

While global growth slows, the Fed offers a boost

In a highly anticipated move, the Federal Reserve (the Fed) lowered short-term interest rates by 0.25% and left the door open for future cuts, shares Raymond James Chief Investment Officer Larry Adam. The mid-cycle adjustment was taken to insure against the downside risks surrounding trade policy, to offset the impact of slower global growth and to move inflation toward the Fed’s goal, reports Raymond James Chief Economist Scott Brown. U.S. growth should still advance at a moderate pace in the second half of 2019, although slower than in recent quarters, says Brown.

As trade disputes continue, Washington Policy Analyst Ed Mills believes President Trump may threaten to devalue the U.S. dollar in an attempt to enhance its competitiveness relative to other currencies, particularly the yuan and euro. His decision will likely be influenced by the direction of trade negotiations with China and the European Union, any easing by the European Central Bank (ECB), as well as the Fed’s rate policy decisions through the end of the year, explains Mills.

The S&P 500 was off to its best start of the year since 1996, shares Adam, and all major indices (i.e., Dow Jones Industrials, S&P 500, NASDAQ) reached new record highs in July. Primary catalysts for the positive momentum have been a better than expected earnings season and dovish global central bank policy.

July ended positively for the S&P 500 (1.31%), Dow Jones Industrial Average (+0.99%), NASDAQ (+2.11%) and the Russell 2000 Index (+0.51%).

| | 12.31.18 Close | 7.31.19 Close | Change Year to Date | % Gain/Loss Year to Date |
|--|----------------|---------------|---------------------|--------------------------|
| DJIA | 23,327.46 | 26,864.27 | +3,536.81 | +15.16% |
| NASDAQ | 6,635.28 | 8,175.42 | +1,540.14 | +23.21% |
| S&P 500 | 2,506.85 | 2,980.38 | +473.53 | +18.89% |
| MSCI EAFE | 1,719.94 | 1,899.97 | +180.03 | +10.47% |
| Russell 2000 | 1,348.56 | 1,574.61 | +226.05 | +16.76% |
| Bloomberg Barclays Aggregate Bond | 2,046.60 | 2,173.33 | +126.73 | +6.19% |

Performance reflects price returns as of 4:00 p.m. ET on 7.31.19

Here is a look at what’s happening in the markets both here and abroad, as well as key factors we are watching:

Economy

- The May 10 increase in tariffs on Chinese goods appears to be slowing overall growth somewhat, says Brown. Supply chains have been disrupted and trade policy uncertainty has been a negative factor for capital spending.
- He notes that the U.S. economy advanced at a moderate pace in the second quarter, although activity was mixed. Consumer spending growth rebounded, supported by continued job gains and wage growth. Business fixed investment declined, with weakness in business structures (including energy exploration) and in transportation equipment, which reflects problems at Boeing.

Equities

- Short-term momentum remains solid, report Michael Gibbs, Managing Director of Equity Portfolio & Technical Strategy, and Joey Madere, Senior Portfolio Strategist, Equity Portfolio & Technical Strategy, supported by improvement in cyclical sectors such as semiconductors, transports and banks.
- Madere and Gibbs recommend selectively adding to equity portfolios with a focus on accumulating stocks showing fundamental and technical momentum after reporting earnings.

Fixed income

- Treasury prices fell slightly for the month resulting in somewhat higher yields across most of the Treasury curve, reports Doug Drabik, Senior Fixed Income Strategist. He adds that the 10-year Treasury remained inverted compared to shorter-term Treasury bills (six months and shorter).
- While investors may be tempted to remain very short in duration due to the flat yield curve and low interest rates, Drabik reminds that longer duration bonds are more negatively correlated to stocks and other growth assets and could provide a better hedge to portfolios weighted heavier in those assets.
- While during low interest rate periods, alternatives to individual bonds are often shown as income substitutes, he believes restrained investing is necessary.

International

- Overall, valuations in the equity markets outside of the United States remain lower and typically offer higher dividend yields, too – a diversification opportunity for investors over time, explains European Strategist Chris Bailey. This could change with deterioration in either global trade talks or regional matters, such as Brexit.
- The British pound fell to a new two-year low against the dollar in July, reflecting enhanced concerns over new U.K. Prime Minister Boris Johnson’s “no deal” stance, says Bailey, although further negotiations could follow.
- The European Central Bank (ECB) left Eurozone monetary policy unchanged despite further evidence of a deepening local slowdown. However, ECB Chief Mario Draghi has signaled that the central bank would use whatever tools necessary to shore up the Eurozone economy amid increasing headwinds, shares Adam.
- July saw a near three-decade low in Chinese economic growth. While the government has shrugged off the slump, authorities did seem more troubled last month by political instability in

Hong Kong, Bailey reports. Further, trade talks between China and the U.S. resumed, however President Trump has made comments suggesting a deal is unlikely before 2020.

- Diplomatic relations have tensed between Japan and South Korea due to long-held differences on the former's Second World War actions and lack of apology, Bailey noted.

Bottom line

- As trade negotiations and global affairs progress, we'll be keeping an eye out for movements that might particularly affect investors and their financial plans.
- There are opportunities for diversification in global equity markets, thanks to lower valuation and typically higher dividend yields, and Madere and Gibbs recommend keeping an eye on earnings reports to put cash to use by selectively adding fundamentally sound stocks to your portfolio. With a positive intermediate-term market backdrop, they would also use any normal pullbacks as buying opportunities more broadly.
- Drabik recommends higher-quality credits, as yield variances between credit ranks are narrowing. Narrow yield differences between fixed income sectors allow investors to upgrade within a portfolio, swapping weaker credits for stronger ones, he explains.

Please let me know if you have any questions about recent market events or how to position your long-term financial plan for the months ahead. I look forward to speaking with you.

Sincerely,

(Financial Advisor Name), (Designation)

(Approved Title)

(Branch Postal Address)

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc., and are subject to change. Past performance is not an indication of future results and there is no assurance that any of the forecasts mentioned will occur. The process of rebalancing may result in tax consequences. Economic and market conditions are subject to change. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small cap securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing. An investment cannot be made in these indexes. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small and mid-cap securities generally involve greater risks. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in

an individual sector, including limited diversification. The performance noted does not include fees or charges, which would reduce an investor's returns. Asset allocation and diversification do not guarantee a profit nor protect against a loss. Debt securities are subject to credit risk. A downgrade in an issuer's credit rating or other adverse news about an issuer can reduce the market value of that issuer's securities. When interest rates rise, the market value of these bonds will decline, and vice versa. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The yield curve is a graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. Chris Bailey is with Raymond James Investment Services. Material prepared by Raymond James for use by its advisors.

Any information provided in this email has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial Services and is not a complete summary or statement of all available data necessary for making an investment decision.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by email, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. Email sent through the Internet is not secure or confidential. Raymond James Financial Services reserves the right to monitor all email. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in this email. This email is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.

©2019 Financial Advisors offer securities through **Raymond James Financial Services, Inc.** Member [FINRA/SIPC](#) and securities are not insured by credit union insurance, the NCUA or any other government agency, are not deposits or obligations of the credit union, are not guaranteed by the credit union, and are subject to risks, including the possible loss of principal. First Tech Federal Credit Union and Addison Avenue Investment Services are not registered broker/dealers and are independent of Raymond James Financial Services. Investment advisory services offered through Raymond James Financial Services Advisors, Inc.