Monthly Commentary 5th July 2019

June was a strong month for equity markets, as they made up most of the large losses from May. World equities, in aggregate were up more than 5%. Bonds were also exceedingly strong with yields on both government and corporate bonds falling sharply. Commodities also rallied, with the US Dollar being one of the few losers for the quarter.

Sell in May (repeat)?

Last month, we asked whether one should sell in May. Indeed, if investors had sold risk assets on May 1st they would have looked really smart by the end of May. We mentioned that market timing was almost impossible and made a case for buy-and-hold. As it turned out, if one had not sold in May, as we advocated, they would not have realized any losses.

Bonds on a roll

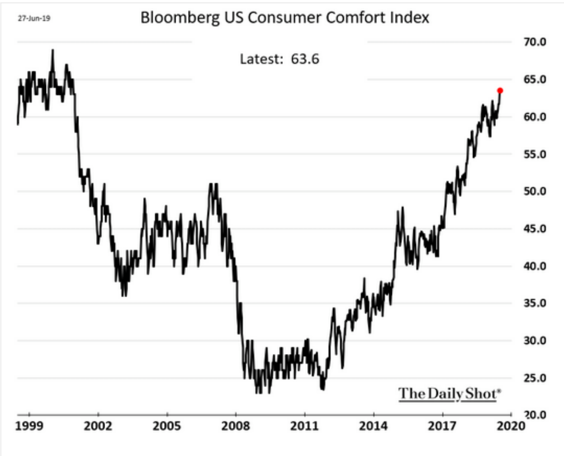
Bond yields have fallen quite dramatically once again. The graphic below shows that the “long” bond – that is the 30-year US Treasury has performed better than the US market in the last 20 years! This is a staggering statistic and goes against conventional financial theory.

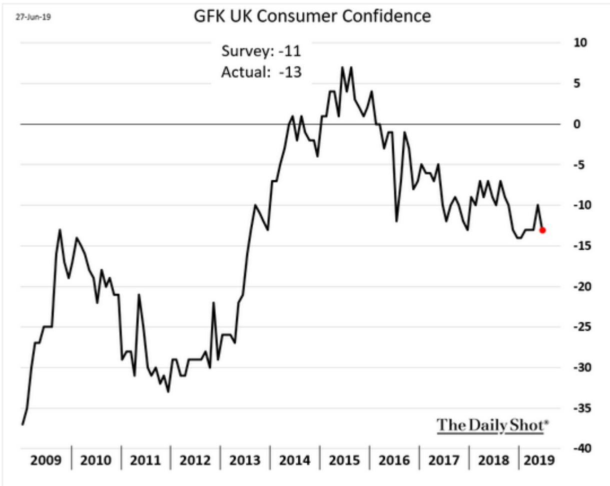
Source: @LizAnnSonders, @bespokeinvest

Can this continue? Possible for a while, but the fact is, the average yield on $57 Trillion of bonds is now less than 1.6%. That does not leave too much runway for bonds to rally meaningfully from here.

Consumer confidence in the US - EURO AREA – UK

Below are measures of how confident the consumer feels in each region. While in the US and the Eurozone, confidence is close to multi-year highs, in the UK the picture is bleaker. We wonder why?





What's in store for the second half of 2019?

It has by all accounts been a very strong first half in the markets, once again defying the bearish outlook of many financial pundits at the end of last December. While investor sentiment is still not exuberant (good for markets), and the US Federal Reserve is poised to become more accommodative (very good for markets), markets will still do what they do without Elgin's opinion, or for that matter without asking any of the powerful men and women on Wall Street.

It would be great to have a repeat, but one should not count on it and it might be prudent to temper expectations for the next quarter's performance. In short, our answer is "we don't know".

The Elgin Analysts' Team