SPOTLIGHT ASSET GROUP

Quarterly Newsletter

October 2019

Company News

THE SPOTLIGHT STORKS WERE BUSY making deliveries this past quarter! Congratulations to Mike Mitchell and his wife Kristin on the birth of their son Michael Patrick Mitchell, born on July 18. Congratulations to Daniel Greulich and his wife Kate on the birth of their daughter Penelope Jane Greulich, born on August 20. And congratulations to Nico Sharp and his wife Maera on the birth of their son Nicolas Librado Sharp, born on September 1.

On the same day Daniel Greulich welcomed his newborn daughter he learned that he passed the final exam to become a Chartered Financial Analyst® (CFA®) charterholder. The CFA designation is one of the most distinguished professional designations in investment management with over 1000 hours of rigorous study necessary to successfully complete the CFA Program exams, and fewer than one in five candidates becomes a CFA charterholder.

We also welcome Sergio De La Torre, Managing Director of our new Atlanta office, to our growing Spotlight family.

Market Update

THE THIRD QUARTER OF 2019 saw the conclusion of summer and the ushering in of a new season, yet the news cycle was anything but definitive. There are so many new questions without answers:

•Is the world economy in a recession?

•What will be the next retaliation in the US vs. China Trade War?

•Will President Trump get impeached?

July was an uninspiring, flat month in the market flooded with news from central banks around the world. With more than thirty central banks decreasing their intraday discount rates to provide stimulus to their banking systems, an investor would expect positive international stock market returns, yet the MSCI All Country World Index (a proxy for measuring growth in domestic and international stock markets) returned -1.59% for the month. With economic uncertainty abroad, the markets stalled into August.

August started with a bang (not in a good way) as the trade war between US and China intensified and protests stifled Hong Kong, one of the world's largest financial centers. Tariffs were added or increased on close to $600 billion of goods traded between the two nations. Large cap stocks (represented by the S&P

500) and mid/small cap stocks (represented by the Russell 2000) hit their bottom for the quarter in mid to late August, down 4.79% and 7.24% respectively. To add fuel to the fire, the US 10-year Treasury Yield, a widely accepted proxy for economic growth and inflation, dropped from 2.03% at the beginning of July to a low of 1.47%. This was the catalyst that led to a yield curve inversion between the 2-year Treasury and the 10-year Treasury (which is regarded by many as an indicator of a coming recession) spooking markets. Many of these actions have instilled pessimism and the threat of recession in the global markets.

American economic data told a contrasting story from the international markets, especially in reference to the consumer who is responsible for two-thirds of US economic growth. Unemployment was steady at a low rate of 3.7%, Consumer Confidence measured in an impressive range between 121-135, and Non-Farm Job Openings read at 7.2 million jobs available. Stability in the US economy was clear, and even with economic trends showing signs of slowing, the domestic economic indicators scream stability and slow growth, not recession.

Even with steady, positive economic news, the Federal Reserve felt the need to rescue the markets. Rate cuts in August and September from the Federal Reserve fueled a rebound in stocks and all but erased the earlier losses in the quarter. Yet, uncertainty continued to loom. In a quarter dominated by central bank rate cuts, impeachment fears/hopes (depending on your political leanings), trade wars and yield curve inversions, the stock market was unexpectedly flat.

The third quarter was packed with news and events, but nearly all of the events lack resolution. The protests in Hong Kong have yet to cease. Trade tensions between the US and China are still intensifying, and Central banks around the world show no signs of easing off easy money. Look for the news from Q3 to be a catalyst for future market movement in the coming quarters.

Third Quarter Performance:

S&P 500 Index: -0.46%

Russell 2000 Index: -3.32%

MSCI EAFE (Europe, Australia, Asia, and the Far East) Index: -1.25%

Barclays Aggregate Bond Index: 2.37%

Much of the uncertainty introduced in the third quarter was negative. Even if the above items have a positive resolution, the resulting financial environment is not significantly better than before their introduction. Markets would go back to their norm but would not be fundamentally improved with the resolution of the uncertainties plaguing the world economy (this statement does not apply to the Trade War between the USA and China. If resolved, the markets would exhibit positive momentum). Due to the rise in uncertainty we have made changes in many of our investment models to reduce downside risk, while maintaining upside potential. If you have questions regarding what changes we made or how it affects your portfolio, please don't hesitate to contact your Spotlight Wealth Advisor.