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American National Bank & Trust™

Roller Coaster – Market Comment
July 2019 Recap
August 14th, 2019

The month of July ended on a positive note as the S&P 500 closed at 2980 - a monthly return of 1.4%, year to date a return of 20.2% and a one-year return of 8.0%. Sounds pretty good, especially considering what happened in the 4th quarter of 2018. In addition to equity returns, an aggregate investment grade bond index, the iShares Core U.S. Aggregate ETF (AGG) returned 0.2% for June, 6.0% year to date and 7.9% for one year. Overall, equities and bonds both contributed to our accounts' total returns for June.

To graphically illustrate movement in the S&P 500 Index, below is a one-year graph of the index with the lowest and highest points annotated with the percentage change. This graph depicts the recent volatility and how the index has remained roughly flat for the last year.

For all the good news in July, August has been more challenging, having been hit with multiple issues that directly and indirectly impact the markets. Most recently the markets have been contending with a giant wall of worry. Consider the following:

- The bond market is signaling a looming recession for the U.S.
- Global markets are preparing for Armageddon with negative bond yields.
- The safest markets, bonds, are priced for bad outcomes.
- Trade talks with China have basically collapsed.
- Geopolitical risk is increasing, i.e., China's response to Hong Kong, Iranian oil interference, Russia's renewed military aggression, North Korea missile tests, among other worrisome events.
- Democratic primaries continue to push their candidates to the far left.
- President Trump continues to Tweet at all hours.
- Multiple senseless mass shootings have occurred in the U.S.

It reached the point to which all I wanted to do last weekend was watch HGTV and Wicked Tuna or listen to classic rock.

However, for all of the bad news, there are some interesting themes emerging. With lower interest rates, corporations will be issuing more debt which will increase credit risk but provide a tailwind for equities. In addition, stock buybacks and corporate acquisitions, from the cheap debt, will reduce the supply of equities. Not only is our central bank accommodative, but central banks around the world are in the same spot. This accommodation could cause the equity market to melt up as well as cause other risky assets to appreciate.

As we have stated before, we are cautiously optimistic. So far, August has tested our optimism as the S&P 500 has declined -3.2%, the AGG has increased 1.8% and gold is up 7%. It is not uncommon for August to be a rough month, and so it could be choppy for a while. However, we remain wary because we are not out of the woods yet.