Quarterly Insights July 2019

What a difference six months can make. After a challenging late 2018, the first six months this year proved to be the best in 22 years and 10th best since 1926. And if that wasn't good enough, bonds also experienced stellar performance. U.S. stocks continued outpacing foreign stocks +18.54% versus +13.56%. Similarly, U.S. bonds were up +6.11% versus foreign bonds +5.25%. One reason investor confidence improved across the globe is that many central banks, including the U.S. Federal Reserve, are changing policy from pausing further interest rate hikes to lowering once again. Such action alleviates many investors' greatest fear…choking economic prosperity that can eventually cause another recession. The Fed is now signaling to global financial markets a quarter point interest rate cut during its next meeting on July 30th and 31st. Investors are well aware that financial markets often follow central bank policy…lower interest rates are intended to stimulate an economy, hypothetically beneficial to both stocks and bonds.

Although The Investment Counsel Company was among a minority in formally stating at the beginning of this year that achieving outsized gains had a higher likelihood than most others believed possible, historical market cycles provided some clues. If past trends continue to prove indicative of future performance, the stock market can attain further sizable gains before the longest bull market in history ends. Contrary to this outlook, Duke University's recent survey of Chief Financial Officers across the U.S. reports that two-thirds believe a recession will begin in 2020. CFOs know their company's capital spending and employment plans in advance. This survey has been a reliable indicator because receding corporate profits (and economic growth) are often the cause of bear markets.

The current U.S. Treasury inverted yield curve, with three-month T-Bills yielding more than 10-year T-Bonds, leads many to draw the conclusion that the economy will soon fall into recession. Although inverted yield curves have occurred around every recession, correlation does not equal causation. In reality, recessions occur only about 10% of the time. Inverted yield curves only represent investors' market outlook, given their feelings on investment, economic and political opportunities and concerns. One possible resolution…the Federal Reserve has considerable influence in correcting this disparity by lowering short-term interest rates to levels below long-term yields. Coincidentally, financial markets are now anticipating that the Fed will likely lower the Fed Funds Rate three times during the remainder of this year.

Other indicators used to predict recessions, such as the nation's economic growth rate and unemployment rate, reveal more about the past than the future. Nevertheless, investors question how the U.S. can be headed for a recession when economic growth is healthy and employment is at full capacity. In the U.S. there are seven million unfilled jobs and six million unemployed. Never in America's past have we enjoyed such robust employment. Investors also tend to overlook that there are many degrees of recessions, from severe to a mild soft landing. Likewise, it is worth remembering that the impact to global financial markets can vary dramatically as well. Similar to other aberrations throughout history, it often proves beneficial to ask "Is this time different?"

10000 W Charleston Boulevard, Suite 280 Las Vegas, NV 89135 Tel 702.871.8510 www.iccnv.com

One concern that is widely ignored is when bear markets are the result of self-fulfilling prophesies. In other words, sometimes the cause of bear markets is when investors react to the possibility of future negative conditions, even though these circumstances never materialize to the degree anticipated. Such change in investor sentiment leads to increased selling of growth assets, like stocks, some corporate bonds, and real estate, depressing both prices and liquidity. Investors are not presently concerned with a No-Deal Brexit, but instead, further Trump trade war escalations with China and other nations. In contrast, we believe that company valuations will be the largest influence determining the stock market's performance in the years to come. All major asset classes (stocks, bonds and real estate) are trading at valuation levels that may leave less profit potential in the future. Fortunately, valuation levels are not close to bubble territory, nor is investor optimism at excessive levels indicative of high-risk market conditions.

Since no one has yet shown the ability to consistently predict the future, understanding counterarguments supporting varied beliefs and convictions can prove highly useful in being adequately prepared for whatever the future may hold. We believe there is value in identifying a broad cross section of market opinions and related data supporting these beliefs in order to objectively quantify their value. This endeavor provides our clients with a distinct advantage in striving to better understand and remain aligned with market opportunities and risks.

Sincerely,

Randy Garcia
Chief Executive Officer

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by The Investment Counsel Company of Nevada ("ICC"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from ICC. Please remember to contact ICC, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. ICC is neither a law firm nor a certified public accounting firm and no portion of the commentary content should be construed as legal or accounting advice. A copy of the ICC's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.