Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

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June Gloom?

Those of you living on the West Coast know the term June Gloom, our foggy time of the year. Many investors relate this term to the stock market this time of year. It's foggy out. There doesn't seem to be a lot of clarity of which direction the markets want to go. This has some investors confused and concerned about their portfolios.

The financial terminology June Gloom is often tied into the concept of "sell in May and go away." For those unfamiliar with the phrase, it suggests that you sell all of your equity positions at the beginning of May, and not return (go away) to investing until fall (some say October 1st, others November 1st). The concept is to be out of the stock market during what historically has been the weakest time of the year for the stock market, thus improving your portfolio's overall return.

There is some truth in the saying. The lion's share of the S&P 500's historical returns have come during the seven-month time period, October through April. The problem with this ideology is there have been far too many years that you would have financially harmed yourself by selling out. Just look at the last seven years as a perfect example. The S&P 500 has been up six of the last seven years, from May through September. As you can see in the chart below, had you invested $1 million in the S&P 500 Index on January 1, 2012 it would have grown to $2.3 million by the end of 2018. Had you pulled out of the market during May through September each year, it would have cost you almost $500,000 and lowered your total return by almost 50%.

	S&P 500 TR	May-Sept	S&P 500 w/out May-Sept 7 Mths Invested	S&P 500 TR	7 Mths Invested
				$1,000,000.00	$1,000,000.00
2012	16.00%	3.06%	12.94%	$1,160,000.00	$1,129,400.00
2013	32.39%	5.26%	27.13%	$1,535,724.00	$1,435,806.22
2014	13.69%	4.69%	9.00%	$1,745,964.62	$1,565,028.78
2015	1.38%	-7.93%	9.31%	$1,770,058.93	$1,710,732.96
2016	11.96%	4.99%	6.97%	$1,981,757.97	$1,829,971.05
2017	21.83%	5.67%	16.16%	$2,414,375.74	$2,125,694.37
2018	-4.38%	10.04%	-14.42%	$2,308,626.08	$1,819,169.24
				130.86%	**81.92%**

Nerves are a bit frayed going into the summer. Recent wounds from 2018 haven't healed, and May's drop has many investors alarmed. The cause of the drop was completely sentiment driven, with fears surrounding a growing trade war with China and the impact that might have on the global economy. This was further compounded by Washington's tough rhetoric directed at Mexico. A quick resolution with Mexico and the Street's hope that the United States and China might soon find a resolution to the trade war has made the S&P 500 rebound from it's June 3rd low, recovering almost all of the losses experienced in May on June 18th (as I write this).

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Where Do Things Go from Here?

Polaris Greystone thinks there is a strong case to be made that we have strong markets throughout the second half of the year. Why?

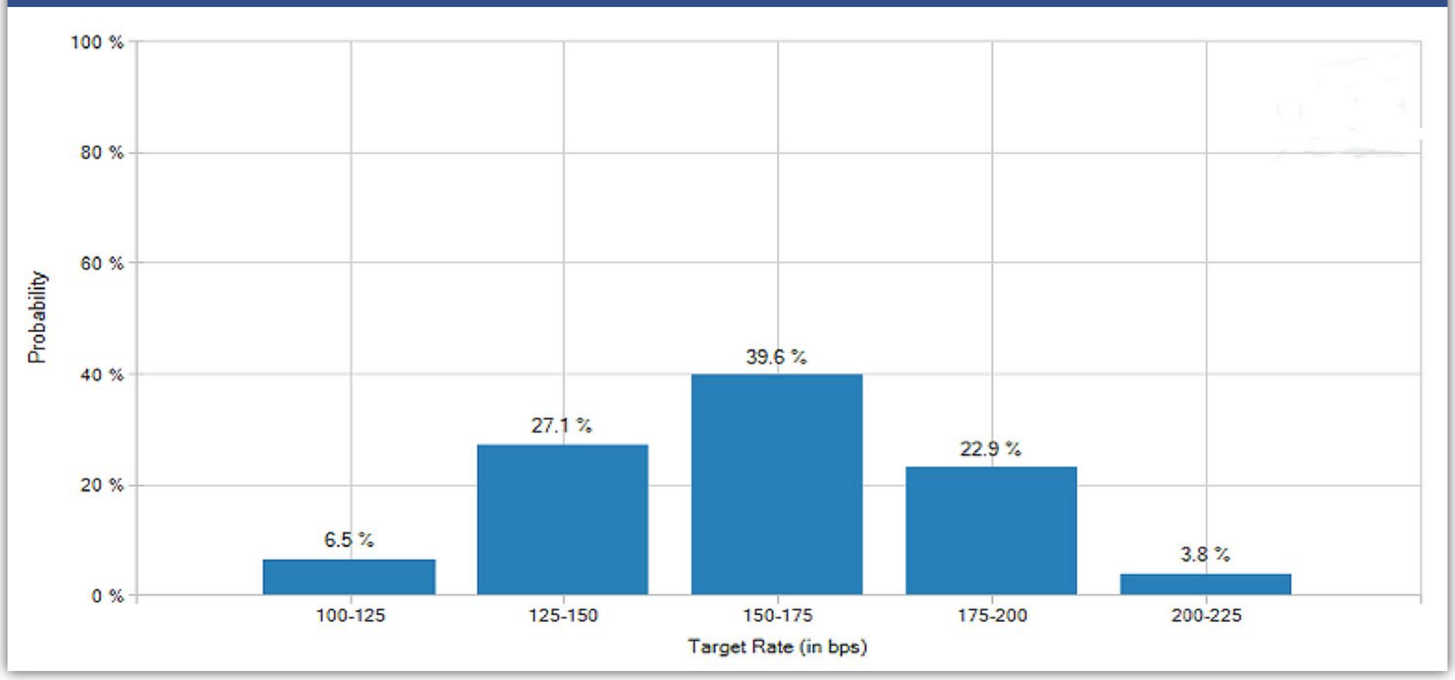
Trade Resolution

While it would be a complete guess to state when a resolution might happen, we do believe that the United States and China will come to an agreement sometime soon. Our trade war with China could turn into a political hot button if left unresolved. Further escalation could send the United States and the world into a global recession. President Trump just kicked off his campaign for reelection. Regardless of where you stand politically, President Trump will want to be able to campaign using a trade resolution with China in his favor.

Accommodating Fed

The Federal Reserve has been very transparent that it will be cutting rates this year. Current Fed Futures has a 100% probability of cutting rates in July. The only question is do they cut rates by 25 or 50 basis points. The chart below shows Fed Futures for December. As you can see, there is 0% probability of us remaining at the current target rate of 225 to 250 basis points. There is only a 3.8% chance that the Fed will cut 25 bps, with the highest probability of cutting 75 bps during 2019.

December Fed Futures



Source: CME Group

An accommodating Fed means that money will get even cheaper than it is right now. This will encourage people and businesses to borrow money to buy goods, thus stimulating the economy.

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The Economy Looks Stable

The U.S. economy has been showing strong growth, even in the face of our trade war with China. The United States had 3.0% GDP growth during 2018, significantly better than the 2.3% average growth that has been experienced since the Great Recession and above the 2.7% 50-year average growth. First quarter 2019 GDP growth was at 3.1%. As you can see from the chart below, GDP growth is expected to remain above average.

Historical and Forecasted U.S. GDP Growth

Source: U.S. Bureau of Economic Analysis, tradingeconomics.com

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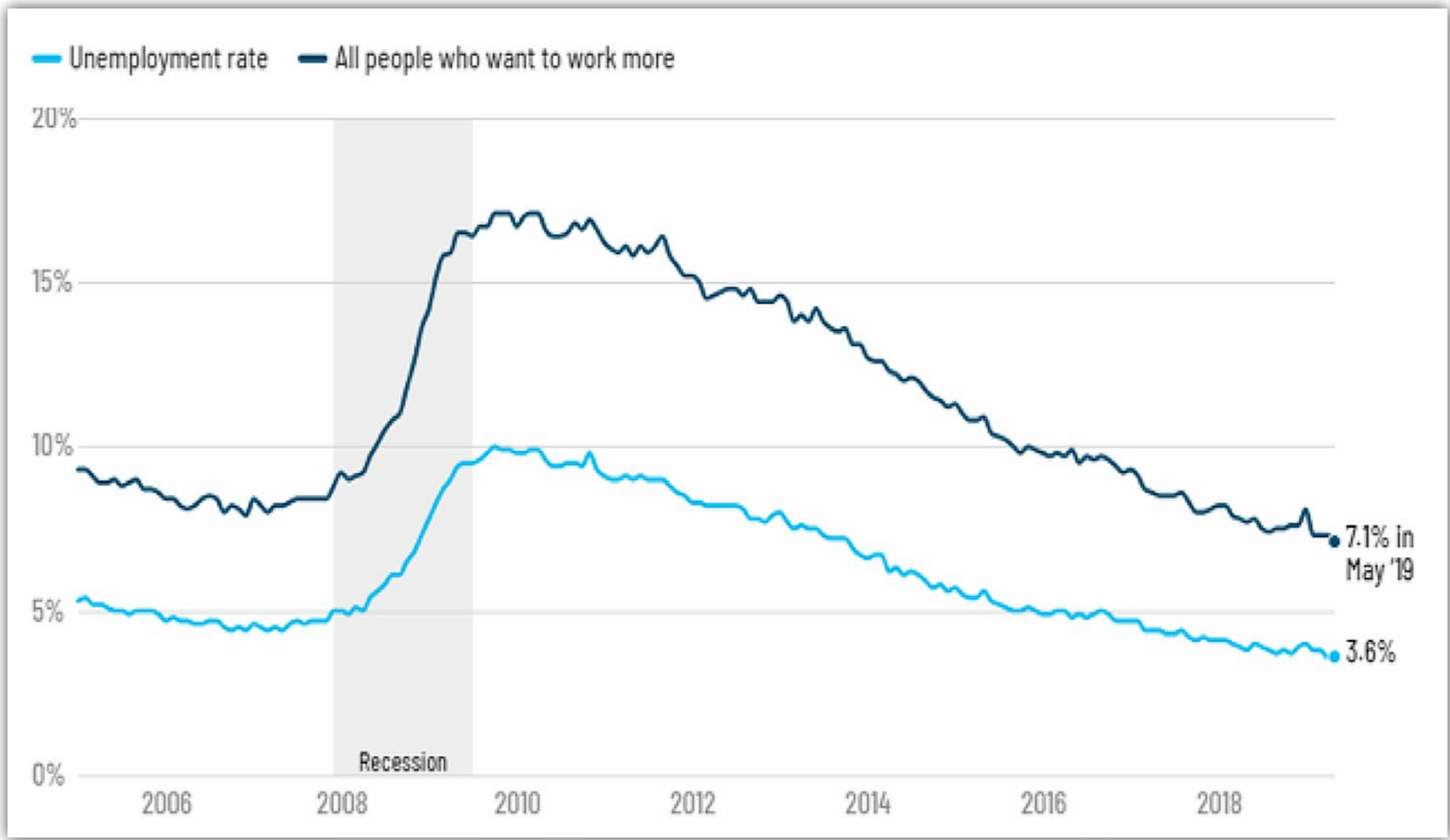
Unemployment at Record Lows

The U.S. jobless rate dropped to 3.6% this month, matching the lowest rate since 1969. The light blue line indicates the "official" unemployment rate, also known as U-3 unemployment. The dark blue line is U-6 unemployment. These are people that don't qualify for unemployment assistance. This could be due to being unemployed too long, trying to enter the workforce after graduating high school or college without success, a worker who is working in a job that they are overqualified to perform, or a worker who is not working the number of hours they wish to work.



Source: Bureau of Labor Statistics

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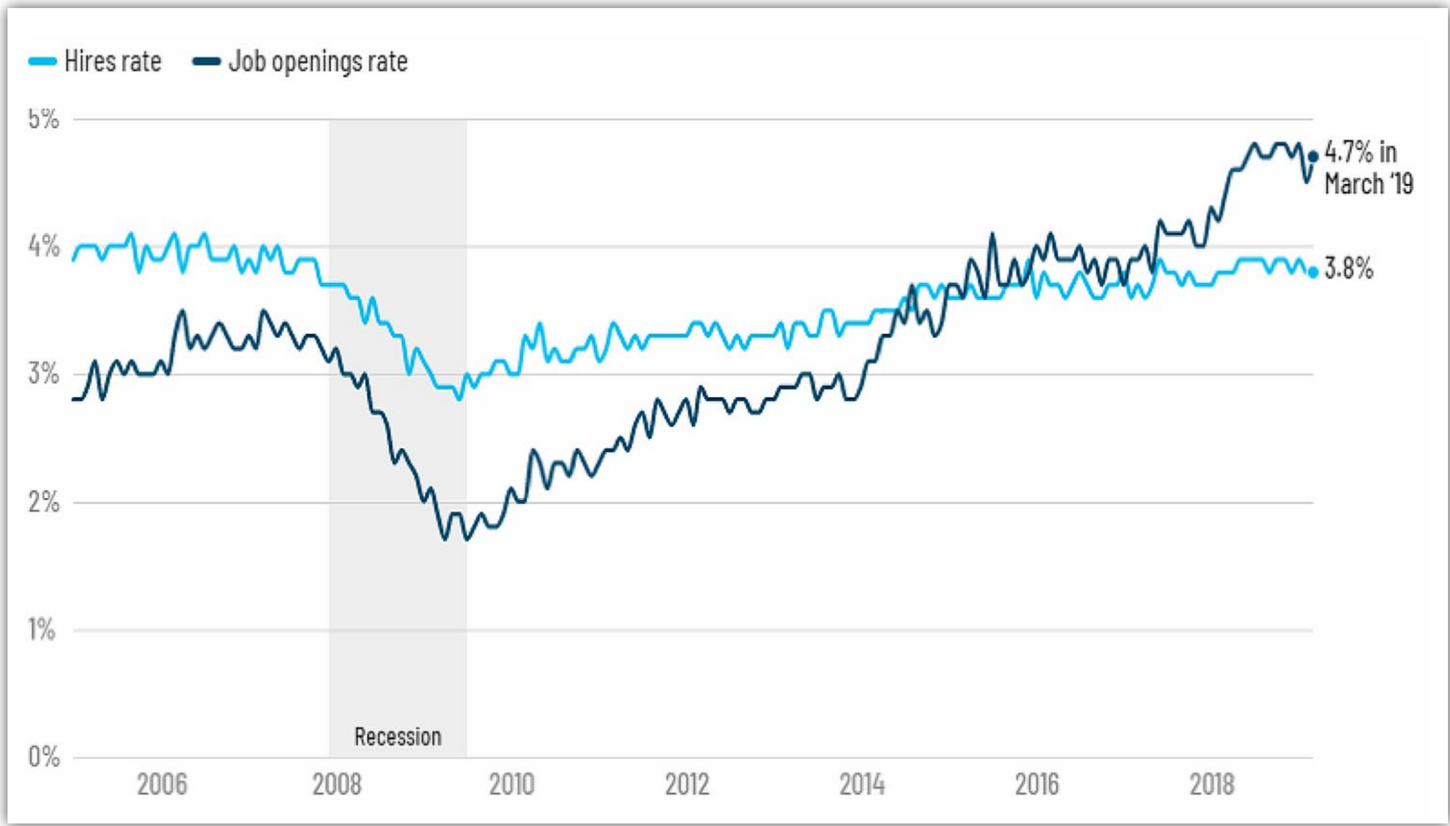
It appears that unemployment will remain low for some time, as the number of job openings currently exceeds the number of people unemployed (as seen in the chart below). This disconnect is due to geography and job seekers who don't have the qualifications to be employed in the positions that are available.



Source: Bureau of Labor Statistics

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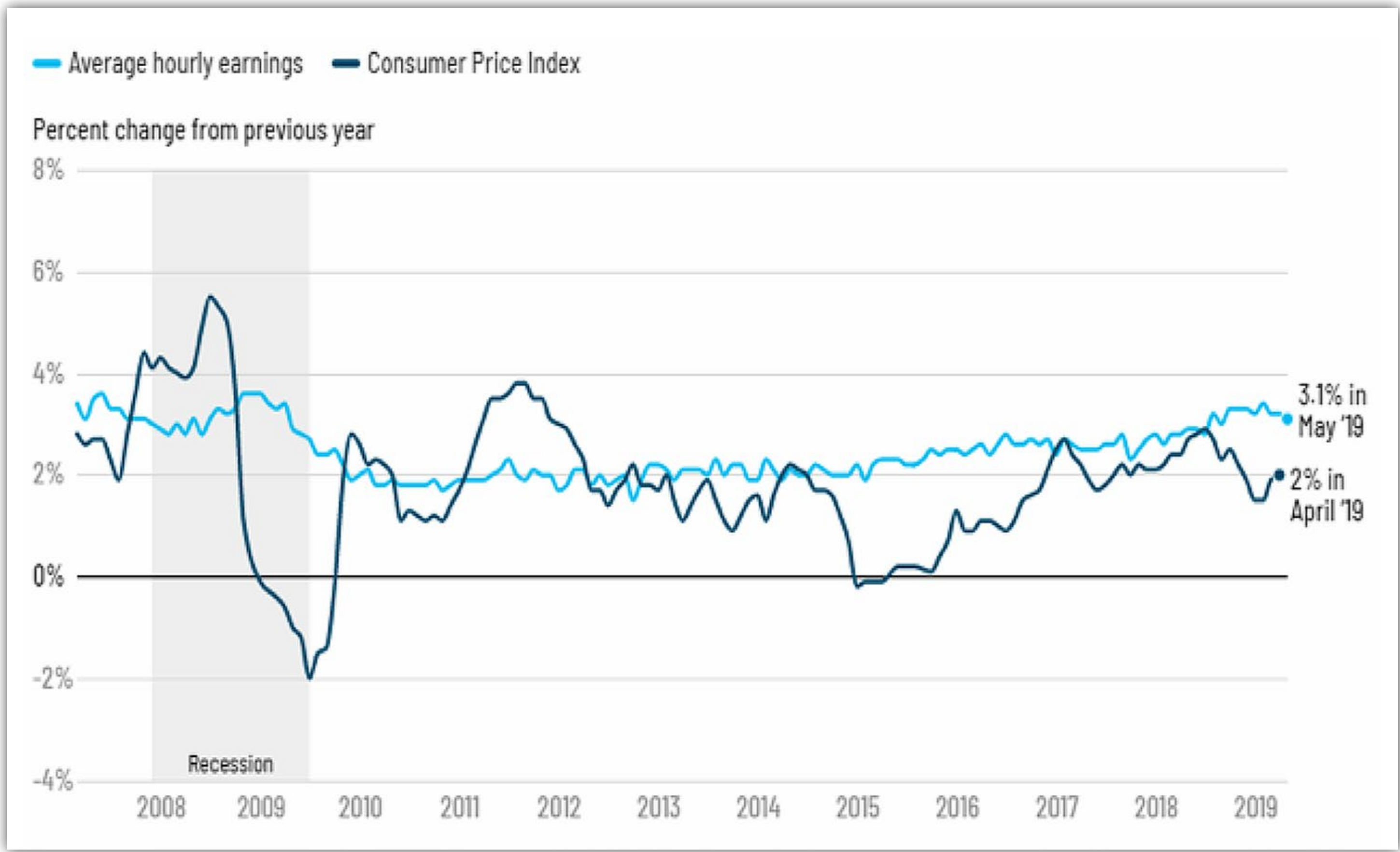
As a result, we are seeing steady wage increases. Current wage increases are higher than inflation, meaning that the average worker should have more money at the end of the work week. What will they do with this new-found money??? Most likely they will spend it. Approximately 70% of our GDP growth is due to personal consumption. More money being spent should reflect positively in our GDP growth.



Source: Bureau of Labor Statistics

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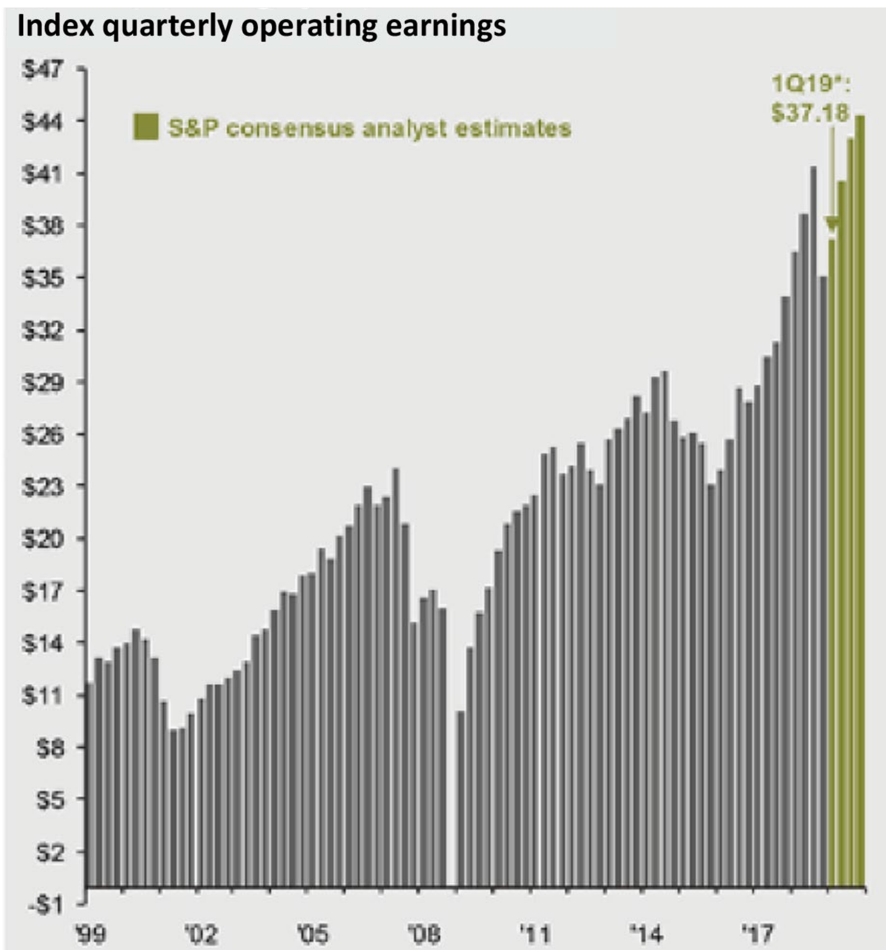
Corporate Earnings Growth

Analysts are expecting the earnings from companies that make up the S&P 500 to jump substantially over the next four quarters (see chart below). This should provide the S&P 500 a reason to move up and give it momentum going into the 2020 calendar year.

S&P 500 Earnings Per Share



Source: Compustat, FactSet, Standard & Poor's, JP Morgan

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Conclusion

Even with questions and concerns about the unknowns that linger, there is a good possibility that we will see a strong end to this year. A resolution to our trade war with China would lift a major cloud that is impacting economies all over the world. Even so, there are a lot of good things going on in the U.S. economy, which should translate into stronger corporate earnings and positive stock market price movement in the months ahead.

Obviously much of our assumptions are predicated on the end of our trade war with China. If our trade war continues throughout the year, or even worse… escalates, then all bets are off. You will see Polaris Greystone get very defensive with our strategies as we get evidence of the negative impact this would most likely have on the world's economies.

As always, I welcome all questions and comments. Please feel to reach out to me.

Sincerely,

Jeffrey J. Powell
Managing Partner & Chief Investment Officer

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