DFM
DIVERSIFIED FINANCIAL MANAGEMENT

80 Washington Street • Building E-13 • Norwell, MA 02061
781.792.0440 • Fax 781.792.0606
dfm@dfmwealth.com

INVESTMENT SUMMARY

2nd Quarter 2019

Stocks around the world climbed higher in the second quarter, adding to what has been a banner year for equity investors. Global economic conditions continue to look promising, with the U.S. economy in particularly good shape thanks to low interest rates and high consumer confidence. Many equity benchmarks, including the S&P 500, established new highs in the quarter, even as GDP growth was slowing from last year's torrid pace of 3% plus. In June's employment report, we learned that 224,000 new jobs were created – a very strong number given that the U.S. unemployment rate is already near a fifty-year low.

As GDP growth has moderated in major economies around the world, Central Bankers are responding to the slowdown with talk of monetary stimulus. The Jay Powell led Federal Reserve Bank will be holding their next meetings on July 30th and 31st, and the market is expecting the first of two possible rate cuts in 2019. While investors appear to be pleased by the looming prospect of lower rates, this pivot in Fed policy is controversial given that many key segments of the economy (i.e., jobs, real estate, stock prices) are still in terrific shape.

Looking ahead, some respected economists see a 40% chance of recession in the next twelve months and are lowering their 2019 growth expectations for the U.S. economy to below 2%. A key motivation for these downgrades is the ongoing trade disputes, with the U.S.–China negotiations being of the greatest concern. While overall business and labor market conditions are still favorable, the upcoming corporate earnings announcements will shed more light on the true health of the global economy. With investors expecting world-wide corporate profit growth of 5% in the year ahead, companies will be best served to exceed those expectations in order to keep the Summer stock rally intact.