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Investment Update

Is the Fed making a mistake (again)?

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Six months into 2019 the S&P 500 has returned 17%, the best first half performance in more than two decades. International markets and commodities also performed well.

The biggest change from 2018 so far is the Fed's dovish shift. At their last meeting in June, the Fed signaled a readiness to ease policy on interest rates and the market is pricing rate cuts later this month and September. Low inflation readings and continued trade uncertainty are accommodating factors for the global central banks to provide support to the financial markets.

The timing of potential Fed rate cuts and to what extent have been a source of debate among investors and economists. While the merits of more monetary stimulus are questionable this late in the economic cycle, a parallel can be drawn from the Fed taking "insurance" rate cuts back in 1998. During this time, the Fed embarked on a series of interest rate reductions designed to propel U.S. growth in the face of economic turmoil overseas (many Asian countries, called "tiger economies", saw their stock markets and currencies lose about 70% of their value) and the bailout of hedge fund Long-Term Capital Management. In late 1999 and 2000 the Fed reversed course as the U.S. economy proved resilient.

The current investment backdrop remains cloudy given the current global manufacturing slowdown. The duration of the economic expansion is being tested by mounting trade pressures, yet there is still no clear catalyst for a recession and sentiment is far from being euphoric. Economic and earnings growth will ultimately determine the magnitude of this investment cycle and future market returns.