



MARKET UPDATE

QUARTER 3, 2019

During the 3rd quarter the S&P 500 finished with a modest increase, adding to the largest year-to-date gain within the S&P 500 in more than 20 years. At the same time, we have seen strong gains within the US bond market. As we move longer into the recovery cycle, and the longest bull market in history, the focus of questions regarding future economic growth are largely fixated on the ongoing trade dispute with China, upcoming election, uncertainties surrounding the impeachment investigation and the possibility of the more rate cuts by the Federal Reserve.¹

For the quarter, large company stocks (S&P 500) increased 1.70% while small company stocks (Russell 2000) decreased 2.40%. The weakest sectors were energy and health care while utilities and consumer staples were the strongest sectors within the economy.²

The U.S. dollar appreciated against most major foreign currencies in the 3rd quarter, rising to some of its highest levels of the year.¹ A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter the MSCI EAFE Index (in U.S. dollars) decreased 1.07% while the MSCI EAFE Index (in local currency) increased 1.75%.²

The demand for intermediate and long-term Treasuries increased during the quarter, pushing yields lower with higher bond prices (bond yields move inversely to bond prices). The 10-year Treasury yield remains at historically low levels, declining 0.325% since June, ending the quarter at 1.68%.³ For the quarter, the Barclays U.S. Aggregate bond index (a blended composite) increased 2.27%.²

On September 18 the Federal Open Market Committee (FOMC) reduced the target range for the federal funds rate to 1.75% - 2.00%. In a press release following the meeting the Federal Reserve stated that "In determining the timing and size of future adjustments to the target range for the federal funds rates, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective."⁴

Regarding the rate decrease, the decision was not unanimous. Three voting members dissented with two Fed Presidents voting to keep rates unchanged and one Fed President voting to cut rates by 0.5%. With two unanticipated rate cuts in the third quarter, one in July followed by an additional cut in September, one cannot rule out the potential for another rate cut later this year.⁵

Taking the long view, we continue to believe that globally diversified stock and bond portfolios and disciplined investment strategies can continue to provide opportunities for those investors looking for growth.

I welcome your input and as always, should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please contact me at your convenience.

Written by North Star Resource Group

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 09/30/2019 ²						
INDEX	3RD Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	1.70%	20.55%	4.25%	13.39%	10.84%	13.24%
Russell 2000	-2.40%	14.18%	-8.89%	8.23%	8.19%	11.19%
MSCI EAFE (U.S. dollars)	-1.07%	12.80%	-1.34%	6.48%	3.27%	4.90%
Barclays US Aggregate Bond	2.27%	8.52%	10.30%	2.92%	3.38%	3.75%
BENCHMARK COMPOSITES	3RD Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	-0.08%	16.93%	-0.39%	10.40%	8.30%	10.65%
Growth	0.40%	15.26%	1.81%	8.93%	7.38%	9.38%
Conservative Growth	1.07%	13.83%	4.63%	7.65%	6.51%	8.08%
Income and Growth	1.51%	12.07%	6.72%	6.08%	5.45%	6.61%
Income	2.07%	10.62%	9.04%	4.78%	4.67%	5.43%

You cannot invest directly in an index. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. Investments in fixed income securities are subject to interest rate risk and, as such, the net asset value of bond and real estate funds will fall as interest rates rise. Diversification is a method used to manage risk. It does not guarantee against loss. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. Tracking Number 2752744/DOFU 10-2019

¹Benerji, Gunjan. "S&P 500's 2019 Gain So Far Is Biggest In Decades" Wall Street Journal, October 2019: B1

²Morningstar Direct

³Kruger, Daniel. "Treasury Gain Amid Search for Safe Assets" Wall Street Journal, October 2019: B11

⁴Federal Reserve press release, federalreserve.com, <https://www.federalreserve.gov/monetarypolicy/files/monetary20190918a1.pdf>, Accessed 1 October 2019.

⁵Wesbury, Brian, and Robert Stein. "It's Not You, It's Me." First Trust, <https://www.ftportfolios.com/blogs/EconBlog/2019/9/18/its-not-you,-its-me>, Accessed 1 October 2019.