The Advisor
A quarterly publication from Ables, Iannone, Moore & Associates, Inc.

Market Update – *Second Quarter, 2019*

THE S&P 500 STORMED BACK during the first quarter of 2019 as it climbed from the depths of a nasty 19.8% correction. In fact, the 13% gain during the first quarter of this year was one of the best on record. Despite the warnings of a bear market and calls for a nearing recession, data throughout Q1 continued to refute the argument that the US economy was heading for dire straits. As Q2 of 2019 got underway the rally accelerated even faster, pushing up nearly 25% off its low on December 24, 2018, in just 4 months.

First quarter GDP came in at 3.2%, well above consensus estimates of 2.3% and the 2.2% in the fourth quarter of 2018. Per usual, adjustments to this number may be on the horizon but what is not to be missed is the US economy continues to expand. It is arguably expanding right in the sweet spot between too hot (inflation) and too cold (recession). You may often hear this referred to as a Goldilocks scenario.

The Fed continues to try and thread the needle with its monetary policy by allowing rates to remain accommodative without encouraging the consequences of runaway inflation. Chairman Powell confirmed the committee's dovish stance for 2019 by signaling a wait and see or more data driven approach. This was a shift for the Fed given their actions for most of 2018 could be characterized as significantly more hawkish. The shift in approach was likely driven by several factors but one certainly was the inversion of the yield curve, defined as short-term bond yields being higher than long-term yields. Historically, an inverted curve is an early sign of impending recession. However, as economic data remained in that sweet-spot of moderate expansion and inflation subdued, the Fed held rates steady and the curve returned to a slight but more traditional upward slope.

As we currently stand, inflation is not a material threat, nor is a 2019 recession. The same pundits and prognosticators who were proclaiming the end was near just a few months ago have been silenced as the market and economy continue to prove their resilience.

In our last newsletter we asked if 2019 was setting up for a recession and extraordinarily tough market conditions. We wrote:

***IN OUR VIEW** the answer is no. Our base case is we do not see an impending recession in 2019 and feel it is premature to de-risk away from equities. Fundamental and economic data provide evidence for a continued expansionary environment, albeit at a slower pace.*

We went on to provide context about the market's valuation:

The market selloff at the end of 2018 has reset valuation to a more attractive level … the S&P 500 is trading at a discount to its next 12-months earnings estimates.

And remember, those earnings estimates were being reduced almost daily, yet the extreme nature of the sell-off still presented opportunity.

That said, it is only prudent to ask the question, has this current V-shaped recovery happened too quickly? Is this move simply too much? Let's dig into some research from CFRA and see what history tells us.

There have been 22 bull-market corrections since WWII, which is typically defined as a decline of 10% or more – then reversing course and heading back to breakeven levels before declining again into a new bear market.

On average, the time it took to recover back to breakeven during those corrections was 3.8 months. It took roughly 4.2 months for this market. In other words, history would challenge the argument we've covered too much ground in too little time.

What's more striking – the average gain after getting back to breakeven has been 10% and that took about 4.5 months.

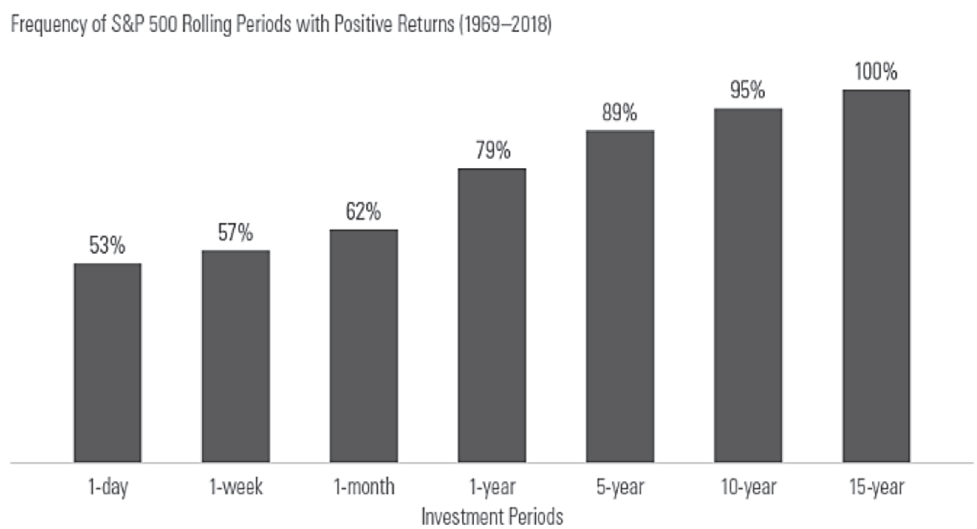
Looking at the sector returns inside this recovery we find it mirrors that of the previous bull-market corrections as well. The sectors that were hit hardest in the decline turn around and usually lead the run back up to breakeven. Consumer Discretionary, Energy, Industrials and Technology have done just that.

Are we saying the market will climb 10% from here? No, we are not. We are saying; however, stocks will go up and they will go down. It can become uncomfortable when they go down but panic and fear do not have to fill that void. When it comes to investing, our belief is the long-term view is clearer than the short-term view. We cannot stress enough the importance of maintaining conviction to the investment story.

Take a look at the chart to the bottom right from Goldman Sachs. It covers nearly 50 years and shows the frequency of S&P 500 rolling periods with positive returns. If charts are not your thing, what it illustrates is that the longer the period of investment, the higher the chance for positive returns. Why? Because equities reflect the future growth and earnings potential for any economy. Sure, there will periods of stagnation, contraction and recession. And yes, stocks will re-price to try and reflect those environments. But, over time, growth will return and there will be companies in position to reap the benefits and by extension their investors will as well. Bottom line – history is clear, staying in the game and having a strategy to navigate the various business cycles can pay off.

As always, thank you to our clients for the many referrals and allowing us to continue working to meet your needs. Please do not hesitate to contact us if you experience any material changes in your personal situation or would like to discuss any specific matters.

To our other readers, we take our role as fiduciary very seriously. If you would like a complimentary review of your investment accounts or any other financial matters, please do not hesitate to contact us. We will happily provide you with an unbiased opinion based on your specific situation.



Source: GSAM. As of December 31, 2018.

AIM Associates

Ables, Iannone, Moore & Associates, Inc.

A Registered Investment Advisory Firm

419 Montgomery Street
Savannah, Georgia 31401
Phone: 912-777-4128 • Fax: 912-777-5943
Toll Free: 866-815-6004, www.aimainc.com