BALDINI
INVESTMENT STRATEGIES

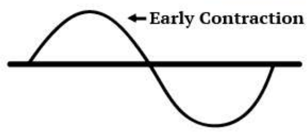
July 2019

Month in Review

The S&P 500 Index rose 6.9% in June in an abrupt about-face from May's performance, as the markets took heart from Fed Chairman Jerome Powell's pledge to "act as appropriate to sustain the expansion" and hints of an imminent interest rate cut. It's time to check our indicators to see how the market's rapid recovery in June 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



The euphoria in the stock market was not shared by the credit markets. Credit spreads have not confirmed the new highs in the major stock averages. Financial conditions remain tight and recession risks are rising. Economic growth has slowed but remains positive and corporate profits are still rising (with the exception of energy and materials) so we continue to favor the stock market over the credit market.

II. RISK LEVEL INDICATORS

LOW	GUARDED	ELEVATED	HIGH	SEVERE

US STOCKS: GUARDED

What a difference a month makes! The stock market soared and the Risk Level improved to GUARDED in response to rising expectations of an interest rate cut at the July meeting of the Federal Open Market Committee (FOMC). Our short-term Swing Indicators are positive, but the weakness in the credit markets keeps us cautious. Two good rules to remember for Phase III of the Credit Cycle are: 1) don't chase rallies, and 2) don't buy breakouts.

INTERNATIONAL STOCKS: GUARDED

The Risk Level for International Stocks also improved to GUARDED in June. The risk picture is brightening--especially for Emerging Markets--and we are monitoring them closely.

US HIGH QUALITY FIXED INCOME: GUARDED

The Risk Level for US Fixed Income Quality worsened to GUARDED as investors sold bonds and bought stocks to rebalance their portfolios at the end of the quarter. In the short-term, bonds are vulnerable to profit-taking but the long-term outlook remains positive.

III. LOOKING AHEAD

Despite the excitement over new highs in the stock market, the S&P 500 index is trading roughly where it was 18 months ago. Even worse, earnings for the S&P 500 companies are expected to decline -2.6% for the 2nd quarter, marking the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. That period marked the bottom in earnings growth, as the Federal Reserve paused in its rate hikes and central banks around the world engaged in coordinated rate cuts to stimulate the global economy. Central banks are once again cutting rates, and combined with a lessening in trade tensions, a resurgence in earnings growth may be just what is needed to finally break the S&P out of 3000.

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