Market Brief

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CBL WEALTH MANAGEMENT
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Market Snapshot

Closing Values as of 07/31/2019

Dow	26,864
S&P 500	2,980
Nasdaq	8,175
Gold	$1,420

Economy

Despite fears earlier this year that the economy would weaken and slow as a result of the trade war and resulting tariffs, key economic indicators show the U.S. economy is still stable and growing. The GDP growth rate has slowed some but continues to show growth above 2%, consumer sentiment is positve, unemployment remains very low and there isn't very much inflation (or deflation)...all good news. One glaring weak spot has been wage growth but there may be more to that story than meets the eye.

There is no question the U.S. Economy remains strong, the question is, how much longer can it remain that way while the world economies are weak and growing weaker. Political in-fighting, unresolved trade issues and a variety of geopolitical uncertainties weight heavy on the prospect of a long lasting U.S. economic expansion.

Outlook

The shorter term economic outlook remains generally positive. Most agree a recession is unlikely to occur for a year or more, some project 18 months or more. Recessions typically happen with little warning so I am unwilling to agree with any projections beyond six to nine months. However, I wouldn't underestimate the political will and determination of our President to maintain economic expansion until after the elections.

With no evidence of recession on the horizon and political gridlock a virtual certainty through 2020, I think the markets still have some room to grow, perhaps as much as 5-8% more this year. This does not mean we wont see one or more pullbacks or even a more significant correction at some point in the next 6 to 9 months as the market digests new information.

Risks

U.S. Corporate debt is on the rise, with an increasing amount being used to fund stock buy-backs, but there has been little change in corporate default rates. Provided rates stay low and the markets aren't subject to sudden shocks there is no reason to expect "crisis" like repayment issues in U.S. corporate debt. High levels of leveraged buy-backs tend to push markets higher and often occur near the end of market cycles. The increase in leveraged buy-backs may be an indicator of the market nearing its peak.

One area of increasing concern has been the increase in "unrated" debt. Unrated entities are like the canary in the coal mine. They are the ones that start to default first, before you see trouble happening among rated entities, because they are the weaker link. The availability of cheap credit fueled by low global interest rates has led to a higher number of these smaller unrated companies taking on more debt to invest in higher risk/lower profit margin projects. Recent studies have shown an increase in default risk for a segment of these un-rated entities. Unrated entities in China and the U.K. are particularly at risk of a sudden spike resulting from slow downs resulting from trade disputes and Brexit.

Another area of significant concern is the growth in global debt. After decreasing last year, the world's debt rose by $3 trillion in the first quarter of 2019 – an unprecedented borrowing binge that brought the total global debt to $246.5 trillion. Not only is this number unbelievably high, it represents a staggering 320% of the global GDP (Compared to the U.S. debt to GDP ratio of 10%). High levels of debt put countries in a vulnerable position in the event of a downturn. For some low-income countries debt sustainability is already at risk and there is growing concern that further easing by central banks around the globe will prompt these countries to issue even more debt.

Whether it is global sovereign debt, unrated corporate debt or massive student loan debt, the next major issue we face is going to be the cheap debt time bomb. Solving "debt problems" is not easy and is not the kind of thing that can be done in a vacuum or by pandering politicians. Debt will play a role in our next recession but I don't imagine it will be the catalyst so much as it will feed the fall and be the source of pain.

Recommendation

If you are expecting to retire in 1-2 years you might consider systematically reallocating some assets over a 6-12 months period so that at least one year's worth of income you expect to spend in retirement is in a conservative fixed income position. Doing this can help protect against sudden market declines immediately prior to retirement and retiring into a declining market. This can be done by changing how your regular contributions are allocated or by systematically rebalancing your account.