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Retirement Watch
SPOTLIGHT SERIES

How to Invest During The Fed's Great Pause and With Fading Tailwinds: Investment and Economic Review June 2019

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Where We've Been

Dec. 2017: Navigating the Great Transition

**June 2018: The Challenging Phase for
Investors Begins**

**Dec. 2018: How to Navigate the Post-Peak
Phase of the Cycle**

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What Has Changed

- **Fed paused. All policy changes on hold**
- **Global economy is downshifting**
- **Markets anticipate Fed easing soon**
- **China already is easing**
- **Private credit offsetting some tightening**
- **Trade conflicts escalating, broadening**

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What Is the Next Phase?

- **Markets expect multiple rate cuts**
- **Will lower rates be effective?**
- **Will tariffs override other policies?**

Don't believe the central banks

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What Is the Next Phase?

- **Economy could roll over, or**
- **Longer period of mediocre growth, or**
- **Central banks cuts rates or finds new tools**

Don't believe the central banks

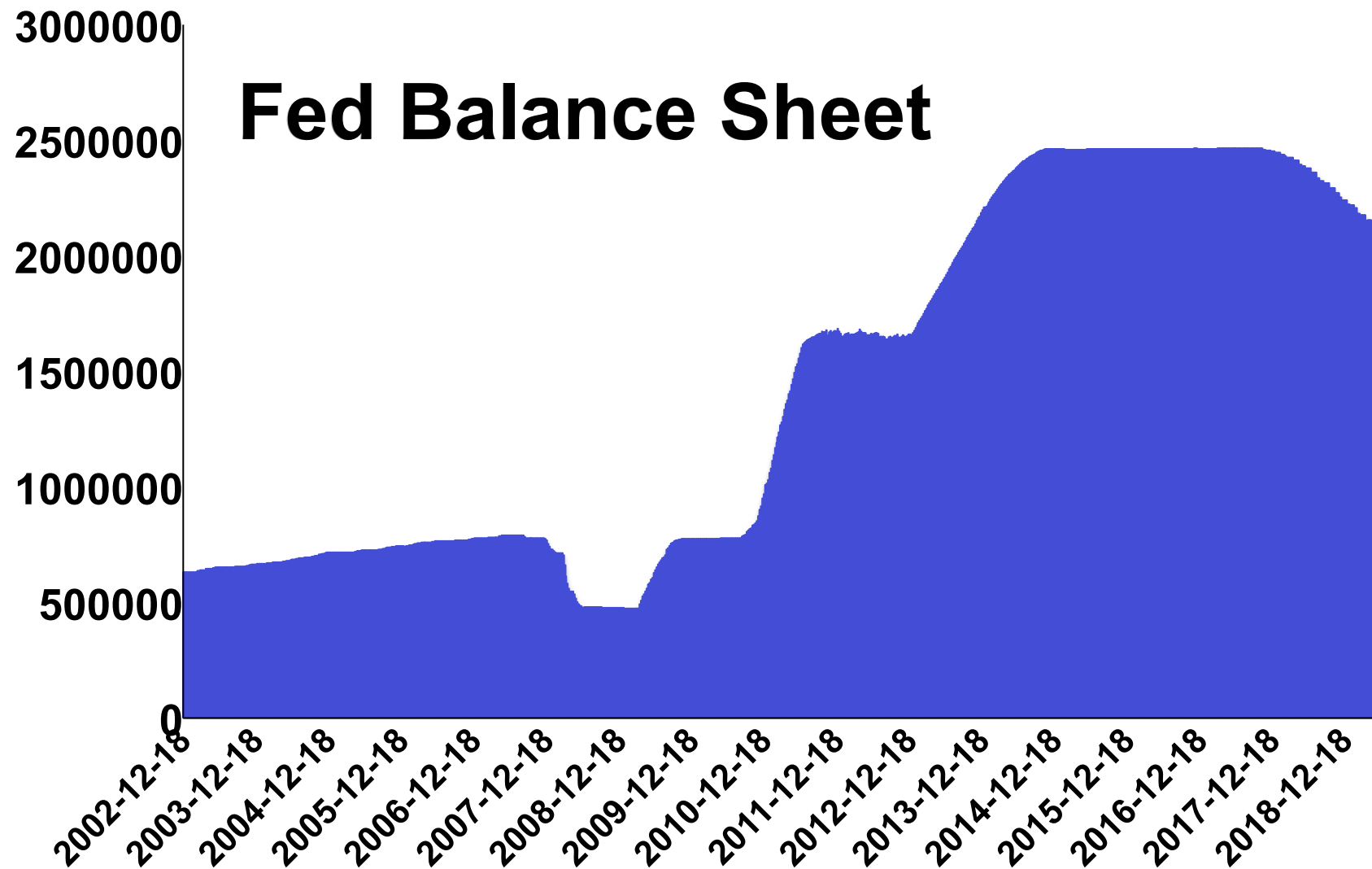
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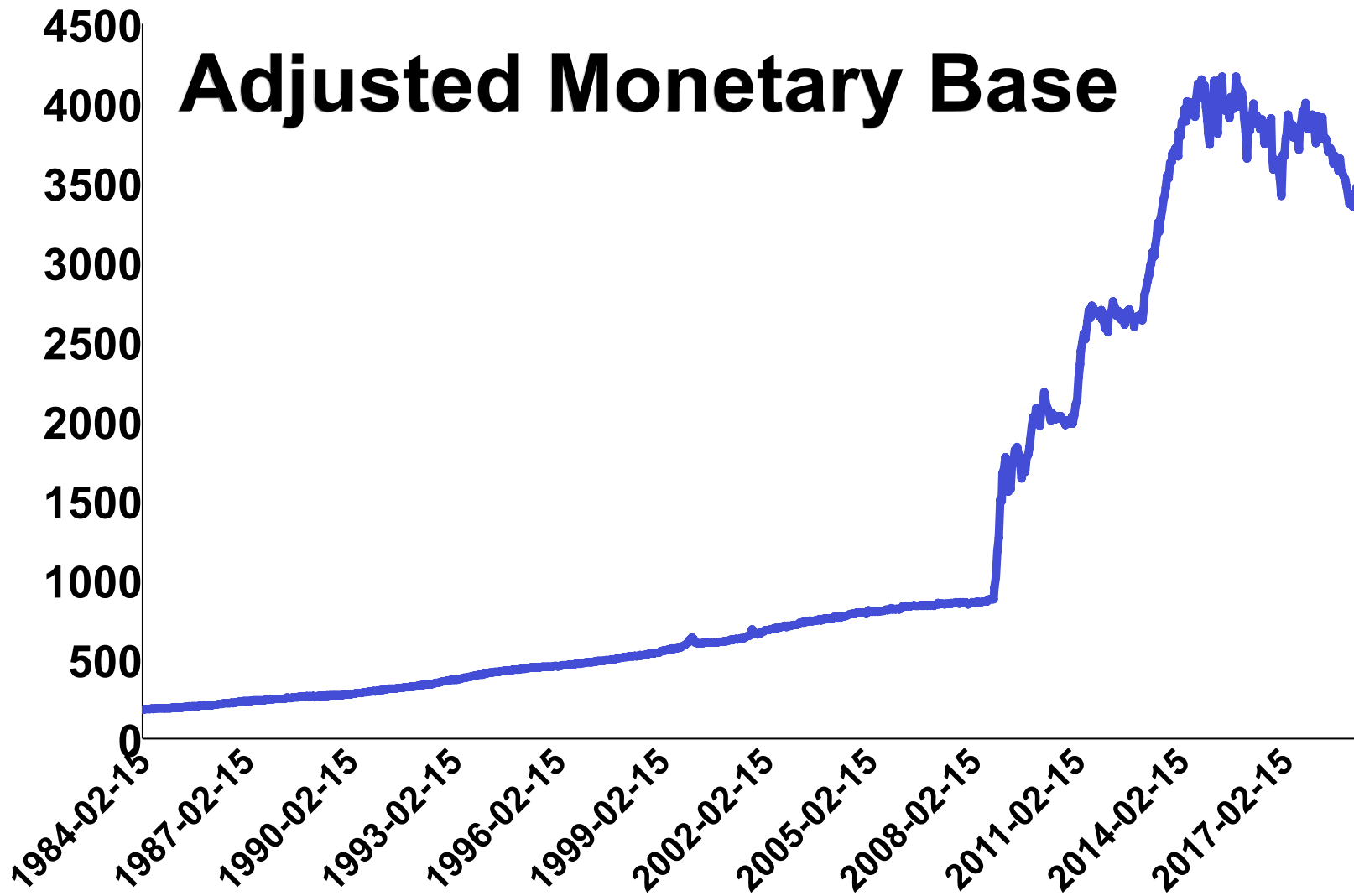
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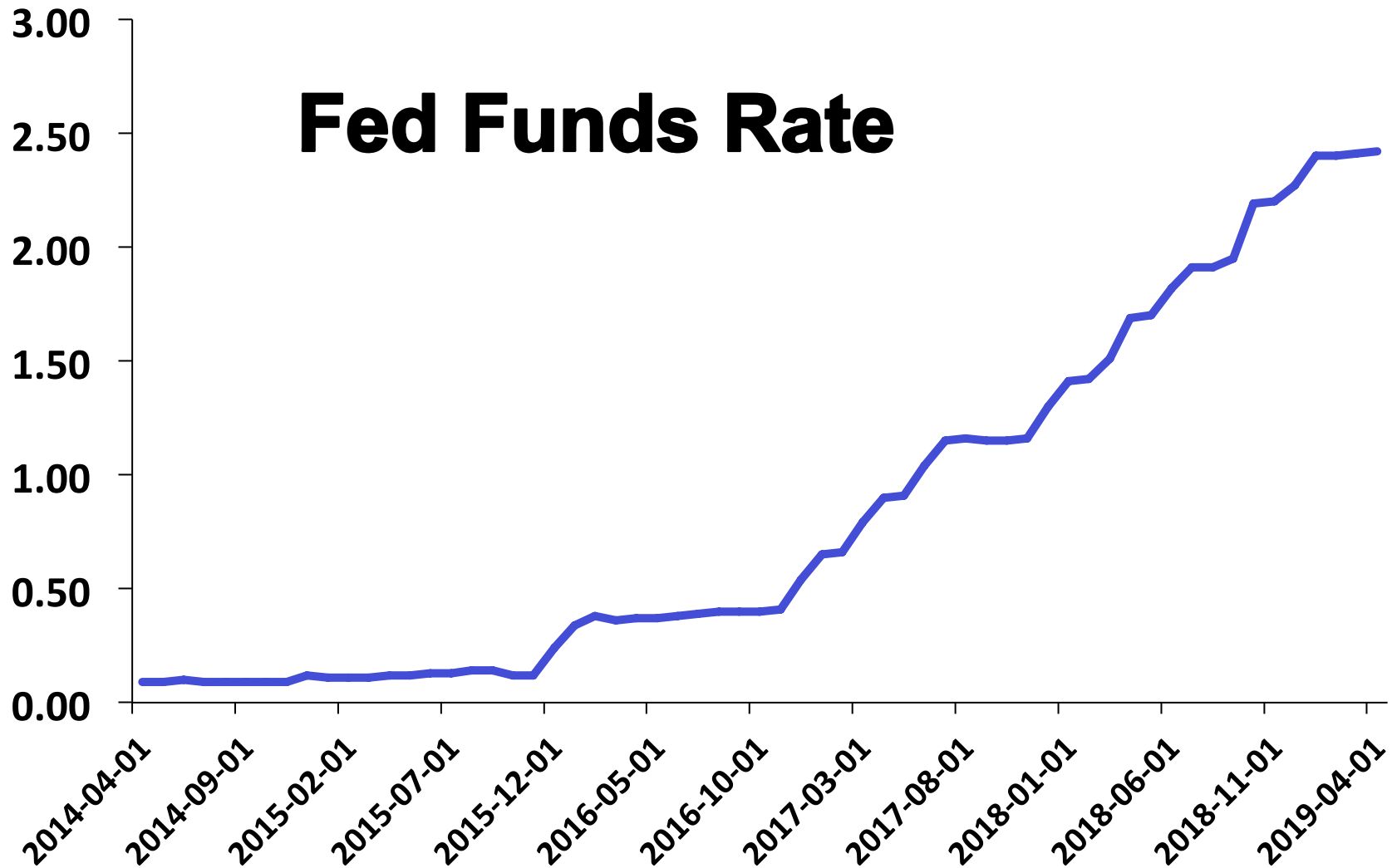
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Conflict Between Bond and Stock Markets

- **Market rates turned sharply down**
- **U.S. stocks reached new highs**
- **Global stocks also did well**
- **Only trade news caused stocks to stumble**
- **Will market convergence continue?**

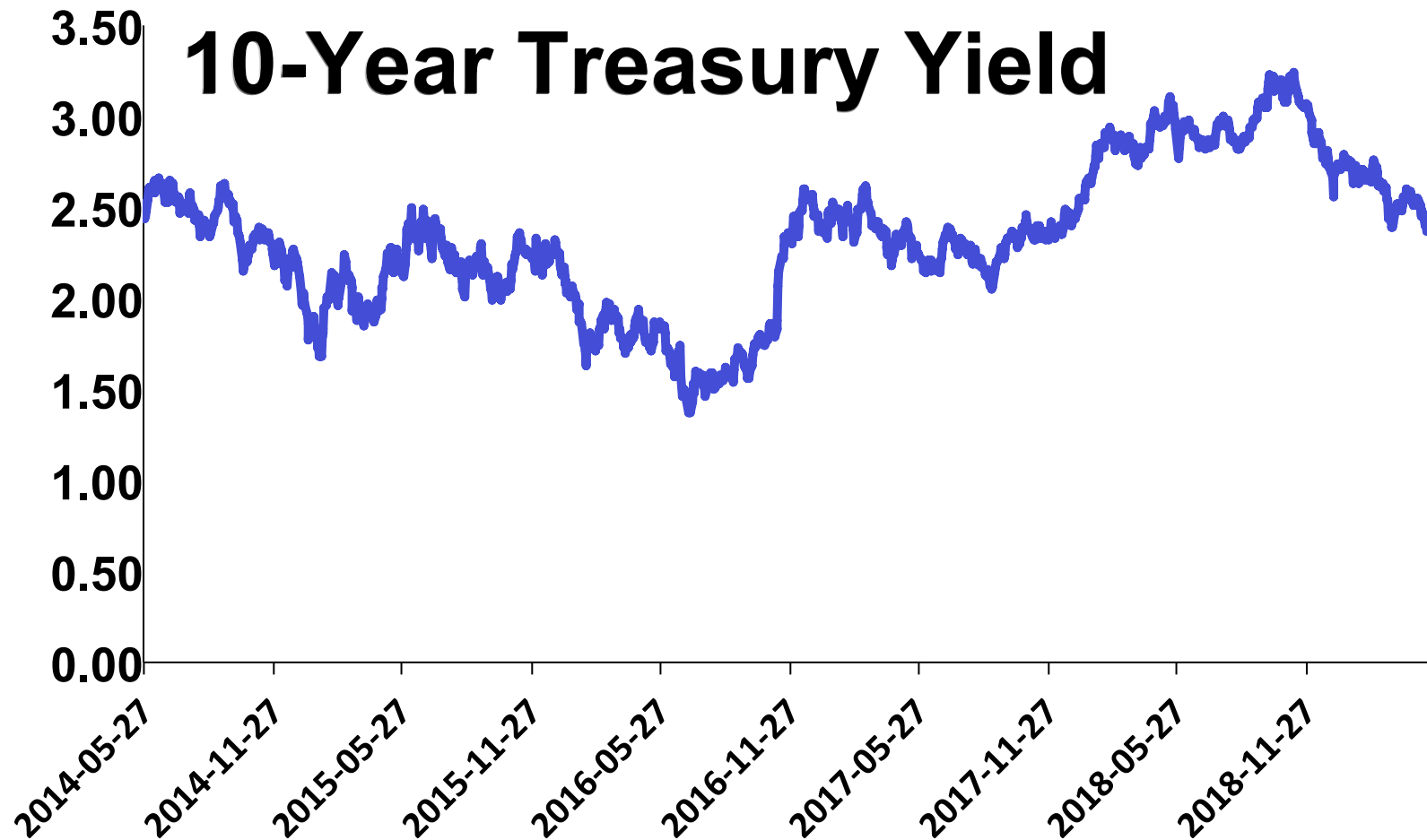
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Market Interest Rates Tumble



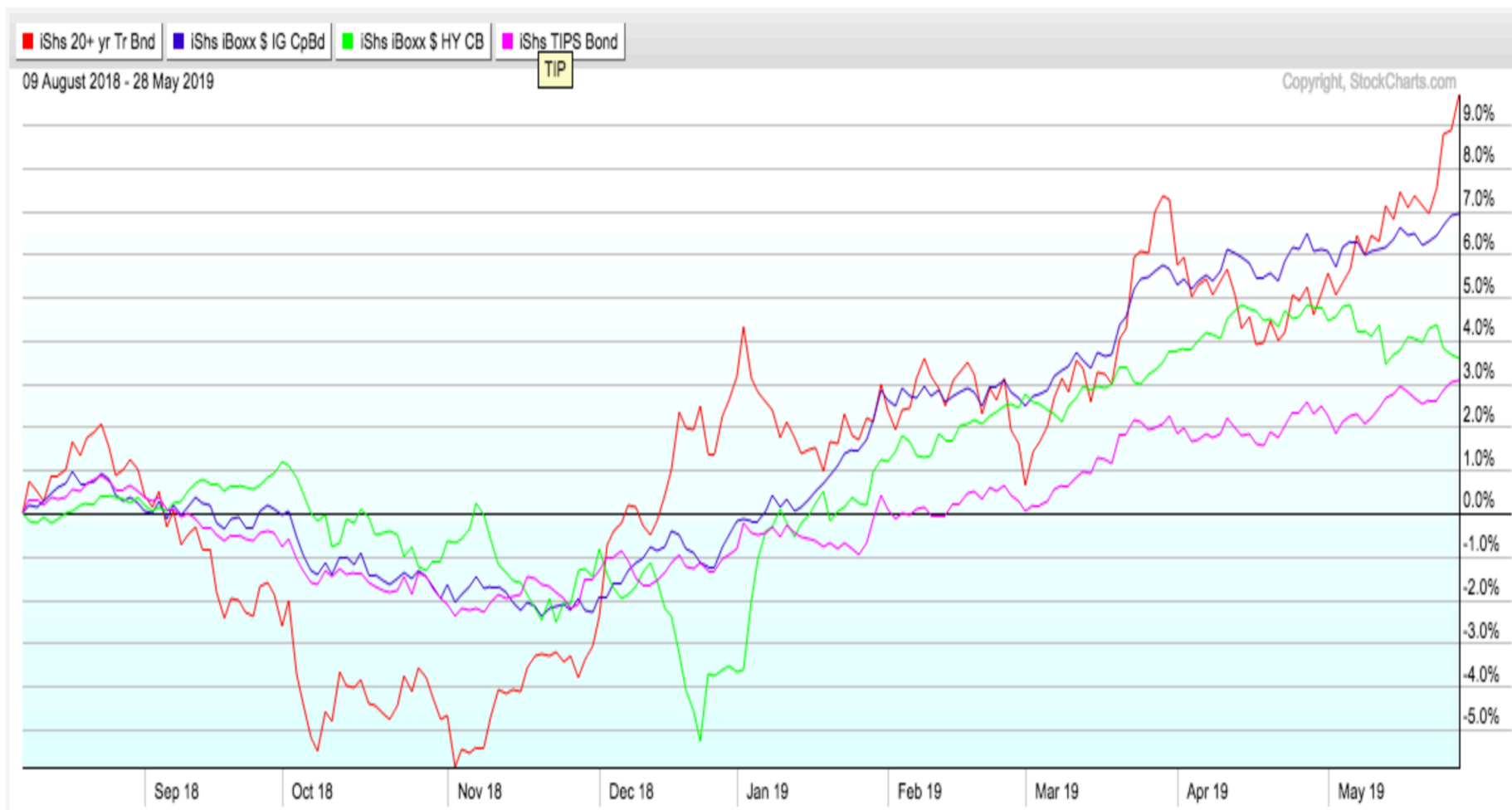
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U.S. Bonds



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Emerging Market Stocks



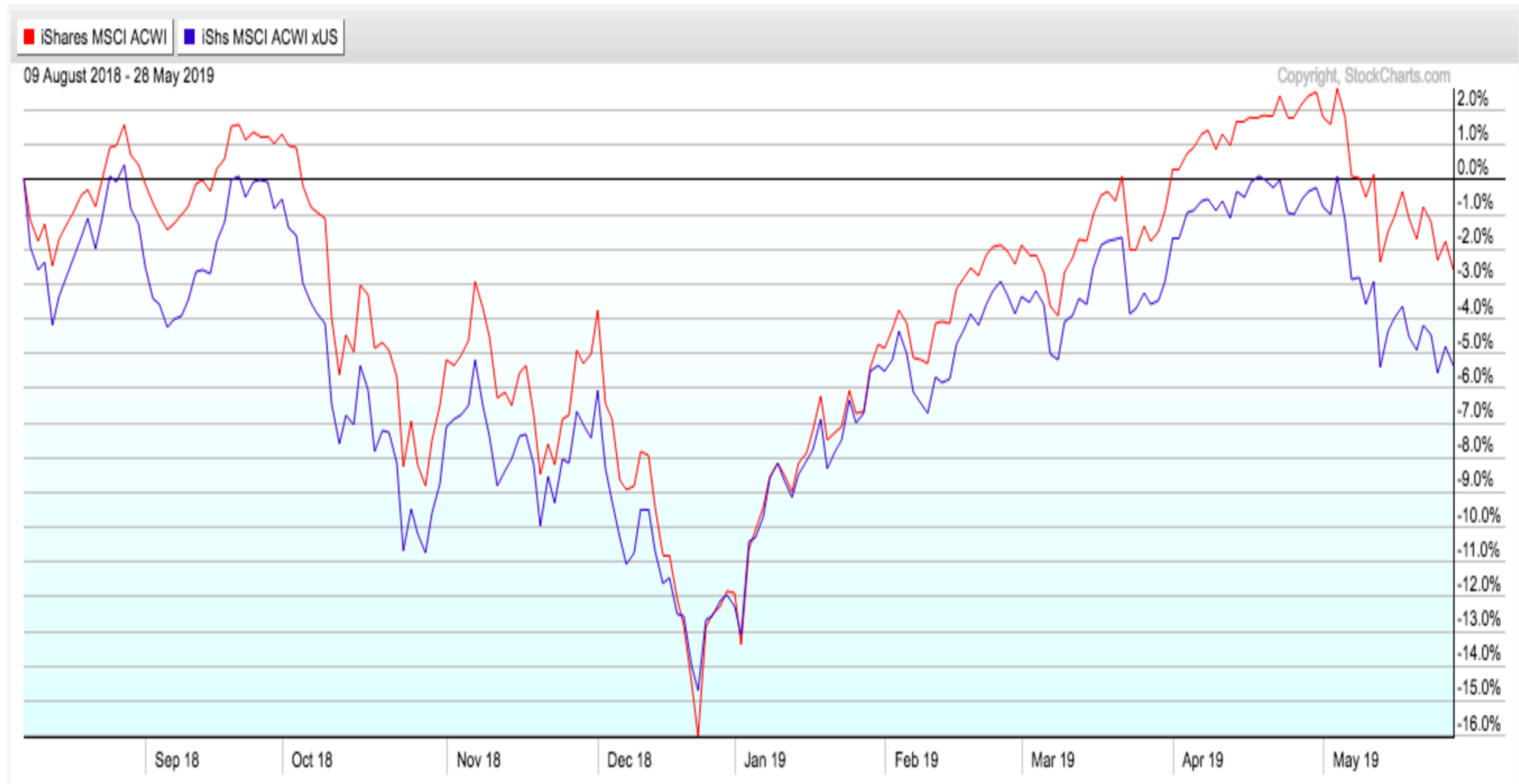
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Global Stock Indexes



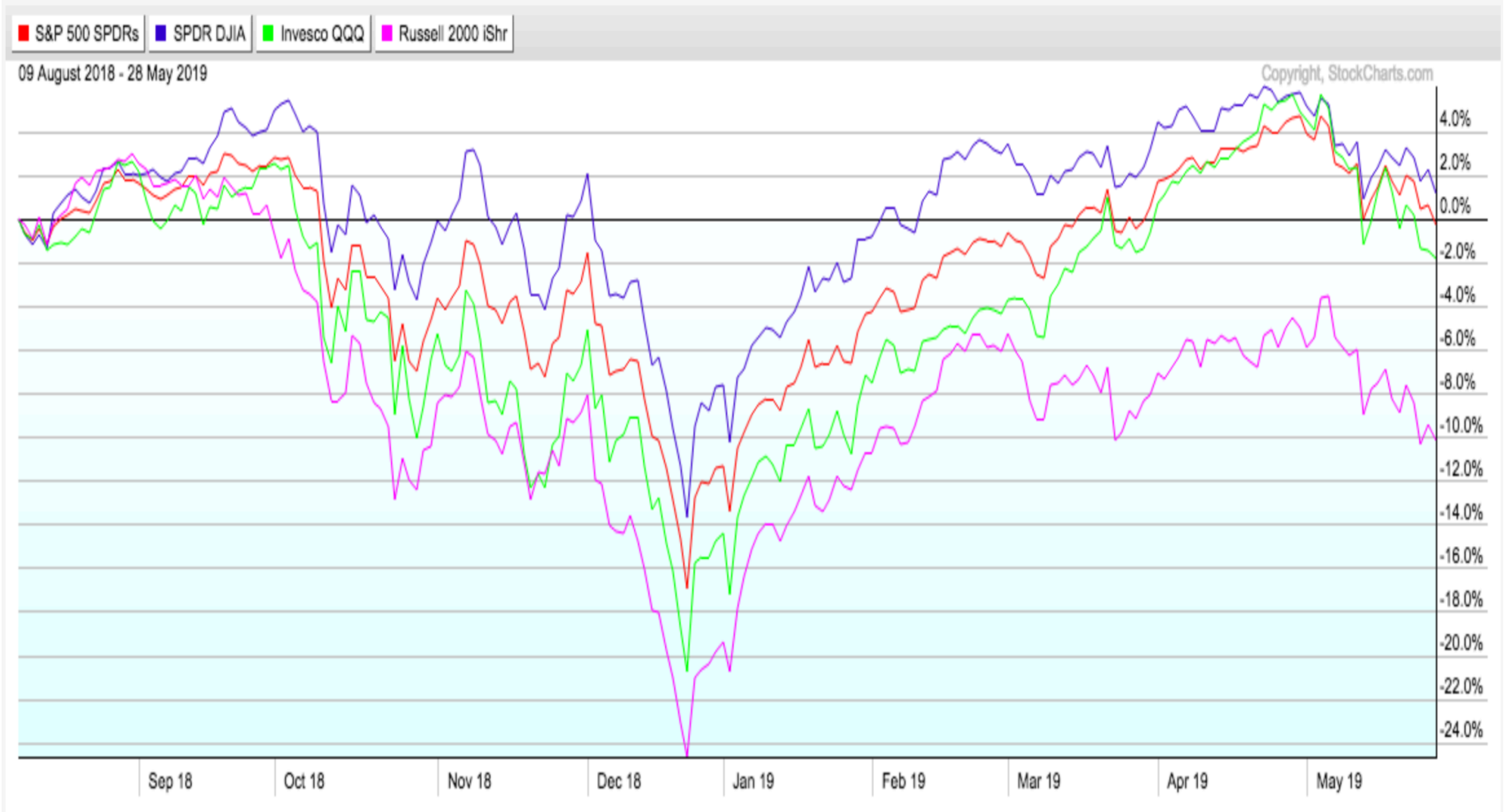
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U.S. Stocks



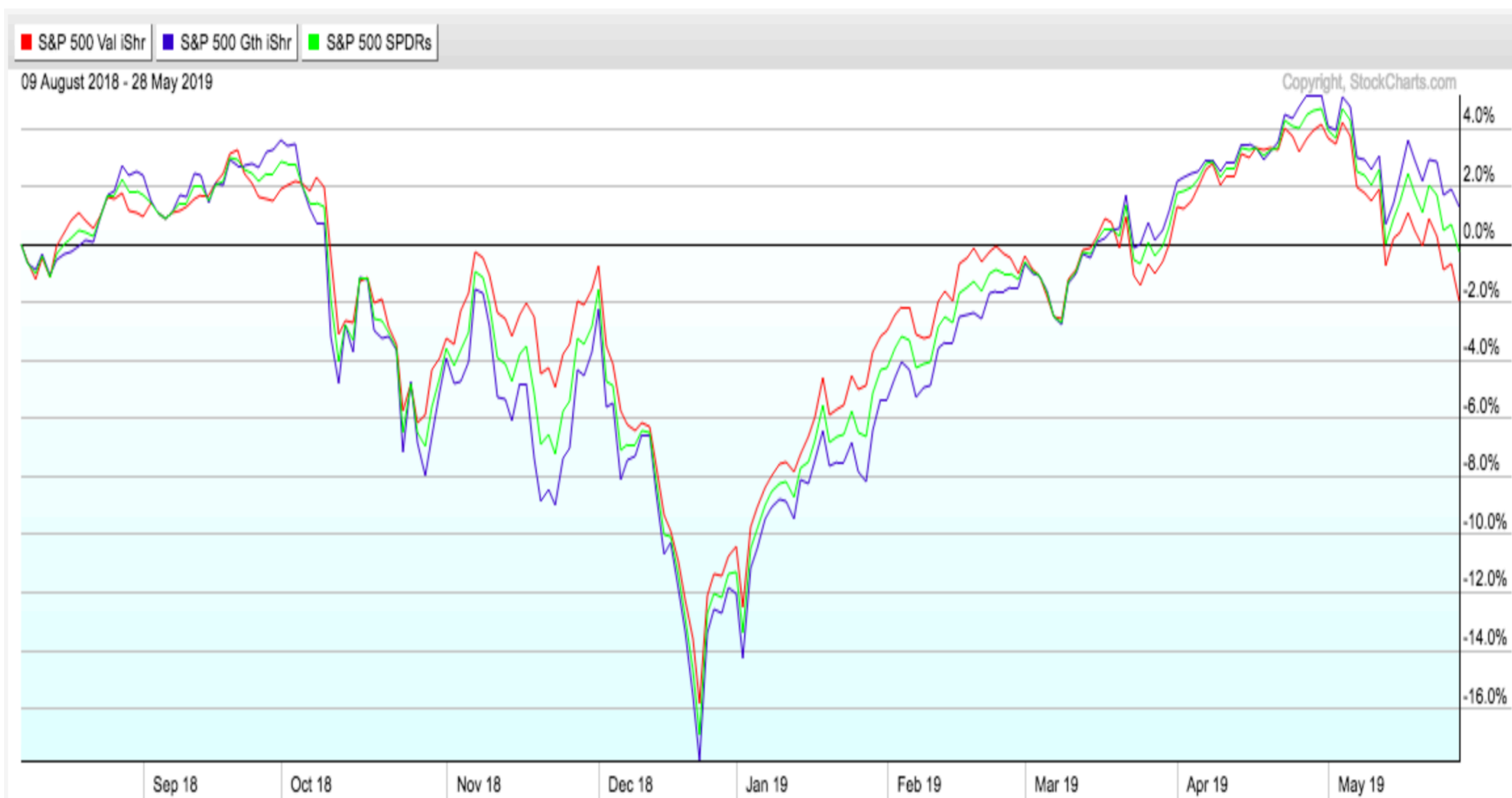
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Value vs. Growth



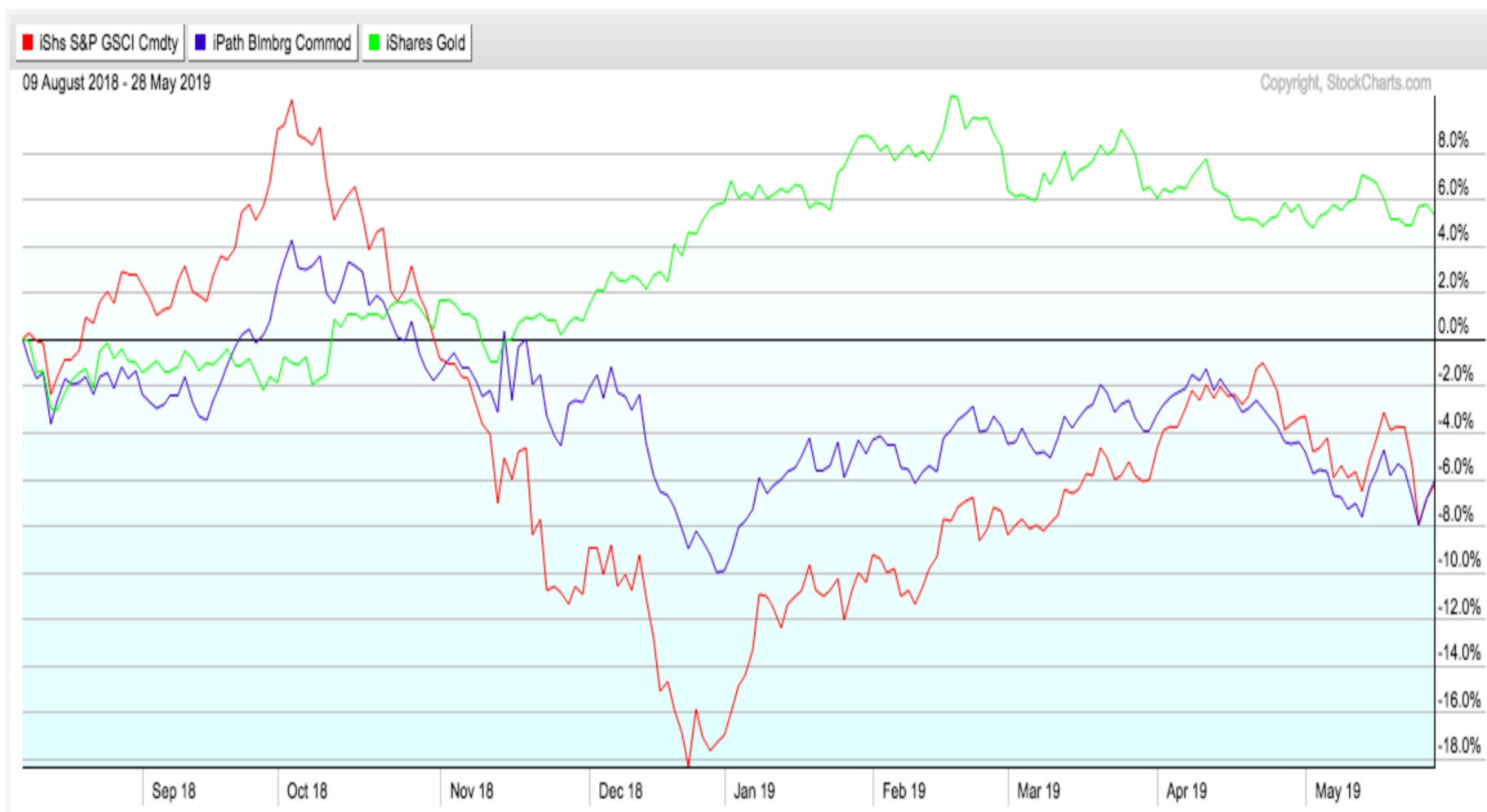
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Commodities



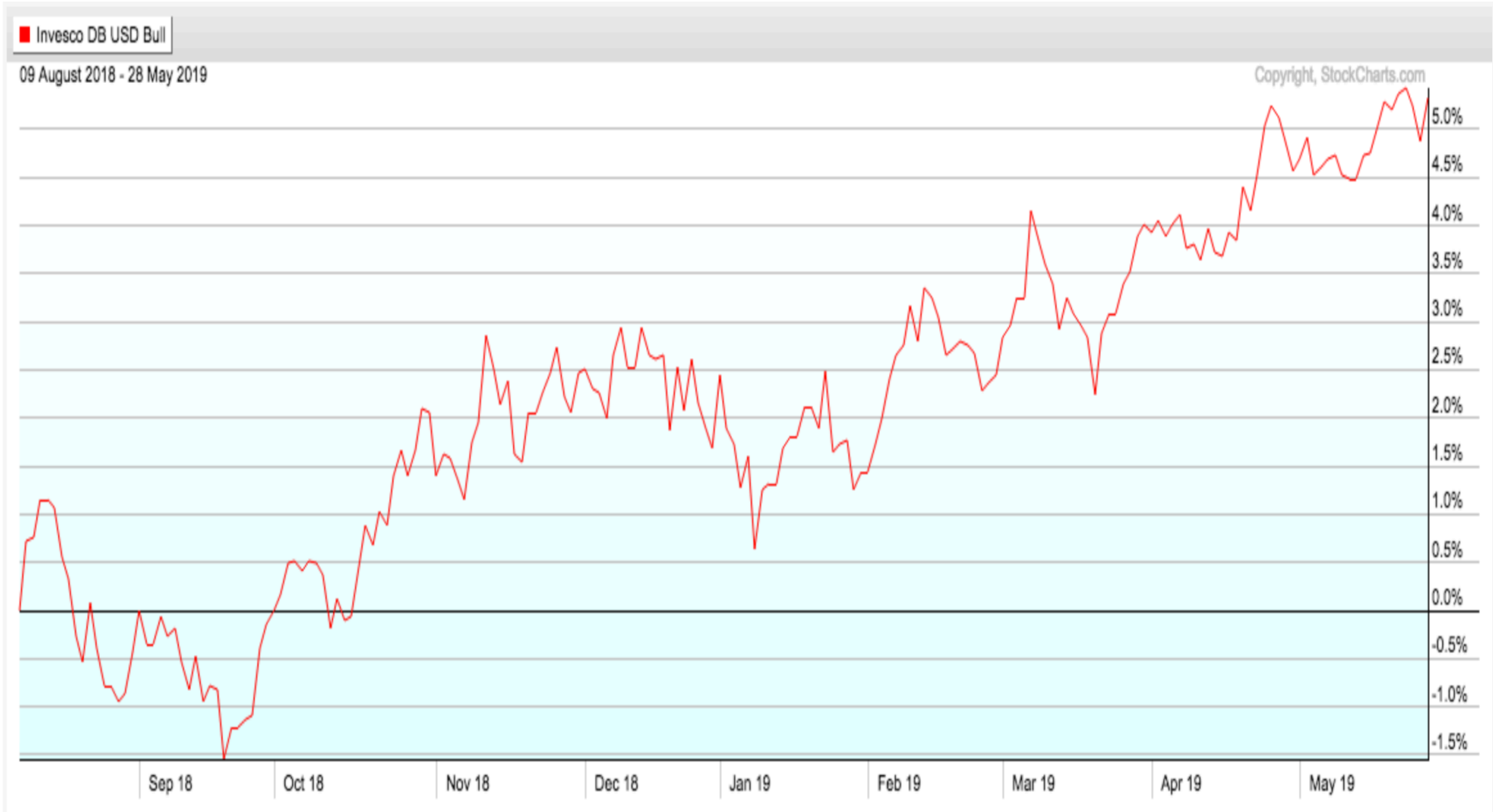
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U.S. Dollar



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U.S. Growth Downshifts

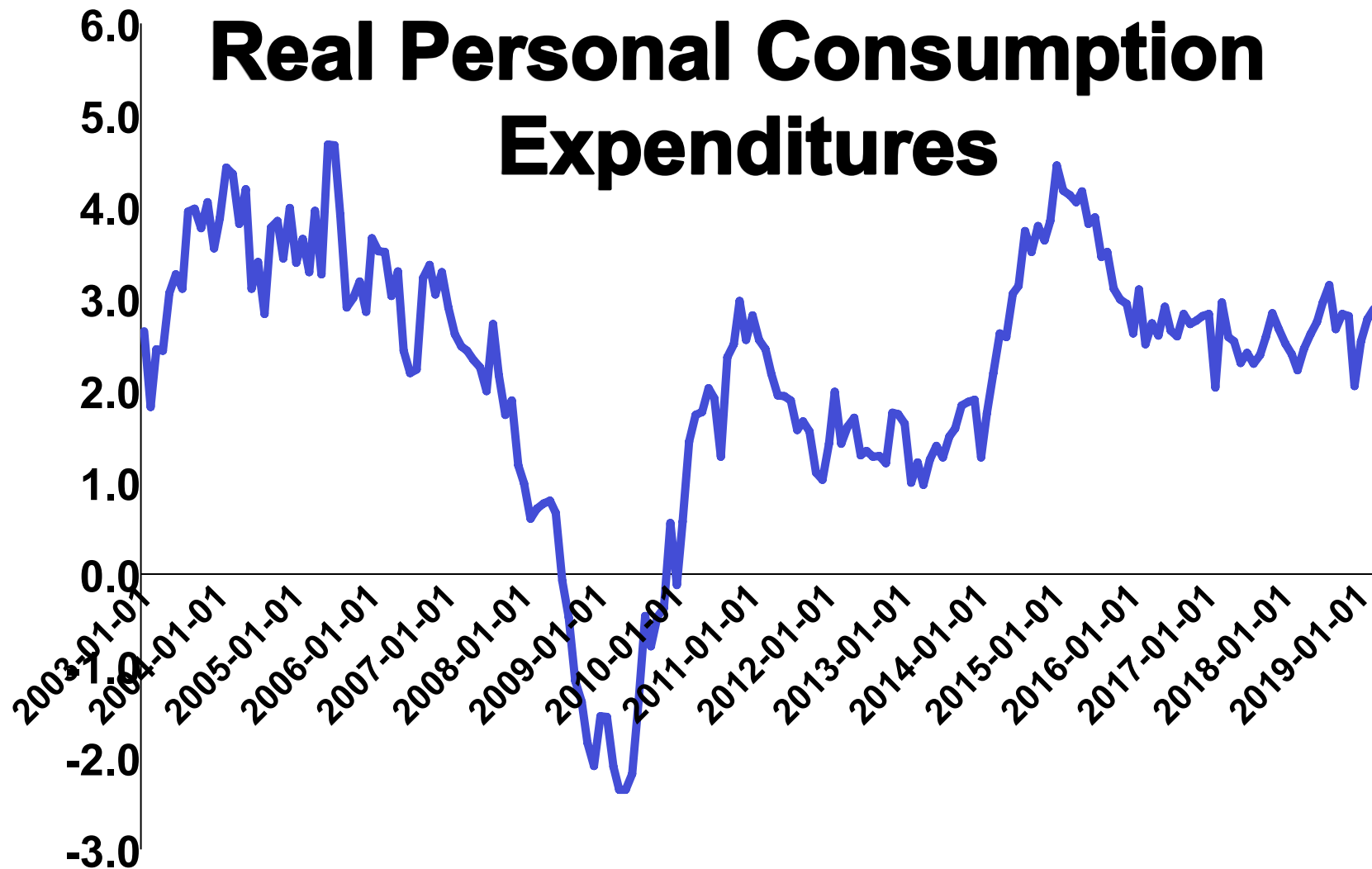
- **Stimulus is over, for now at least**
- **Asset prices no longer rising**
- **Excess capacity is used**
- **Power of tax cuts weakening**
- **Business investment fading**
- **Inflation low and declining**
- **Recession warnings still are positive**

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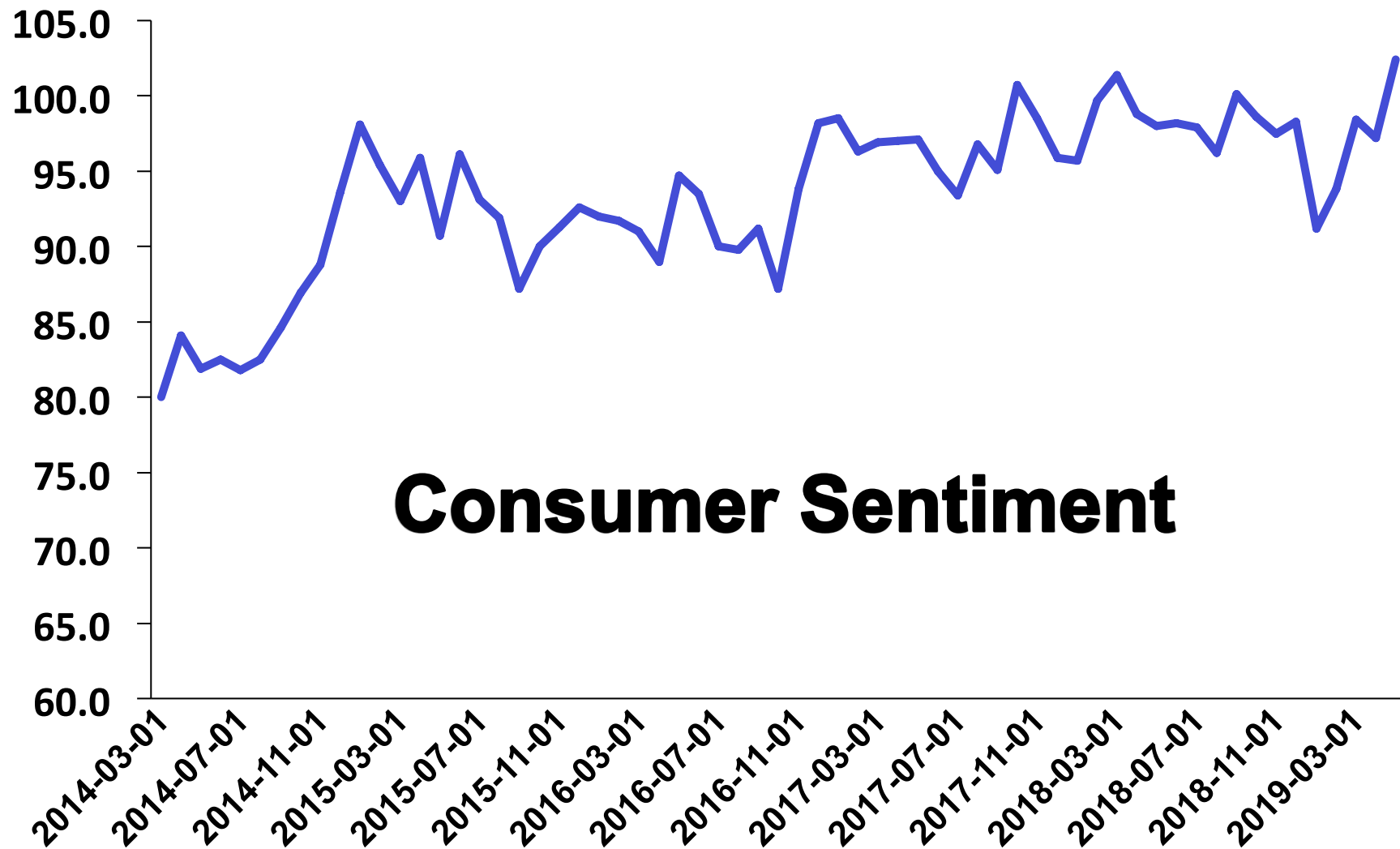
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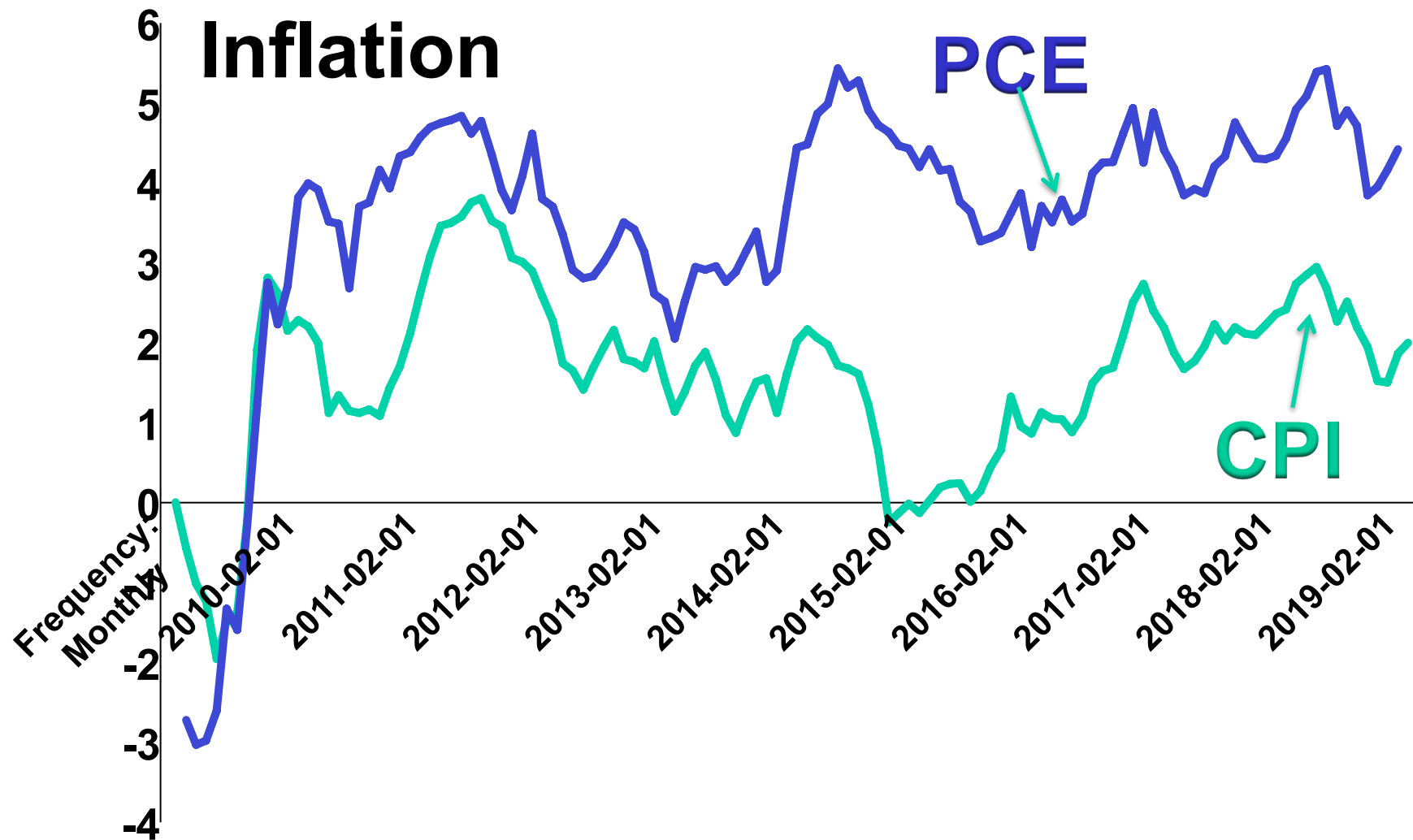
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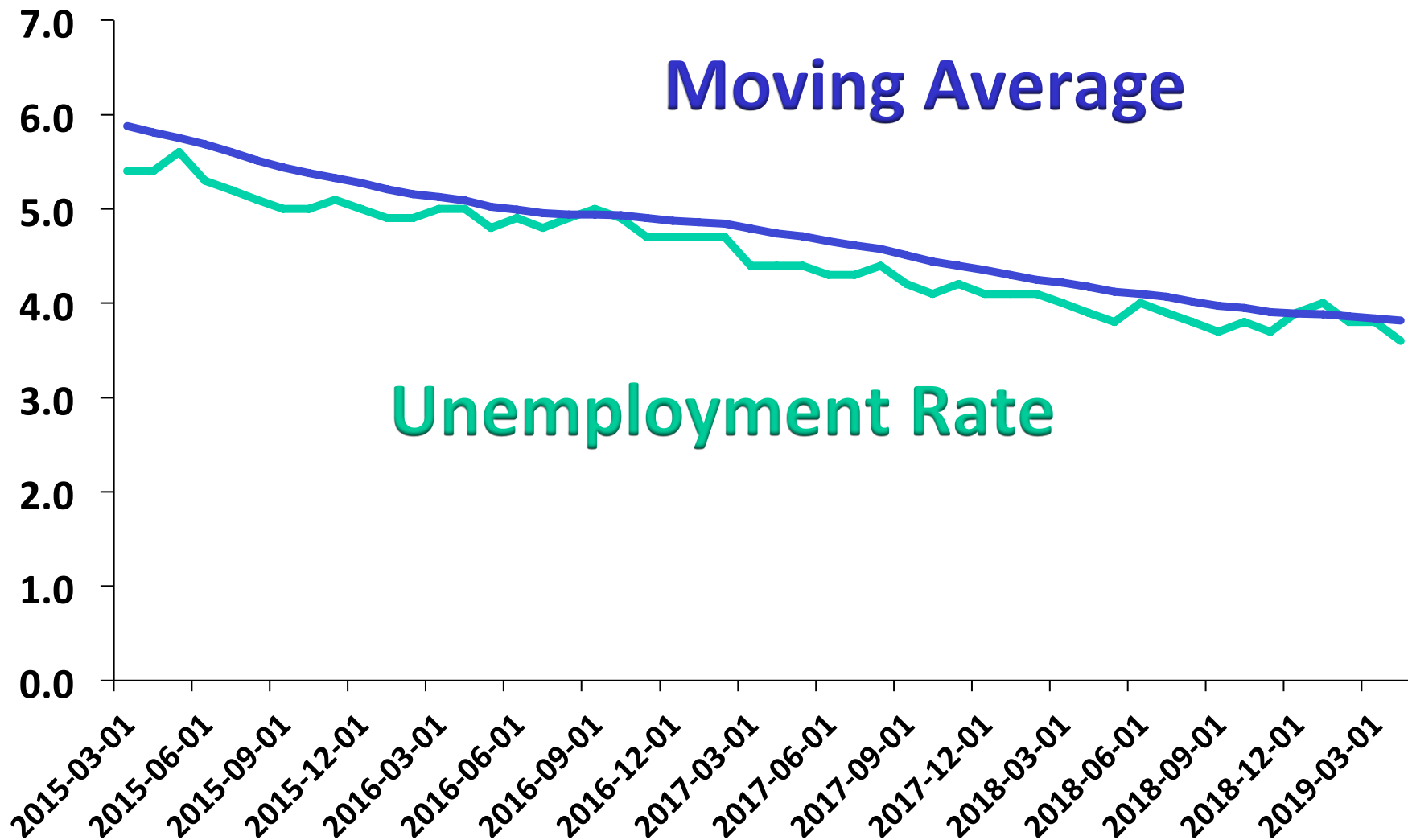
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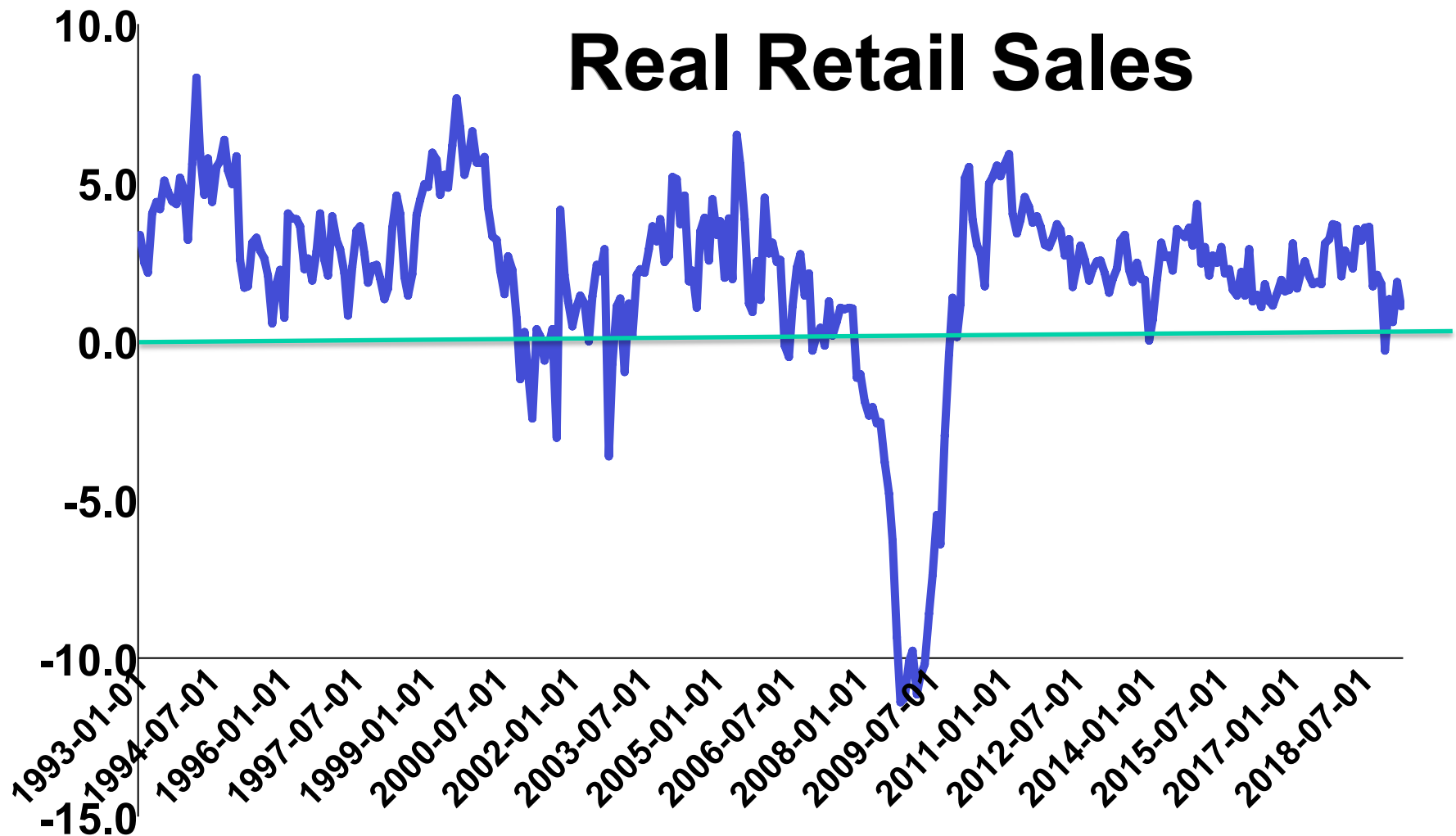
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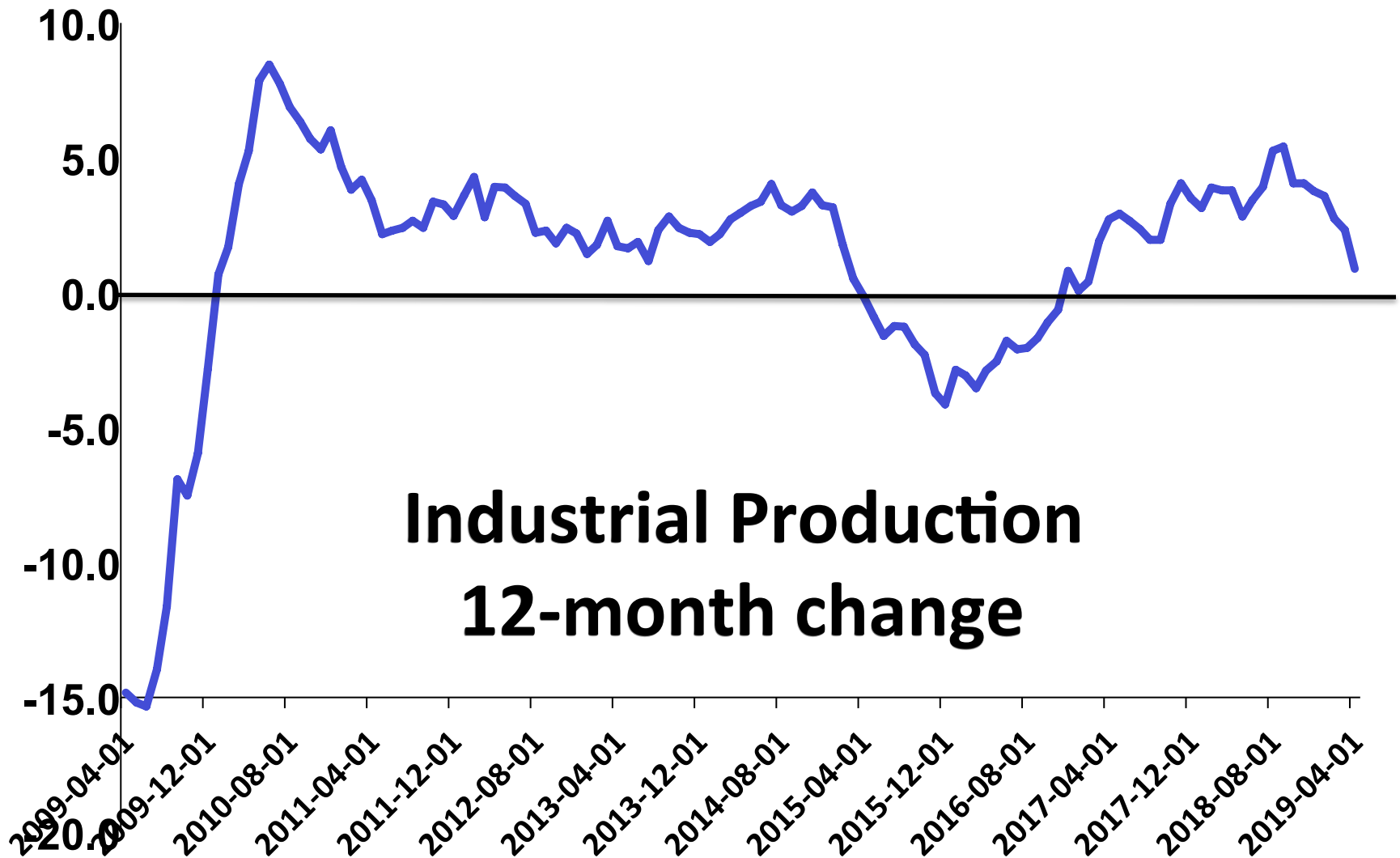
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Industrial Production 12-month change

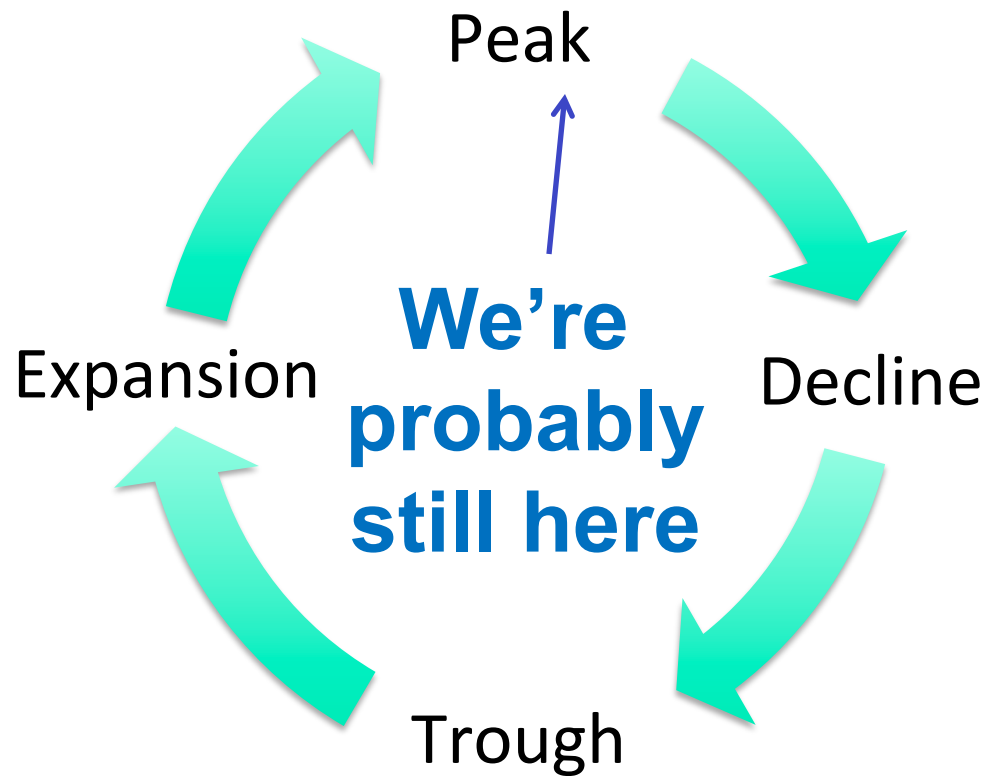
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Business/Economic Cycle



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The China-U.S. Trade Conflicts

- Major mover of markets
- Fluid situation
- Modest actions so far: tit for tat
- Beginning to escalate
- Most people now are concerned

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Much More Than Trade

- **U.S. has list of concerns**
- **China likely hurt more in short run**
- **U.S. companies, sectors are hurt**
- **China's economy is recovering; stimulus in place**

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Some Warnings Signs

- **China's economy has major global effects**
- **Asia, Europe exposed to China**
- **Basic government, cultural differences**
- **Long-term resolution not likely**
- **Risk is becomes something bigger**

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Summary

- **Fed tightened too much**
- **Stimulus, tailwinds fading**
- **Private sector credit is healthy**
- **Profit margin support could be fading**
- **Tariffs, other issues will disrupt**
- **Diversification becomes more important**

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