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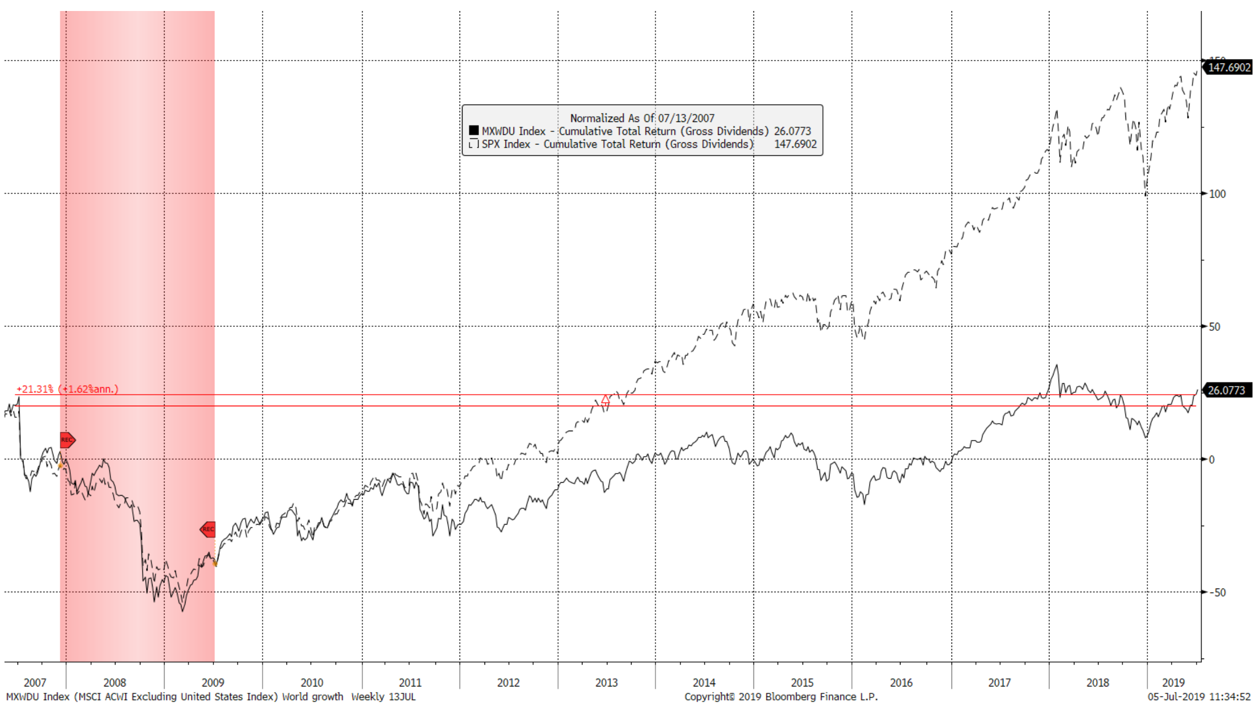
American National Bank & Trust

2019 2nd Quarter Market Commentary
July 5th, 2019

Wow, what a quarter! June had its best return for the S&P 500 since 1955, up 4.3%, and the 2nd quarter was the best since 2014, up 4.6%. In addition, the S&P 500 was up 18.5% for the first 6-months of the year. What's not to like! Even the treasuries got into the rally with the 10-year dropping 40bps to yield 2.0%. As we celebrated the 4th of July the economy celebrated 10 years of uninterrupted economic growth while the rest of the world has been beaten up by a bear market that has lasted 12 years. So much for the evils of capitalism.



Since the eve of the financial crisis, world equities excluding the U.S have gained 26.1% versus the total return for the S&P 500 of 147.7%. The red column denotes our last recession. The U.S. recovered but the rest of the world has not recovered. Why are we doing better than the rest of the world?

- Our economy has outgrown our trading partners by a significant amount. According to Bloomberg, U.S. GDP grew 34% since the beginning of 2008 compared to Japan at 7%, the Eurozone at -2% and the UK at -15%.
- The U.S. dealt with the financial crisis by reducing bank leverage, while European banks still have excess debt limiting their ability to lend.

- The U.S. FAANG stocks; Facebook, Apple, Amazon, Netflix and Google might be domiciled here, but they have disrupted the rest of the world with a globalized world.
- Lastly, I would add that Congress and the Executive branch have not been able to pass meaningful legislation since 2009 other than the failed health care plan and the tax cuts. No laws being passed is usually good for the economy: situation normal.

Considering how we started the year, the bears have been licking their wounds lately. Fortunately, we have been leaning in to equities this year. As we stated in May, we are cautiously optimistic. Interest rates are low, employment strong and GDP remains positive.

Speaking of interest rates, we would anticipate other central banks will be lowering interest rates. Unfortunately, their long bonds have yields below the official overnight rates of central banks. In fact France, Germany, Sweden, Netherlands, Switzerland and Japan have negative yields for their 10-year bonds. So when you buy those securities, you are guaranteed a loss. That investment philosophy does not make for a long-term investment career.

According to the *Stock Trader's Almanac,* July is normally the best month of the third quarter as new retirement funds flow into the market. Even if the historical experience is positive, we will be watching corporate earnings for a slowdown since earnings drive stock prices. Please call with any questions or comments.