 wasn’t far from a new high.

**Enter Q4**

While I suspect that trade headlines will continue to influence short-term trading, let’s keep in mind that the uncertainty surrounding Brexit could also influence daily activity.

Meanwhile, Europe appears to be on the cusp of a recession. And, if that’s not enough, the speaker of the House launched an impeachment inquiry against the president.

Some of us are old enough to remember President Nixon’s troubles coincided with a nasty bear market. But was there a link between Nixon and the 1973-74 slide, which lopped nearly 50% off the S&P 500? Or did the economic fundamentals hobble the major averages?

Table 1: Then vs Now

|  |  |  |
| --- | --- | --- |
| 1973-74—Bear Market | 1998—Bull Market | 2019—? |
| Inflation rose to double-digit levels, peaking at over 12% | Inflation low and slowing | Inflation is low |
| Interest rates were spiking higher; prime loan rate hit 12% | Interest rates steady | Interest rates are low |
| OPEC oil embargo roils economy; oil prices rise four-fold | Oil plentiful; prices stable | A glut of oil exists today, and prices are well below levels of recent years |
| The unemployment rate jumped; the economy fell into a steep recession | The economy expanding | The economy is expanding, and the unemployment rate is near a 50-year low |

*Source: St. Louis Federal Reserve, U.S. State Dept.*

*Past performance is no guarantee of future performance*

Though political uncertainty likely exacerbated the selloff, high inflation, high interest rates, and a deep recession took a big toll on stocks.

Contrast 1973-74 with the late-1998 impeachment of Bill Clinton. Twenty-five years later, stocks performed well amid much better economic fundamentals. While no two situations are exactly alike, economic conditions today are more reminiscent of the late 1990s than Nixon’s second term.

Table 1: Key Index Returns

|  |  |  |
| --- | --- | --- |
|  | MTD% | YTD % |
| Dow Jones Industrial Average | 1.95 | 15.39 |
| NASDAQ Composite | 0.46 | 20.56 |
| S&P 500 Index | 1.72 | 18.74 |
| Russell 2000 Index | 1.91 | 12.96 |
| MSCI World ex-USA\* | 2.48 | 10.69 |
| MSCI Emerging Markets\* | 1.69 | 3.65 |
| Bloomberg Barclays US Aggregate Bond TR | -0.53 | 10.30 |

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch

MTD: returns: Aug 30—Sep 30, 2019

YTD returns: Dec 31, 2018—Sep 30, 2019

\*in US dollars

**Bottom line**

We can point to uncertainty lurking in the near term but risks never completely abate. If they do, stocks are usually bid up to reflect perfection. It won’t be long before disappointment sets in.

So, let’s end on an upbeat note.

While we have seen a few rocky days this year, major indices have performed well, and the S&P 500 and the Dow have yet to shed 10 percent—an official correction. For the long-term investor, it hasn’t been a volatile year because interest rates provide little competition for stocks, the consumer has been strong, and the economy is expanding at a modest pace.

That said, successful long-term investors do not make investment decisions based on an emotional response to daily volatility and are wary of being whipsawed by headlines.

If you have questions, let’s talk. That’s what we’re here for.



Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results.

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