June was a great month for stocks. The S&P 500 gained 7.05 percent, the Dow Jones Industrial Average (DJIA) returned 7.31 percent, and the Nasdaq Composite rose by 7.51 percent. We also saw gains for the quarter: 4.30 percent for the S&P 500, 3.21 percent for the DJIA, and 3.87 percent for the Nasdaq.

This positive performance came despite weakening fundamentals. The estimated earnings decline for the S&P 500 in the second quarter is 2.6 percent. Analysts project further declines in the third quarter before a return to growth in the fourth quarter.

Technical factors were another story. In May, all three major U.S. indices dropped below their 200-day moving averages, but they bounced back in June to close the month well above that trend line.

On the international front, the MSCI EAFE Index returned 5.93 percent in June, and the MSCI Emerging Markets Index returned 6.32 percent. For the quarter, the MSCI EAFE Index gained 3.68 percent gain, but the MSCI Emerging Markets Index gained just 0.74 percent.

Technicals for international stocks were supportive during the month. The developed and emerging market indices finished June above their 200-day moving averages.

Fixed income also had a positive June. The Bloomberg Barclays U.S. Aggregate Bond Index returned 1.26 percent. Falling rates throughout the quarter led the index to a quarterly gain of 3.08 percent. Similarly, the Bloomberg Barclays U.S. Corporate High Yield Index gained 2.28 percent in June and 2.50 percent for the quarter. High-yield spreads ended the quarter unchanged.
Fed continues to support economic expansion

Monetary policy was another tailwind. Chairman Powell indicated the Federal Reserve would continue to monitor the effects of the trade war and said the Fed would step in with stimulative measures if necessary.

Market participants interpreted his comments as confirming the likelihood of a cut this year. As of quarter’s end, the market has priced in a 100 percent chance of a rate cut at the Fed’s July meeting. Another rate cut in October or December is also anticipated.

Inflation remains below the Fed’s 2 percent target. But with slowing job growth and trade concerns, a rate cut is possible and could be another tailwind for stocks.
Political risks remain

Political events rattled markets in May. First, the China-U.S. trade war escalated. Second, President Trump announced a 5 percent tariff on all Mexican goods, although that never took effect. On a positive note, June’s G20 meeting was drama free, and the U.S. and China committed to more trade negotiations. These developments calmed investor concerns and helped June’s positive performance.

Economic growth poised to continue

This was a positive quarter for the U.S. economy, which continues to grow. Consumers are willing and able to spend, and businesses are doing the same. Earnings declined in the first quarter and may again in the second quarter. But a return to growth by year-end should support long-term performance.

Lower interest rates should support faster growth. Mortgage applications surged once rates fell in June. If rates remain low, housing growth could return in the second half of 2019.

Markets had a great start to 2019. Positive returns for equities led all three major indices to double-digit year-to-date returns. That said, May’s declines show that despite the positive tailwind from a growing economy, market volatility can always arise. Thus, a well-diversified portfolio that matches your goals and risk tolerance remains the best way forward.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody’s, Fitch, and S&P is Baa1/BBB+/BB+ or below.

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