With investors finding few alternatives to U.S. equity markets, the chase for yield continues. Debt is being issued at record levels with negative yields around the world, while our domestic debt is experiencing large inflows in the search for positive albeit meager yield. There is significant currency risk for the foreign investor. At the moment the hazard is being ignored. The U.S. dollar hit a 52 week high last week, compounding foreign currency risk going forward.

Returns for domestic equities continue strong year to date, although off the recent highs reached in late July. Range bound since the beginning of 2108 with some interim sharp moves, there is a general rotation out of small caps (outsize debt with back drop of continued trade friction) and technology stocks facing an ever increasing regulatory oversight, in favor of undervalued large cap companies.

US consumers continue robust with many segments of the population having increased their disposable income for the first time since the credit crisis initiated. The job market remains tight. Consumer confidence is fading, with the most recent reading showing consolidation. Much of the erosion has likely been precipitated by the backdrop of trade tensions. October 15th and December 15th tariff initiation dates, political uncertainty and an inquiry for impeachment by the house have done little to instill confidence. The inquiry may pose a serious setback for the resolution of the trade war.

Yesterday's release of a weak ISM – a manufacturing index number – adds fuel to the mounting concerns of a pending recession. Equity market reaction has been swift to the downside, and may continue. Most often the market reaction to a recession comes well in advance of the actual event.

Ultimately, any market weakness / strength will be the result of factors outside of an impeachment inquiry. A global economic slowdown/ resurgence, ongoing trade tensions / resolution between the U.S. and China / BREXIT / Germany on the cusp of recession, if it is not already in one – will all dictate market direction.

On a positive note, contracts to purchase previously owned homes moved up sharply in August, propelled by low interest rates and continued household income gains. The four week average for jobless claims fell to the lowest level since July. This Friday's job report will be front and center on investor's radar. While manufacturing is declining recently, driven by trade disruptions, the consumer has performed the heavy lifting through personal consumption.

The U.S. – China trade war has persisted, dominating market direction since announced in early 2018. Any resolution will potentially have an immediate effect on corporate spending, consumer confidence and equity prices. A visit to the U.S. by Vice Premier Liu He continues on track for early October. Trump has complicated the situation by taking a stance of "no partial deals". It is unclear if this stance rules out the possibility of an interim agreement. Add the late Friday White House announcement of possible restrictions or limits on the allowable amount of portfolio flows into Chinese securities. A reckless innuendo, all in conjunction with implementation or delay tactics on the constant stream of presidential tweets. Unsettling to say the least, and providing yet another layer of uncertainty to global markets.

With the spillover from the trade dispute mainly affecting exports and manufacturing, a change might be at hand with expansion to consumer behavior and job growth. While the markets are showing increased volatility over the last few days, trade tensions and political headlines could further impact financial markets in the near term. Suggest maintaining long term allocations, while taking advantage of short term volatility to reallocate to sectors and market capitalization segments (currently in favor of large cap) that may fair well over time. Please call or email anytime with questions / concerns or to update investment objectives. Thank you. Best wishes for a pleasant autumn season.

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