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CAPITAL MANAGEMENT GROUP

The Hefter Report – August 2019

On the morning of August 1st, the US stock indices were near record highs with the Dow Jones Industrial Average up 15.47% YTD to 26,583. But then later that day, President Trump sent the markets tumbling with his tweet declaring a 10% tariff on the remaining $300 billion in Chinese goods being sent to the US. The Dow plunged 700 points after the annoucement, closing down 400 points on the day.

Since then, due to the strong dollar and new tariffs, we have been lightening up on international securities and generally lowering overall risk. Until that tweet, the general consensus seemed to be that, with an election in 2020, Trump would continue the trade truce with China. It's been reported Commerce Secretary Wilbur Ross, Treasury Secretary Steve Mnuchin, and Economic Advisor Larry Kudlow all argued for that strategy. Only hawkish US Trade Representative Peter Navarro made the case for imposing new tariffs. Unfortunately, it appears the President listened to Navarro.

Between the time of his initial tweet and his follow up announcement of a partial delay on tariffs for some goods, the DJIA dropped an additional 6.2%. The damage from international trade uncertainty has continued to spread across global economies. By Wednesday, August 14th, the US 2 year note had fallen below the 10 year for the first time since 2007. Such an inversion is often a harbinger of an upcoming recession.

Historically, August and September are the weakest months for the US stock market. Considering all these factors, we remain cautious in the near term but still believe the secular bull market remains intact. Stock market indices could be higher by year end and higher still going into the 2020 election. Technical indicators provide support for the S&P 500 at the 200 day moving average at 2794, (approximately 1.6% lower than the August14th close). Additional support levels are at the May 2019 closing low of 2745. We will consider investing cash should the market reach those levels.

We still anticipate that trade war tensions should ease prior to November 2020 while interest rates and inflation will likely remain low. Until a trade deal is reached we remain overweight the US markets relative to the global equity index, which is down 1.12% over the past 12 months. Typically our favorite managers are those who invest in companies that are expected to increase dividends and grow earnings. With global interest rates at historically low levels, we believe the hunt for yield will continue, in turn benefiting equities, preferred stocks, high yield municipal bonds and global diversified bond funds.

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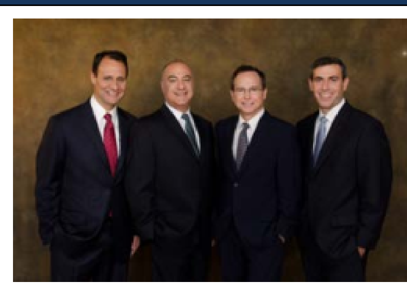

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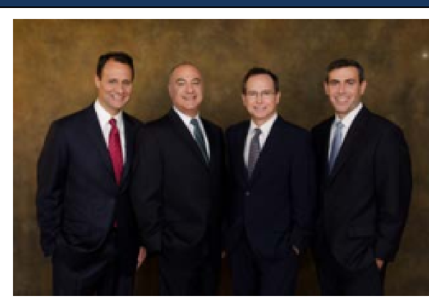

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