Professional investors often disparage pithy, shallow-sounding stock market advice, such as the old adage “Sell in May, Go Away (Until October).” Surely, following a simple rule such as selling stocks in any given month or season will not provide a foundation for long-term investing success. If these types of strategies had any efficacy, they would be traded away almost immediately.

All of which makes the market’s performance of May 2019 all the more humbling. The market did face selling pressure in May, and it would have been good to have sold and gone away (ignoring taxes). The S&P 500 fell by over 6% for the month, although once again the market showed resilience and bounced back quickly in June. For the quarter and year-to-date, the U.S. stock market was up 4.3% and 18.5% respectively, remaining solidly in positive territory.

Historically, the U.S. stock market typically rises in the May-through-October half of the year, although returns are much weaker over that six month stretch compared to the November-through-April season. Why this has been the case is an open question, and there is scarce evidence that it should persist. The saying could thus be amended to “Hold in May, stay invested.”

Concerns related to the impact of tariffs on global trade continue to linger over markets, but the imposition of tariffs is not moving the earnings-per-share needle much this year. Earnings are expected to rise year-over-year in 2019 and near-term corporate fundamentals look decent. While these geopolitical and trade-related concerns have not made a dent in corporate earnings, they do cast a pall over the multi-decade trend of globalization which has been a major contributor to U.S. corporate earnings over time.
Markets and the financial press continue to give interest rates a wary side-eye. For most of June, the three-month Treasury bill yield was higher than the 10-year Treasury note yield, a condition known as an “inverted yield curve.” This has often been an indicator of future recession in the next 18 to 24 months. However, why this indicator has proven to be a recession-predictor is a subject of debate. One logical argument is that banks may be unwilling to lend long-term at lower rates than they can lend short-term, which would dampen growth as fewer loans are made to finance housing, cars, and durable goods.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2Q 2019</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Cap U.S. Equities (S&amp;P 500)</td>
<td>4.3%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Mid/Small Cap U.S. Equities (Russell 2000)</td>
<td>2.1%</td>
<td>17.0%</td>
</tr>
<tr>
<td>International Developed Market Equities (MSCI EAFE)</td>
<td>3.7%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Emerging Market Equities (MSCI Emerging Markets)</td>
<td>0.6%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate Bond Index</td>
<td>3.1%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Bloomberg Barclays Municipals, 5 yr</td>
<td>1.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Alternatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate (FTSE/EPRA NAREIT Global Real Estate)</td>
<td>0.4%</td>
<td>15.4%</td>
</tr>
</tbody>
</table>

However, it is hard to say where rates are headed for the remainder of the year because interest rates are as difficult to predict as the stock market. Back in January, economist and investor consensus expectations were for higher interest rates in 2019. The consensus has been hideously wrong so far as intermediate and long-term rates have fallen. In the absence of inflation and with global economic growth slowing, the market now expects the Federal Reserve to cut interest rates in 2019 whereas expectations were for rate hikes.

There is no guarantee that the U.S. enters a recession in 2019 or even 2020. Small businesses remain optimistic. Unemployment is low and it has not translated into inflation. Also, the federal government is on track to run close to a $1 trillion deficit. The structure of the federal deficit is a politically contentious topic; however the deficit may add ballast to the U.S. economy in the form of expanded household and business purchasing power.

**U.S. Equities Continue to Outshine Foreign Stocks**

The U.S. stock market continued its outperforming trend relative to foreign equity markets in the second quarter and for the year. After several years of this performance divergence, some have begun to wonder if the U.S. stock market is “special” and foreign stocks are destined to trail for the long-term. To be sure, corporate earnings growth has been lackluster across foreign firms in recent years versus U.S. firms, some of which is attributable to less fiscal stimulus provided by governments in Western Europe and Japan since the financial crisis.

The U.S. has heavier sector weights in technology and communication services than stock markets outside the U.S., which have greater weights in financials and consumer staples names. Growth-style stocks have been in favor (continued, page 3)
in recent years, helping push the U.S. ahead. U.S. dollar strength has also been a headwind for international equity market returns in recent years. Finally, there have been multiple historic periods when markets were similarly labeled “special,” (such as Japan in the 1980’s) and which subsequently underperformed other markets. Foreign markets represent roughly half of the global stock market, and it is difficult to know where the next Apple or Google will arise. Those markets represent an important opportunity set of global companies. Diversification can feel painful as it forces investors to hold what they do not wish to hold, an emotion which itself stems from watching returns in the rear-view-mirror.

**Fixed Income**

When short- and intermediate-term interest rates are virtually the same, a natural question is why investors should hold intermediate-term bonds at all.

Given a five-year time horizon, consider the choice between investing in a U.S. Treasury note maturing in two years and another maturing in five years, both of which yield 2%. An investor in the two-year bond will need to reinvest their maturing bond at whatever interest rate they may obtain two years from now, which may be lower than 2%. The investor in the five-year bond knows they will receive 2% for five years. The risk of investing maturing bonds and interest income at lower rates in the future is called “reinvestment risk.”

Reinvestment risk is germane to the current U.S. bond market, as intermediate- and long-term interest rates have indeed fallen this year. The Bloomberg Barclays U.S. Aggregate index, which represents the bulk of the U.S. investment grade bond market, has ridden the tailwind of falling rates in 2019, producing a total return of 3.1% for the second quarter and 6.1% year-to-date.

**Dispatch from D.C.: Retirement Bill Passes House**

Lawmakers in Washington D.C. have visited the topic of retirement savings numerous times in recent years, and they have not given up on making changes. Now, it appears that comprehensive changes may be in the works for overhauling retirement plans and accounts as the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 is under consideration. This legislation has broad bipartisan support. A few highlights from the legislation, as it stood when it passed the House by a vote of 417-to-3, are the following:

- More rapid payouts to non-spouse beneficiaries of IRA and qualified retirement plan balances: Under current law, non-spouse beneficiaries may stretch retirement account required minimum distributions (RMDs) over their lifetimes. Under the SECURE Act, such funds would need to be distributed to beneficiaries within 10 years.
- Increased age for beginning RMDs: The age when RMDs from retirement accounts must begin would be increased to age 72 (from 70 ½).
- New eligible expenses for qualified tuition, or “529” plans: Expenses beyond tuition for elementary school as well as expenses for home schooling would become eligible for coverage by a 529 plan.

Indiana Trust Wealth Management will follow this closely, as these and other facets of the legislation could have a major impact upon retirement saving and withdrawal strategies. For example, a partial conversion of a Traditional IRA to a Roth IRA may become more attractive depending upon the tax situation of the IRA owner and the IRA’s beneficiaries. We will stay apprised of these and other legislative developments and look forward to a conversation with our clients on these topics.
Investing For Social Good and Personal Gain

Investing with an eye toward promoting social, political, or environmental concerns (or at least not supporting activities you feel are harmful) doesn't mean you have to forgo pursuing a return on your money. Socially responsible investing may allow you to further both your own economic interests and a greater good, in whatever way you define that term.

You shouldn't feel you have to accept mediocrity in order to support your beliefs. Monitor your investment's performance, and be prepared to look elsewhere if your investment doesn't continue to meet your needs, either financially or philosophically.

The clearer you are about the goals you have for your money, the better your chances of selecting appropriate investments.

Adapted from the article “Socially Responsible Investing” by Broadridge Advisor Solutions © 2006–2019.

Know your goals

"Social good" may be defined differently by every investor, and even a socially responsible fund may include multiple definitions of the types of companies that meet its investment objectives.

Make sure your expectations are clear and realistic. Many socially responsible investments produce solid financial returns; others may not. Though past performance is no guarantee of future results, you should have a sense of what kind of return you might expect.