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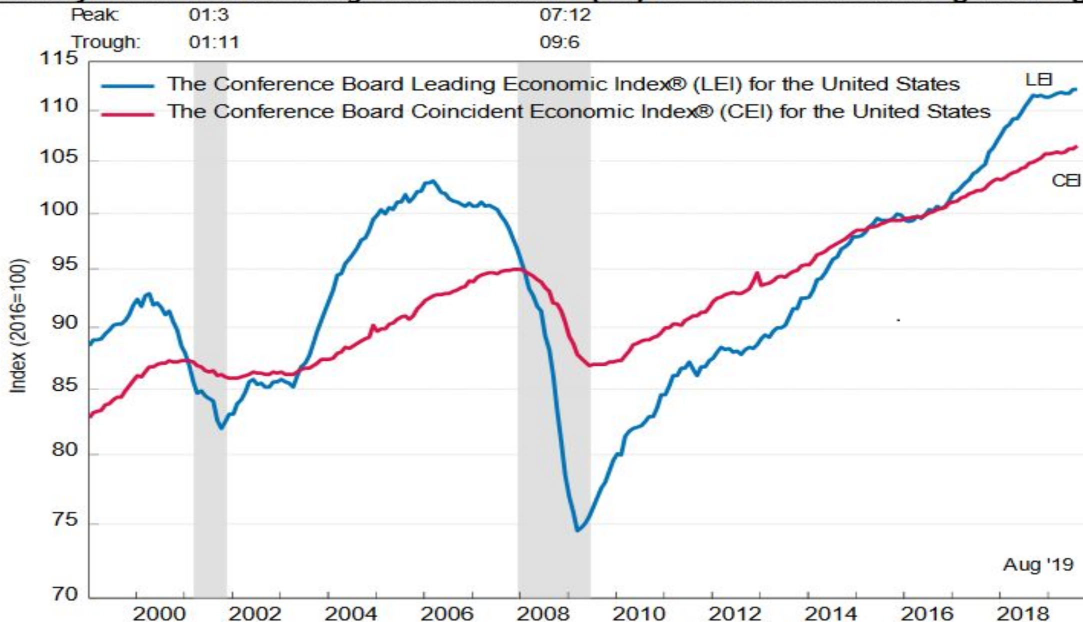
Markets continued their positive progress during the third quarter of this year, although at a much slower pace. Year to date, the return of the overall equity market looks pretty good. Vanguard's Total World Stock ETF (VT) is up 16% through September 2019. Of course, some of this good gain makes up for the horrible fourth quarter of 2018. Over 12 months, VT is up 1.2%.

Declining interest rates produce gains in bonds, and this resulted in decent returns this year as well. Depending on length of maturities, returns ranged between 2% and 8% on bonds. The iShares Core US Aggregate Bond EFT was up 8.3% year-to-date. With an average maturity of 7.8 years, we do not structure our entire portfolio around this type of index, but rather add in shorter maturities. The iShares Short Maturity Bond ETF (Average Maturity of 1.3 years) was up 2.8% year-to-date.

Our last note commented on the inverted yield curve and what this meant for a recession. Recessions can involve pain and great discomfort for those that lose jobs and are not prepared for them. From a portfolio perspective, if one can wait for GDP (Gross Domestic Product) to begin growing again, then we could consider a recession to be a temporary decline in prices.



The Leading Economic Index, produced by The Conference Board typically declines before a recession. As you can see, the curve has changed from one that is consistently rising at a decent rate to one that is flattish, but still upward sloping. And that is a good way to describe the economy right now. Employment gains have slowed, earnings growth has slowed (but is still positive), inflation remains below the Federal Reserve's target and the global economy has slowed.

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We have enclosed a page with a "Recession Checklist" and "How Long Do Recessions Last?" titles. The table shows another list of economic variables that have changed slightly this year, but generally remain healthy. During recessions, most of these variables would have an X by them. If a recession is coming, we need to see continued deterioration in these measures. The other graphic addresses the 'temporary decline in prices' viewpoint in another way. The graph shows the cumulative GDP growth or shrinkage during expansions and recessions. Remember the equity returns follow earnings growth, and earnings growth follows growth in GDP. We put up with recessions because of the growth in GDP that occurs during expansions, and the much longer period of time that we spend in expansions.

It is true that this kind of slow growth environment makes it more likely to experience periods of higher market volatility as there is less good news to offset whatever negative news or fears are reported and acted upon. The fact that we are in an election season, with all of its festive chicanery, will only exacerbate the situation. Here is a helpful reminder that there is a lot of noise out there. Consume wisely.

It is dangerous to try to predict when a recession will arrive in order to move out of markets. There are, however, some responsible portfolio decisions to be made in these 'late cycle' environments. Monitoring and reviewing the quality of assets in portfolios, both stocks and bonds, makes sense. Determining that cash needs are met if we do have a fall in prices for a period of time and making sure that overall asset allocations remain appropriate for the objectives that we are pursuing are also good activities. We are doing these things.

In these times of more market uncertainty, we want to remind you to give us a call or send us an email if you have any concerns. That is part of our job and why we are here.

Regards,

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