LongView
ASSET MANAGEMENT

2019 Third Quarter Review and Outlook

Stock markets were mixed in the third quarter, with US equities up slightly and international stocks losing ground. The economic headwinds of trade disputes and geopolitical uncertainty seem to have stalled the markets' momentum. US equities, up roughly +20% for the year through September, are once again outpacing international returns.

The Federal Reserve Bank responded to a possible slowdown by cutting interest rates, echoing recent moves by other central banks. Fully one third of government bonds around the world now have negative yields (an investment paradox in that investors lend money for a fixed, but negative, return). As yields have fallen, bond prices have risen, making 2019 one of the best years for fixed income investors in years.

To many observers, such strong performance for both stocks and bonds is surprising. One explanation is that this year's gains in equities began near the bottom of last year's steep Q4 drop. Going back one year to before that sell-off, US equities gained only +2.9% and developed international markets fell slightly. In fact, global stocks ended this quarter at the same level they first reached in January 2018. Recent fixed income returns have been quite remarkable, but stock markets have merely recovered from the most recent market reversal.

Outlook

At this late stage in the economic expansion, financial markets could be expected to be vulnerable to bad news, whether on the economic or political front. The US economy grew only 2% in the second quarter and there are clear signs of flagging growth in Germany and other key economies. Tariffs and trade uncertainty generally are impacting economic growth and business investment. Headline risk has become a constant companion.

That being said, we could continue along this slow-growth trajectory for some time and the next economic downturn, when it does happen, could be shallower than normal. Rather than risk tipping the economy into recession by trying to raise interest rates to more normal levels, central banks around the world have cut rates to support their economies. The Federal Reserve is expected to cut US rates at least one more time this year, an example of actions could help forestall and cushion a decline. Meanwhile, inflation remains tame and unemployment rates are near record lows. Excesses in housing and corporate debt that have led to past crises are hard to find. US stock market valuations are only slightly above average and international equities, which have lagged the US, are inexpensive by historical measures.

One factor in continued market gains will be corporate profits. Profit growth has slowed from the torrid pace of the past three years but an environment of low interest rates and inflation could be a benign—if unexciting—one for both corporations and investors. Policy uncertainty related to trade, Brexit and other matters remains the outsize source of risk.

The key to navigating whatever conditions lie ahead is to have a balance of stocks, bonds and alternative strategies in your portfolio that you can stick with through market turmoil, without feeling the need to sell into a downturn. We have learned from long experience not to try to time the markets' tops and bottoms. However, this could be an opportune moment to confirm that your portfolio's allocation is appropriately positioned for your long-term goals.

LongView News

In early August, LongView was featured in a front-page article in the Santa Fe New Mexican about the growth of a new corporate culture in New Mexico. The movement revolves around the idea of 'business for good' and a voluntary certification that businesses like LongView, Taos Ski Valley and Meow Wolf have undertaken. As the first financial services company in New Mexico to meet the stringent requirements of B-Corp certification, we were proud to be included in the article.

Our renovation of the historic Hovey House at 136 Grant Ave continues apace and we hope to move soon. The work required to upgrade…everything, while taking pains to keep the character of the building as authentic as we possibly can, has shown how overly ambitious we were in our scheduling. It is an understatement to say that we look forward to finishing construction and welcoming you in our new offices.

We wish you a happy fall and holiday season and thank you as always for your trust.

David Cantor

Harlan Flint