FORMAN INVESTMENT SERVICES

20th Anniversary 1999 - 2019

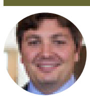
Weekly Wrap Up • July 1-5, 2019 • formanis.com

## Troy Forman Receives Certification from Raymond James

We are pleased to share that Troy Forman recently completed Level I of the Institute of Investment Management Consulting Certification Series. Forman attended a 3-day certification program covering essential investment management consulting topics such as asset allocation, manager selection and portfolio construction. The curriculum culminated in an examination that required advisors to apply the major concepts covered during the program to client situations. By successfully completing the program and examination, Forman earned the title of Investment Management Consultant.

Troy looks forward to implementing what he has learned for the benefit of his clients.

**What happened in the markets last week?**



**by David Abuaf - Investment Manager, RJFS**

# News for the Week

**General Markets / Economic**

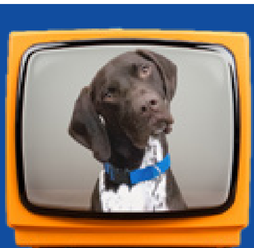
1. Draghi is growing bolder in his policy moves as his tenure at the bank nears its end
2. OPEC agreed to roll over its output cuts in the first quarter of 2020, but the new pact exposed deepening rifts in the group
3. The US factory sector lost momentum again in June amid anemic global growth and trade tensions
4. IMF Chief Lagarde is likely to become the first woman to run the ECB, putting an experienced crisis fighter in charge and paving the way for a continuation of easy money policies
5. Major auto makers saw US new vehicle sales slip in the first half, a decline that is expected to continue
6. The US trade gap widened sharply in May despite a new round of tariffs on Chinese goods that took effect in the first half of the month

**Company News**

1. Walmart is using a virtual-reality skills assessment as part of the selection process to find new middle managers
2. Nike is yanking USA themed sneakers featuring an early American flag after Kaepernick told the firm it shouldn't sell them

**Interesting Stories**

- In Yorkshire England, a woman asked her husband to stop working out and vacuum the house or do some house cleaning. After asking 12 times she got arrested. Why? Well, 4years ago the UK made "coercive control" illegal (non-physical abuse). Yes, they are now getting divorced!



## Turning Back the Clock to 1999

**July 8, 1999: "Harry Potter and the Prisoner of Azkaban" the 3rd book of the series by J. K. Rowling is published by Bloomsbury in the UK.**

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## Weekly Commentary

If the test of a first-rate intelligence, as F. Scott Fitzgerald wrote in The Crack-Up, is the ability to hold two opposing ideas in one's mind at the same time and still retain the ability to function, then investors have to be the smartest folks around. The S&P 500 index gained 1.7%, to 2990.41, this past week, narrowly missing finishing the week at a record high.

At the end of the previous week, stocks were already benefiting from what appeared to be a more dovish Federal Reserve. When U.S. President Donald Trump and Chinese President Xi Jinping reached a trade truce at the G20 meeting that included no new tariffs, an agreement to restart negotiations, and even a reprieve for Huawei Technologies, the market jumped. Not even a stronger-than-expected reading from the June payrolls could knock the market meaningfully lower, even though the Fed is now unlikely to cut interest rates by more than a quarter of a percentage point later this month.

If the S&P 500's new high during the last week of June wasn't high enough to look a full-on breakout, it does now. Barclays strategist Maneesh Deshpande, for one, now predicts a 65% chance of a "melt-up" that could see the S&P 500 hit 3260, up 9% from Friday's close. Fundstrat strategist Thomas Lee, meanwhile, calls his 3125 target for the S&P 500 "conservative" given the fact that the index has gained an average 18% during the nine months following the first Fed cut after a tightening.

There's a big caveat, however: The U.S. must avoid a recession. If it falls into one, all bets are off. The 10-year Treasury note continues to trade at a lower yield than the three-month bill—an inverted yield curve, a reliable recession predictor. And this past Thursday, we got another inversion, as every maturity of U.S. government debt traded below the 2.5% upper level of the federal-funds rate, according to Société Générale strategist Kit Juckes, another sign that a recession could be looming. "We think the sun is slowly setting on this cycle," Juckes writes.

The economy is certainly weakening. The Institute for Supply Management's manufacturing index fell to 51.7 in June, its lowest since October 2016. The measure is still above 50, which means that economic activity is still increasing, yet the pace of increases is slowing meaningfully. "Strength in manufacturing throughout 2017 and 2018 has quickly dissipated, a worrying signal for the health of the U.S. economy," writes James Stack of InvesTech Research.

Stack, however, isn't bailing on the stock market just yet. He points to the advance-decline line, a measure of market breadth that is hitting new highs. "Divergence in the A-D Line has provided reliable warnings of a coming bear market," he writes. "The A-D Line compels us to give this bull market the benefit of the doubt."

And so, we hold two opposing ideas in our heads: The U.S. economy may be heading for recession, and the market may be heading higher anyway. That may or may not be a sign of intelligence.

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