

# "Cup of Joe"

Day after day, this unpredictable stock market continues to amaze even the most seasoned economists and market prognosticators. There have been yield curve inversions (when the short-term interest rates on government bonds pay more than the long-term interest rates) , trade war tweets, Hong Kong riots, fights between nuclear powers (India/Pakistan, North Korea, Russia), negative interest rates in Europe that actually make you pay the bank to hold your money (Germany), market crashes that recover in 4 months (the U.S. market fell 19.8% from its peak last fall through the end of the year), Central Banks around the world in a race to 0% interest on their respective government bonds, etc. And don't get me wrong, each one of these is interesting and "telling" in and of itself. And even with this immense amount of noise, I keep finding myself going back to the same question…if the market sells off, if we go into a recession, if and/or when this happens; where exactly are investors going to put their money? They really have no alternative to the stock market. With the largest baby boom in history starting to retire (the largest group, by far, born in 1957 are now turning age 62), these new retirees NEED to have a return on their money! How else can they live and enjoy life on a fixed income? And retirement is a very long time (30+ years). So, if bonds are paying a little over 1% and inflation is closer to 2%, where do you go to make money? It must go somewhere! The stock market appears to be the only game in town. So, any kind of pull back in our opinion, relatively speaking, would be short-lived.

Do we think we are going into an imminent recession? No. The economy is on solid footing. Could this trade war push us into a recession? Yes. Very simply, tariffs are taxes. And once these tariffs/taxes start affecting the consumer (whose spending makes up 70% of our GDP), then things start to unravel. Do we think the President will continue down this trade war path? No. The economy is too important with an upcoming election taking place next year. What we do see is a lot more "talking", but nothing of substance taking place. This won't have much effect on the markets but will hurt multi-national companies looking for some sort of direction so that they can position their capital expenditures appropriately.

But, for the sake of argument, let's set the scene. The trade war escalates, and global growth continues to wane. The Federal Reserve tries to lower rates even more, but it's too late. The market sells off. Investors are sitting in cash. Bond and CD rates are at 0%. Where does the average investor put their money?

- 1.) Bonds: Paying 1% with inflation near 2%? Will lose money when rates rise again? May even go to zero
- 2.) Cash: Paying 0%
- 3.) Gold: Paying 0%
- 4.) Stock Market: Paying over a 2% dividend yield, historically returned 6% over history (inflation adjusted)
- 5.) Real Estate: Let's hope the millennials move out of their parents' basements! Because if they don't, the real estate market isn't going anywhere. Although, I do agree that if rates get low enough, this could start a massive millennial housing boom. (Low mortgage rates would allow them to buy a house). Worst case, everyone refinances who didn't get to last time around.

To reiterate, the stock market is the ONLY GAME IN TOWN and it just happens to be right when the biggest baby boom in history is retiring. And no, I don't like this; but you have to think of the opportunity cost investors are facing. They need yield. They need to retire. And therefore, we remain optimistic for a longer-term time horizon, pure and simple.

For those on television yelping that this is the longest bull market in history, I would ask when the bull market stops and restarts again. The market crashed in 2011 (down 19.4%). It also crashed in 2018 (down 19.8%). Did any one of the talking heads on TV realize that occurred? How is this the longest bull market in history if we already had 2 crashes since the big crash??? 2008, 2011, 2018…all down 20% or more. So, from a bull market longevity case, I'm not buying it.

Long story short…

- 1.) Interest rates historically low…AGAIN (market is paying a huge premium).
- 2.) The consumer is strong. Look at Walmart and Target's earnings just released…everyone is in buying mode.
- 3.) Market valuations don't look expensive relative to interest rates.
- 4.) Low oil prices, even with Russia and the Saudi's restricting output. The U.S. is using less and producing more energy.
- 5.) Possible housing market revival (refinances, millennials, consumer spending boost).
- 6.) Global central banks are using accommodative policy AGAIN! Thus, stimulating their economies.
- 7.) Baby Boomers forced to stay invested for the foreseeable future.

While we remain cautiously optimistic, we are not dismissing the fact that volatility will remain. We also do not see the yield curve inversion as an imminent recession indicator this time around. What we do know is that the consumer remains resilient and we will be watching closely to see if this changes with the new round of tariffs coming down the pike. Although we may be going back to a 2% annual growth rate reminiscent of the last 10 years, the market doesn't seem to care as this secular bull market keeps on chugging along.

We hope all of our clients are having a great summer and a big thanks for all of the new referrals. We truly value your business!

Please note: If you have received this e-mail from a friend and wish to discuss an investment relationship with our firm, please feel free to contact us. Also, feel free to check out the interesting articles below!

*Disclosure: Chapel Hill Investment Analysts is long Disney DIS.

-Joe, Ryan, and the Chapel Hill Investment Team

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