Monthly Commentary

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Geopolitical Fog

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"The biggest business in America is not autos, steel, television", or apples. "It is the manufacture, refinement, and distribution of 'anxiety'." Such was penned by media legend Eric Sevareid (who was an American author and CBS radio and television news journalist from 1939 to 1977) when the "news" consisted of a morning newspaper and a half-hour of nightly national news. One would probably consider this a recently offered thought rather than from 1964. What might anyone say today about our constant barrage of "news"? News today seems more commentary and opinion in a wrapper called "news." A "geopolitical fog" of "news" is creating a directionless market; issues consist of - tariffs/trade; rise in oil prices boosting inflation expectations; the Fed raising interest rates too fast and/or too much; mid-term election year; Italy/Spain politics; not to mention North Korea or Iran; and etc.

Most recent media-inspired thoughts about economic anxiety stem from the idea that earnings growth is currently "too good" or "as good as it gets," and that we have nowhere to go but lower. This implies the December enacted tax cuts were a wasted effort and inflation will erode profits (as costs rise). Yet, we should remember that fiscal policy lags are notoriously long and variable. Further, media is more polar on the east/west coasts; and views vary by Red or Blue states – Reds are generally more "giddy" about US economic prospects. The contrarian view offers that the potential of tax cuts and fiscal spending stimulus will extend the current business cycle, making it one of the longest running ever; the best is yet to come. Interesting, investor sentiment is poor – this is one of the longest running Bull markets that no one believes in. Why? Answer – two Bear markets in 10 years AND the biggest business in America is "anxiety."

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Are we late in the current US economic cycle? From an historical age perspective, the current economic expansion is the longest running. It is very important to remember though, that age does not kill an economic cycle. Age does not kill a Bull market either. There was never a recession when corporate profits were rising or growing. Recessions occur on average 17 months after the yield curve inverts (short rates are higher than longer maturity rates; which is not the current experience). The current yield curve is flattening, but not inverted. Additionally, consumer confidence is still high and rose in May. It too provides a leading look on the economy - when it falls off sharply, a recession starts about 12 months later, on average.

May was the 111th month of the current Bull market (started March 9, 2009). May was a positive month for the US market, for funds, and client portfolios. The average diversified US-stock fund provided a return for the month of +2.9%, and a YTD return of +2.8%. All three major domestic stock indexes rose in May, with the S&P500 advancing +2.4%. International stocks slipped -1.2% for the month but bond funds were up overall. While the advance did not return the indexes to their January 26 high levels, the correction (involving 3 components of price, time and sentiment) appears progressing toward its end. Investors should not overreact to political happenings or one-day events. We should remain focused instead on underlying economic growth and inflation developments which influence interest rates and stock prices. Long-term investors are rewarded for their continued investment discipline. *(continued on pg2)*

Style	May	YTD
Small-Cap Stocks	+4.8%	+4.1%
Avg US Stock Fund	+2.9%	+2.8%
Mid-Cap Stocks	+2.5%	+1.1%
S&P 500	*+2.4%*	*+2.0%*
Large-Cap Stocks	+2.0%	+1.2%
Barclays Bond Idx	+0.7%	-1.5%
Foreign Stocks	-1.2%	-1.0%

Client Objectives (Stocks/Bonds)	May	YTD
20/80	+0.6%	-0.3%
35/65	+0.8%	-0.1%
50/50	+1.1%	+0.1%
65/35	+1.2%	+0.6%
80/20	+1.3%	+1.3%
95/5	+1.5%	+1.8%

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The basic building blocks of the Bull market that started 9 years ago remain in place. Company earnings and economic growth appear robust and inflation remains tame enough that the Fed does not need to rush to normalize interest rates. It would appear the greatest risks to the market relate to the US fiscal health and the prospect of "free trade." Watching the bond market and yield curve would suggest investors are not currently overly-concerned about the US fiscal health. While the media tries to manufacture "anxiety," it does not appear we are particularly late in the business cycle. Tax cuts + corporations' ability to immediately expense investments in plant, property & equipment (for 5 years) + a territorial tax system that repatriates (frees-up) $trillions in foreign profits = all provide huge incentive for businesses to reinvest (capital spending) in their own business. This should keep business and consumer sentiment running positive.

Economic fundamentals outweigh the effects of tariffs. We shared this thought in our 1st quarter newsletter, Nvest Nsights, in the article "Some Smoke, Little Fire (Tariff Talk)," about market reactions to tariffs. Recall, fiscal policy stimulus (items already approved), dwarfs *proposed and threatened* tariffs by a factor of 10 ($800 billion to $80 billion). The implementation of tariffs would be a negative for growth, but not enough to derail the current environment on their own. The bad issue though, trade policy uncertainty and inconsistency could stall stocks from fully reflecting their real value during a strong economic environment. The big challenge for government – it is always easier to give citizens new programs and stimulus, than it is to take it away. Can businesses and consumers/ investors withstand trade pain longer than other countries? Trump believes he can withstand trade pain longer than other countries, and eventually force reforms that result in better deals for America long-term; the US owns the size and economic strength to press its leverage. Yet resolution could take years and that heightens the risk of a policy mistake occurring.

Therein lies the essence of "geopolitical fog" and uncertainty; it can create a directionless market. It's also likely the stock market makes small or little progress with ups/downs that can provide for weary investor sentiment. A veteran strategist Ed Yardeni (formerly chief strategist for Prudential Bache Securities and founder of Yardeni Research) remains bullish. He believes "it is important to be an investor and avoid letting one's own political and economic views color one's outlook." Most amazing to a long-term veteran of the wealth advisory industry, is watching clients' financial success accrue when they adhere to pursuing long-term goals and investment processes. Their financial achievements come from disciplined regular saving and staying invested. They learn that *compounding returns* and *time* are THE two greatest allies for success. We often advocate to a client, when they contemplate changing to a more conservative investment objective, to keep *time* their greatest ally. Don't give time away. Five years from now (after getting conservative too early), one cannot go back to retrieve time.

Nvest Wealth Strategies endorses long-term disciplined saving and investment leading to achieving personal financial goals and objectives. Our process, over many years, proves the merits of "time in the market" compounding of returns. Resist losing focus and direction because of too much "geopolitical fog" and "news" that distracts.

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