

***CENTURION COUNSEL***  
***MARKET COMMENTARY***  
***Q3 2019***

## Volatility returns but Markets remain Resilient

The S&P 500 ended September near new all-time highs in spite of the volatility that returned in the first week of August, as President Trump announced via Twitter that he would be raising tariffs on Chinese goods following the collapse of U.S.-China trade negotiations. The news caught investors by surprise as reports previously implied a U.S.-China trade deal was close to being finalized, and stocks dropped sharply in reaction. The stock market was able to find support and rebound strongly in September, however, as there was progress across the two main sources of volatility in the third quarter, U.S.-China trade and future Fed interest rate policy. First the Federal Reserve reversed course and cut rates that shift helped to re-validate market expectations of lower interest rates in the near future, and stocks rebounded strongly on that expectation. Second, President Trump and Chinese President Xi Jinping agreed to continue talking, the result was a sort of trade “truce” of no new tariffs while trade negotiations resume.

Commodities saw mixed returns for the quarter, as gold surged to a multi-year high while oil declined. Gold rallied due to multiple factors including rising expectations for Fed rate cuts, and an increase in geopolitical tensions (especially with respect to the U.S. and Iran). Oil, meanwhile, was volatile last quarter as short, sharp geopolitically driven rallies were offset by rising concerns about declining demand and potential oversupply as U.S. oil production hit another record high in the second quarter.

Switching to the fixed income markets, performance largely reflected investors’ expectations for future Fed rate cuts, and that was positive for the broad bond markets. The leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized more positive returns as rising anticipation of future rate cuts, combined with worries about economic growth and increased geopolitical concerns sent bond indices higher in the quarter.

Looking deeper into the fixed income markets, longer maturity bonds outperformed those with shorter maturities during the quarter, which is a continuation of what we observed in the first half of the year and reflective of a market that is forecasting future rate cuts and slower economic growth.

## Fourth Quarter Market Outlook

In sum, investors had to stomach another bout of volatility in the third quarter and macroeconomic uncertainty has increased compared to the first six months of 2019. However, underlying fundamentals for the economy and the markets remain generally solid. So, while we should prepare ourselves for more historically typical volatility, because none of concerns of the third quarter have entirely gone away and we now face the 2020 election and the prospect of impeachment. However in our view the outlook for markets remains generally positive as we begin the fourth quarter.

Markets were impressively resilient in the third quarter and registered gains despite the deterioration in global economic activity and renewed uncertainty with U.S.-China trade. But, our years of experience have taught us not to become complacent just because markets have been resilient, and we think that's again appropriate as we start the last quarter of the year.

Reductions in interest rates by the Federal Reserve, while welcome, are not a panacea for the U.S. and global economies. We face macroeconomic uncertainty on multiple fronts. First, the U.S.-China trade situation remains delicate and very uncertain, and until there is a final agreement on a new U.S.-China trade pact, that lack of clarity will act as a headwind on economic growth and likely create temporary periods of volatility like we experienced in August. Additionally, there are several unsettled geopolitical situations that must be monitored, including Brexit (the deadline is October 31<sup>st</sup>), North Korea and Iran (the chances of a U.S.-Iran military conflict are as high as they've been in years).

Then domestic politics will become louder and shriller. Finally, while the Federal Reserve has signaled it will begin to reduce interest rates in the coming months, the situation remains very fluid, and if the Fed does not meet market expectations by cutting rates, that may cause short-term volatility.

It remains unclear how, or when, these events will be resolved, and what those implications will be for markets. Yet as 2019 has shown us so far, uncertainty is not, by itself, enough to offset the still-strong fundamentals in the U.S. economy and corporate America.

Instead, these and other market uncertainties require an intense focus on financial markets, economic data and political news. Put more generally, markets always face uncertainties at the start of a new quarter, but over the long term, it is core economic and corporate fundamentals that drive market returns, not the latest sensational headlines.

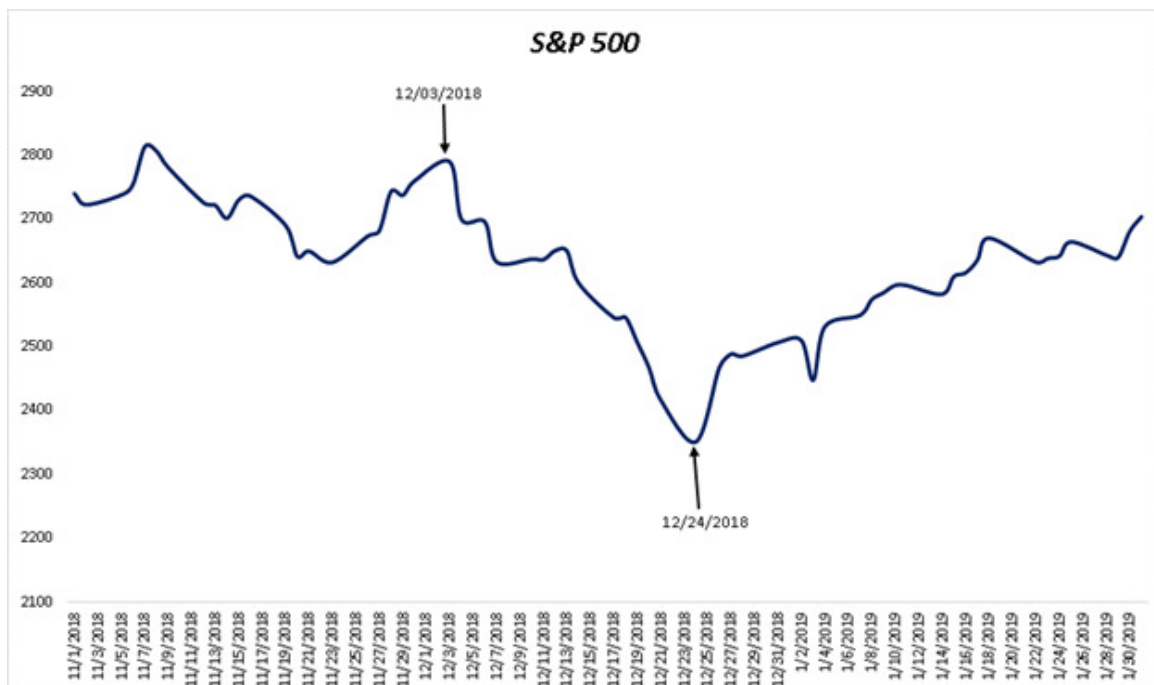
At Centurion we understand that volatility, whether it's related to trade disputes or concerns about Federal Reserve policy, can be unnerving, even if it is historically typical. That's why we remain committed to helping you navigate this ever-changing market environment, with a focused eye on ensuring we continue to make progress on achieving your long-term investment goals.

Our years of experience in all types of markets (calm and volatile) have taught us that successful investing remains a marathon, not a sprint.

Therefore, it remains critical to stay invested, remain patient, and stick to a plan. That's why we've worked diligently with you to establish a personal allocation target based on your financial position, risk tolerance, and investment time horizon.

We humans are herd animals, market action affects how we feel about our investments. If we could peak into the future we could guarantee perfect results and be able to ignore the herd. Instead all investors look for clues to be on the right path. We wait to see what has happened and then project that into the future. The successful investor is bold enough to step out of the crowd. Sometimes it is best to go back in history to explain, so let's go back to the 4<sup>th</sup> quarter of 2018. The market was volatile in November and in early December many investors headed for the exits. Even the buy on a dip investors got burned and they left the market licking their wounds and market sentiment was terrible prior to Christmas Eve the market had had only one up day that month.

In the next several months the market had a strong rally proving the herd wrong again. (See chart)



The strong year-to-date returns notwithstanding, we understand that volatility can be both unsettling and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.