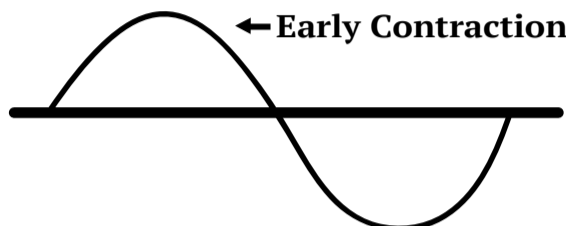


# Month in Review

The S&P 500 Index fell -1.81% in August giving up all of July's gain and then some. The month began with a Twitter post from Donald Trump announcing that he would impose 10% tariffs on an additional \$300 billion worth of Chinese imports on September 1. China retaliated by weakening their currency, asking state-owned firms to stop buying U.S. agricultural products, and slapping tariffs on \$75 billion worth of U.S. goods. The trade climate worsened as the month progressed and so did the stock market. It's time to check our indicators to see how the escalating trade war has affected them. I have also provided a brief summary of my thoughts on the market going forward.

## I. CREDIT CYCLE

### PHASE III: EARLY CONTRACTION



Credit markets continue to diverge from the stock market. Recession fears reached fever pitch when the yield on the 2-year Treasury note rose above the yield on the 10-year bond for the first time since 2007. Financial conditions remain tight and recession signs are multiplying. The economy is growing, however, and corporate profits are rising (with the exception of energy and materials) so we continue to favor the stock market despite weakness in the credit market.

## II. RISK LEVEL INDICATORS



### US STOCKS: ELEVATED

The Risk Level for **U.S. Stocks** rose to **ELEVATED** in response to the escalating trade war between the U.S. and China, and the intensifying war of words between the President and the U.S. Federal Reserve. On a more upbeat note, our short-term Swing Indicators are positive but the longer-term ones remain negative, translating into a trading strategy of “buy the dips and sell the rallies.”

### INTERNATIONAL STOCKS: HIGH

**International Stocks** suffered a setback in August and the Risk Level has risen to **HIGH**. “HIGH RISK” means what it says and it is best to look elsewhere until the risk level improves.

### US HIGH QUALITY FIXED INCOME: GUARDED

The Risk Level for **US Fixed Income Quality** remains **GUARDED** as the recent outperformance of bonds is offset by their extremely overbought technical condition. In the short-term, bonds are vulnerable to profit-taking but the long-term outlook is positive.

## III. LOOKING AHEAD

September is historically one of the weakest months of the year for the stock market but there is reason to expect a better outcome. While negative headlines rocked the markets in August, the economy continues to grow even if modestly. The alarming headlines and associated volatility may continue, but as long as the economy remains sound the downside should be limited. The tendency to overreact to each new headline has an upside, however. “The lesson of August for September, then, is this,” writes Brad McMillan, CIO of Commonwealth Financial Network, “If the worries were to be resolved (e.g., if a trade deal was cut between the U.S. and China or if a Brexit deal was reached), then markets might well revert to a positive stance—and move back up. Right now, politics is pulling us down. But as long as the economy remains sounds, politics could also pull us back up.”

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