September 2019

Monthly Market Commentary

We hope that you were able to enjoy the Labor Day weekend with your family and friends. As we have come to the end of a volatile August, the roller coaster ride continues in global equity markets. The second read on Q2 GDP was revised slightly lower to 2% QoQ vs 2.1% QoQ previously reported. Earnings season for Q2 2019 is coming to an end with 95% of companies reporting aggregate sales and earnings of 3.6% and 1.7%, respectively. This compares to Q1 2019 sales and earnings of 4.3% and 1.2%, respectively. Sales and earnings continue to slow from their current cycle peak that was reported in Q2 2018. Most of the gains in broader indexes this year can be attributed to the multiple expansion rather than growth in earnings. This leads us to the believe that the rally in equities may not be sustainable unless we see a re-acceleration in growth as multiples do not expand indefinitely, especially when they are getting closer to the higher end of their historical averages. Manufacturing sentiment and activity continue to remain muted with global PMI's decelerating for almost a year now as trade concerns continue to remain elevated. We continue to maintain a higher level of caution as we still see mixed signals from various asset classes. The bond market has been sending signals of a significant slowdown in growth and inflation expectations as evidenced in bond yields and inversion across the curve. The rally in gold over the last year adds to our conviction of heightened demand for safe assets over riskier ones. In this backdrop of elevated uncertainty around the globe, generating higher risk adjusted returns while protecting capital remains our top priority and hence the elevated levels of cash holding in our portfolios.