PRINCIPLE
WEALTH PARTNERS

670 BOSTON POST ROAD
MADISON, CT 06443
T 203.318.8892 | F 203.318.8898
PRINCIPLEWEALTHPARTNERS.COM

After Trade War Concerns, Stocks Hit New Highs by the End of Q2

May stock market correction was followed by June rebound to new highs

Q2 2019

Main Points

Bonds and stocks both rallied in Q2, with bonds beating stocks globally and in the U.S.

Trade war concerns drove stocks down in May, but prospects of Fed rate cuts led to a June rally to new highs.

Trade war details remain a risk. With investor sentiment back to extreme optimism, stocks could be vulnerable.

Central bank policy eased further. As a result, eight major asset classes (including bonds, stocks and commodities) all posted year-to-date gains of at least 5%.

With stocks and bonds both rallying, a typical U.S. 60/40 portfolio (S&P 500 Total Return/Barclays U.S. Aggregate Bond Total Return) put in a positive performance for the quarter at 3.95% (**chart right**), but was below its long-term historical gain per annum of 7.77%.

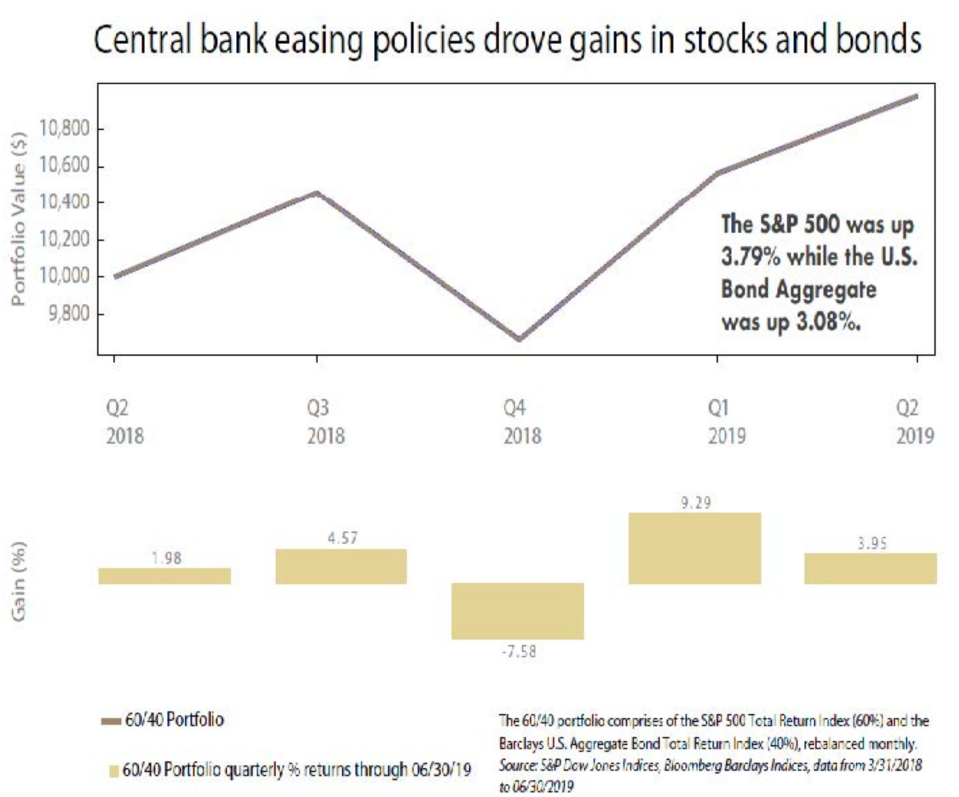
Stocks see-sawed through the quarter, first rallying in April to new highs, then dropping 6.4% in May due to heightened trade war tensions. With prospects of a trade agreement and Fed cuts on the horizon (possibly as early as July), the S&P 500 rallied to a new high of 2,954.18 late in the second quarter.

Bonds outpaced stocks. The Long-Term U.S. Treasury Bond Total Return Index was up 6.03% vs. the S&P 500 Total Return Index up 4.30%. Globally, it was the same, as the Global Bond Aggregate beat out the All-Country World Index.

Growth stocks were top performers, with the NASDAQ posting a 3.58% gain in the quarter and Growth beating Value in every market cap tier. International stocks gained in Q2, but trailed the U.S.

China dragged down Emerging Market index returns, dropping 5.50% in local currency terms, losing much of its recent gains.

Commodities were mixed. The widely followed S&P Goldman Sachs Commodity Index fell 2.0%. Crude oil's drop of 3.4% dragged the index lower. Gold posted solid gains of 9.07% in the quarter, breaking out to a six-year high of $1,415 per ounce.



Principle Wealth Partners, LLC is a registered investment advisor. Information contained in this report is for informational purposes only and should not be considered investment advice or recommendations. Advice may only be provided after entering into an advisory agreement with Advisor.

Stocks

Q2 was a roller coaster, but stocks hit new highs

After a roller coaster start to the quarter, the S&P 500 Index finished up 3.79% in Q2. Add in Q1's stellar gains, and the **popular benchmark is up 17.4% year-to-date**, its best start since 1997 and 10th best since 1926.

The magnitude of the index's gains may be unusual, but the pattern is in line with history.

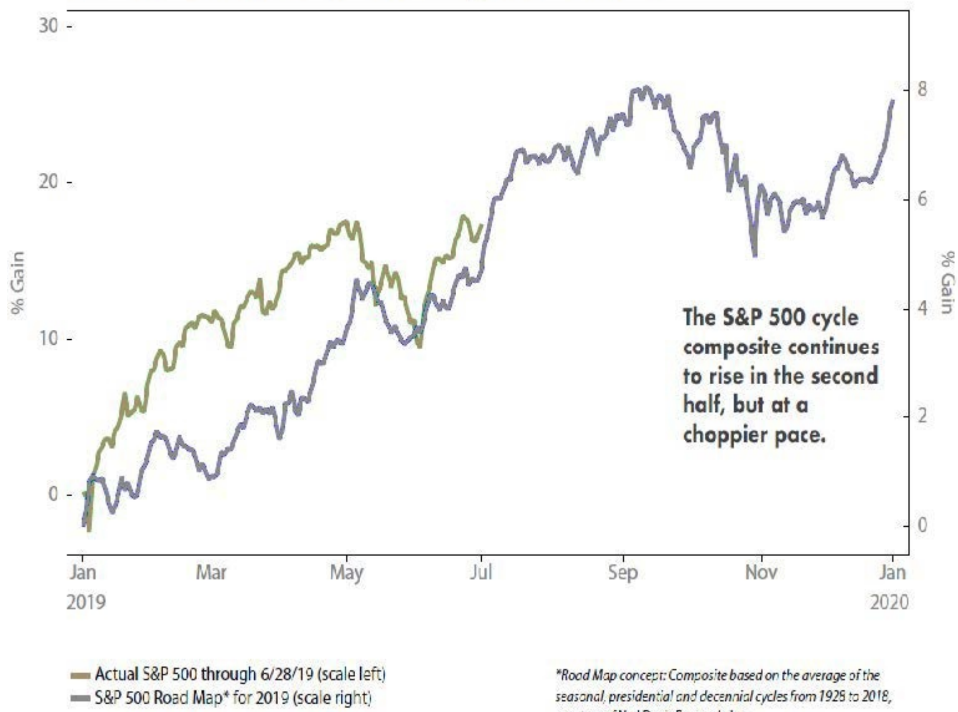
Based on the Ned Davis Research S&P 500 Cycle Composite for 2019, which is a combination of the historical one-, four-, and 10-year cycles (**chart right**), the S&P 500 has followed its historical trend relatively closely.

Note that the cycle composite for 2019 continues to rise in the second half, but at a choppier pace, providing an outlook of returns in-line with the long-term average of 5-7%.

Growth beat Value across all three market cap tiers in Q2. The biggest spread was within mid-caps, with the Russell Mid-Cap Growth's return of 5.4% beating the Russell Mid-Cap Value return by about 2.2%.

For the first half of 2019, Growth's dominance was even more pronounced, with each Growth index outperforming its Value counterpart by at least 4.7%. **Mid-Cap Growth's 26.1% year-to-date gain was nearly double the gain of Small-Cap Value.**

S&P 500 tracking historical cycle composite



*Road Map concept: Composite based on the average of the seasonal, presidential and decennial cycles from 1928 to 2018, courtesy of Ned Davis Research, Inc.
Source: S&P Dow Jones Indices, data from 1928 to 2019

Ten out of 11 sectors posted double-digit gains in the first half.

Financials was the top sector in Q2, with gains of 7.43%. The sector's positive sensitivity to a steepening yield curve, which tends to happen around the first rate cut, likely aided its rebound.

Technology was the top contributor in Q2, thanks to the third-best returns (5.65%) and biggest weight (21.2%) in the S&P 500 Index. The sector struggled in April and May amid trade war concerns, but rebounded in June.

Energy was the only sector to post losses in Q2 (-3.72%), as falling crude oil prices weighed on the sector.

Despite the multi-year low in Treasury yields, bond proxy sectors (such as Real Estate, Utilities and Consumer Staples which pay high dividends), underperformed in Q2.

Second Half Outlook

According to Ned Davis Research, when stock and bond returns are both up 10% or more over a six month-period, **stocks tend to perform better than bonds over the following 12 months**.

In an easing cycle, dividend payers have typically outperformed non-payers, with **high dividend-growth stocks faring the best**.

The biggest uncertainty facing the stock market currently is the trade wars' impact on economic growth. With market sentiment back to extreme optimism, the stock market is vulnerable to a correction. Trade agreement details will be key.

Principle Wealth Partners, LLC is a registered investment advisor. Information contained in this report is for informational purposes only and should not be considered investment advice or recommendations. Advice may only be provided after entering into an advisory agreement with Advisor.

Fixed Income

Bond prices rallied on trade war concerns, easy policy

What a difference six months make. Late last year, financial markets were worrying the Federal Reserve ("the Fed") was tightening into a global and U.S. economic slowdown.

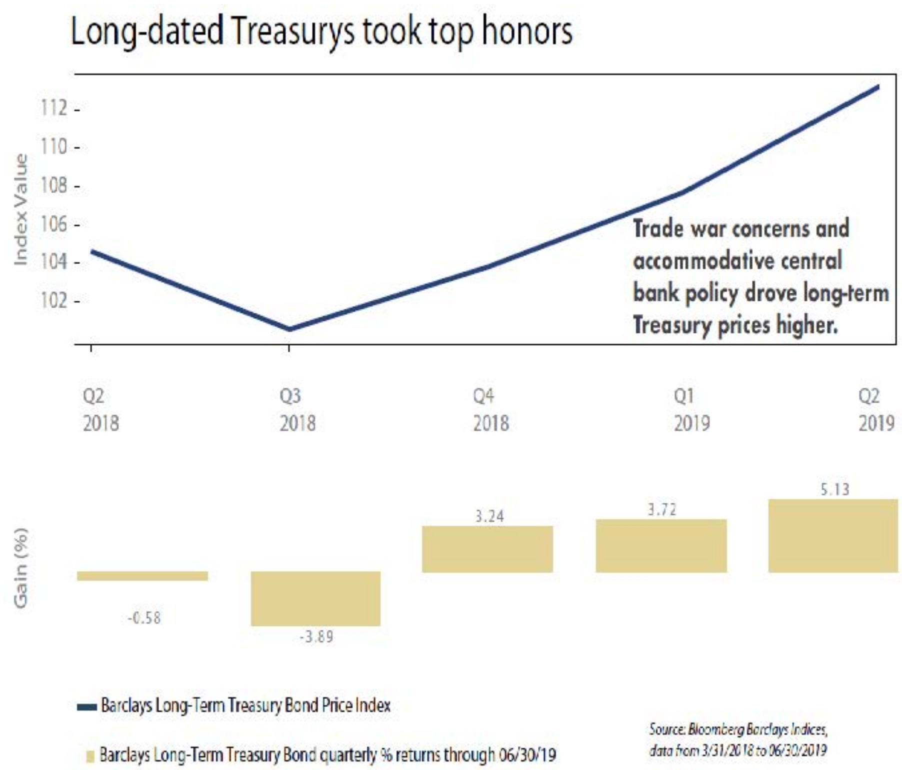
As the calendar turns to July, **central banks are in the midst of the most dovish rotation in years**. The Fed is preparing the markets for a rate cut at its July 30-31 meeting. Globally, 58% of central banks' latest rate change have been a decrease.

The prospects for lower short-term rates and slower growth pushed the 10-year Treasury yield to 2%, a 33-month low.

As a result, the bond market saw stellar performance in Q2. The Barclays Global Aggregate Total Return Index gained 3.37%, the best quarter since Q1 2016.

Every major fixed income aggregate posted a positive total return. Moreover, every index recorded a gain except for three small Asian-Pacific credit indexes.

Given the drop in yields, it was not surprising that **the longest duration bonds had the best performance**. With a modified adjusted duration of 18 years, Long-Term Treasury Bond prices gained 5.13% (**chart right**).



Credit also performed well. U.S. investment grade corporates, which also has a relatively long duration of 7.5 years, took the second best spot, gaining nearly 4.5%. Global credit returned just under 4.0%.

Year-to-date, U.S. investment grade and high yield have had nearly identical returns of just under 10%.

The June Fed meeting showcased a bimodal Fed, which opened the door to rate cuts. Investors are now widely expecting a rate cut at the next Fed meeting, which is slated for the end of July.

Second Half Outlook

The global economy remains in a sustained slowdown.

The intensification of the trade war to already fragile conditions was evident in the June economic data.

The good news is, **the U.S. doesn't appear to be anywhere close to a recession**. While growth is expected to slow down to about 2.3%, it is merely returning to trend, following an outsized boost from the 2017 tax cuts.

Additionally, inflation remains at record low levels, which is good for stock and bond performance.

According to Ned Davis Research, **the bond market correctly anticipates the first Fed rate cut**.

Long-term Treasury yields have fallen in every case back to 1970 in the months leading up to the first rate cut. Bond prices tend to bottom 2-3 months before the rate cut and stabilize after the rate cut. Bond sector results were more mixed following the first cut.

Principle Wealth Partners, LLC is a registered investment advisor. Information contained in this report is for informational purposes only and should not be considered investment advice or recommendations. Advice may only be provided after entering into an advisory agreement with Advisor.