Aviance Capital Partners
Investing for Generations

INVESTMENT COMMENTARY

JULY 2019

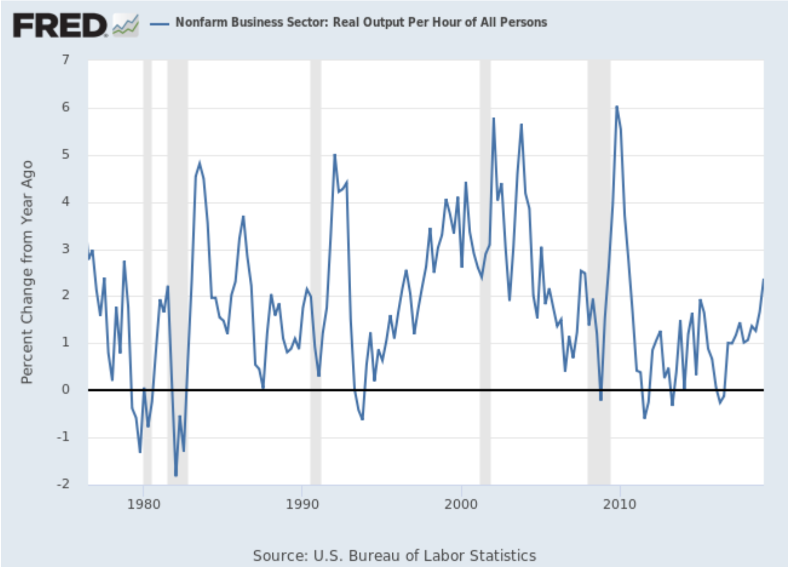
JACK BROWN, CFA

Presently, we see solid and steady economic growth with reasonable inflation. Employment is robust, and the consumer is in good shape. While these observations imply the Federal Reserve (the Fed) is succeeding in their dual mandate, the market is demanding assistance in the form of lower Fed Fund target rates. The targeted lowering of short-term rates by the Fed is broadly thought to stimulate growth and boost confidence – and hence the stock market. In this case, the market's desire for lower rates is largely a result of lower growth *expectations* and soft business fixed investment spending.

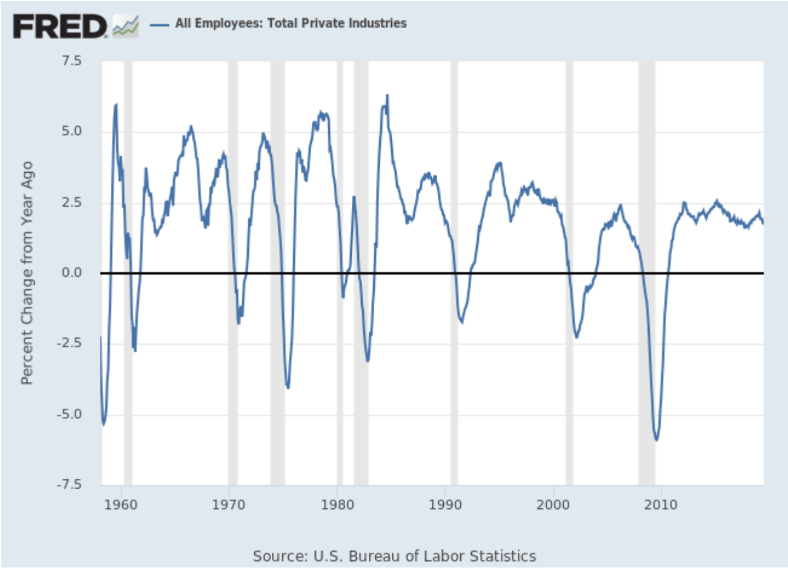
By giving a nod that they will indeed lower rates if needed, the Fed makes it clear it will tighten the gap between good, actual statistics and weaker expectations. Either way, the market is expecting lower rates which means anything other than a cut during the next meeting or two will likely lead to a spike in volatility. These games capture an outsized portion of handwringing and lead to short-term ups and downs in the market.

More importantly, however, longer term investment success is associated with a growing economy. Economic growth means businesses are growing and investors are generally doing well. It is our view economic growth will continue for some time. Specifically:

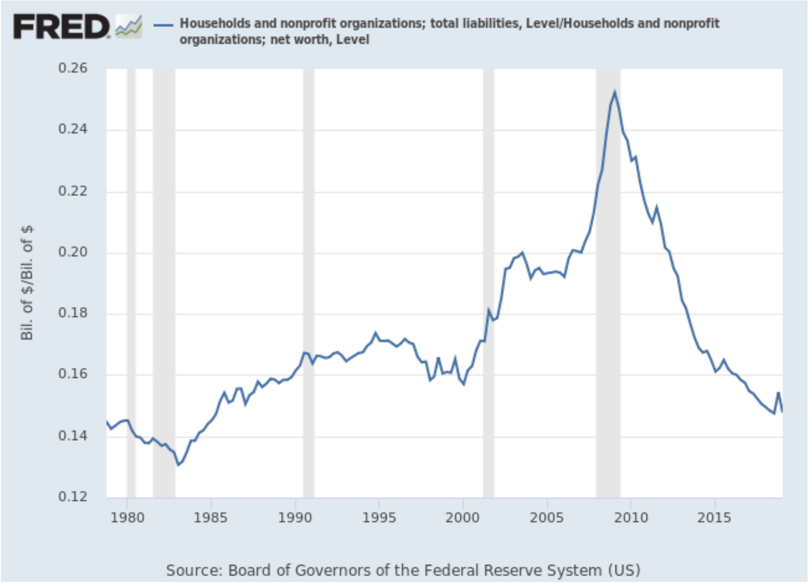
Productivity (output per worker) is strengthening.



The labor market continues to grow at approximately 1 to 2%.



Households are in good shape with reasonable liabilities compared to net worth.



With consumers in good financial shape, working more, and being more productive on an hourly basis – we expect continued economic growth, potentially in the 2 to 3% range.

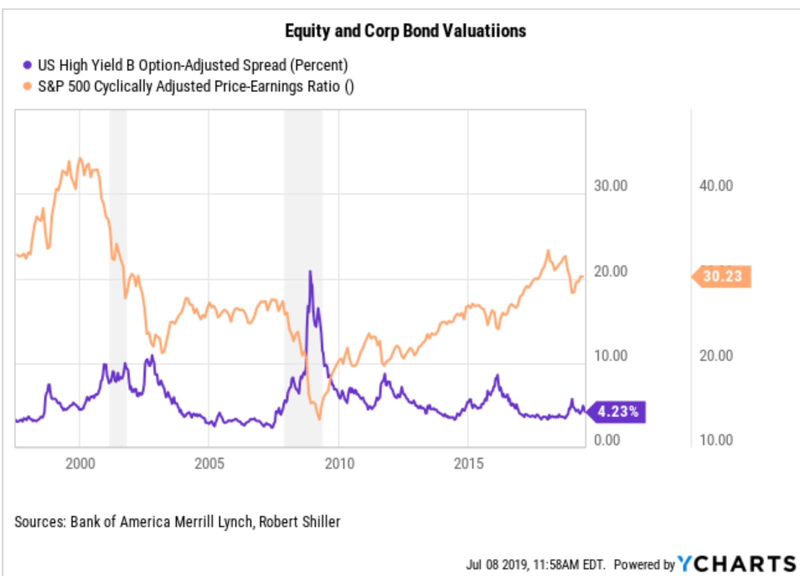
On the other hand, we continue to monitor warning signs. Specifically:

1. Falling long-term interest rates are signaling some concern about slowing growth
2. State coincidence indicators are still broadly in growth mode, but we do see some softening
3. Industrial production and manufacturing confidence have both dipped
4. The Chicago Fed National Activity Index (CFNAI) has recently dipped into negative territory
5. Trade spats and weak global growth could steal some of the U.S.'s growth fuel

So while the major pieces that promote continued growth remain in place, other factors that coincide with economic softness have recently shown their teeth. Nevertheless, we do not foresee a recession in the next 12 months, and further, do not see any significant pressures building in the economy that typically precede recessions such as a stressed out financial system, an extended real-estate market, a stock market bubble, or runaway inflation.

Confidence in Stocks and Corporate Bonds

Current low and falling interest rates may indicate some economic growth concerns. Despite this, both the corporate bond and stock markets remain convinced the economy appears to be solid. This can be seen by looking at the cyclically-adjusted price-to-earnings ratio which remains at a very confident 30 times. Additionally, the corporate bond market trades at a confident level of rates that are 4.2% above treasuries (in the case of B-rated bonds). When investors of these bonds are nervous about the economy, yields go up -- typically trading at levels that are more than 6% higher than treasury bonds.



In conclusion, we see a balance of good economic news with some growing concerns. Overall, we lean towards continued growth. Absent the typical excesses we see before a recession, we have a difficult time getting to anything other than continued growth. This is another way of saying periods of economic growth do not die of old age. As a result, we expect moderating but positive returns in the stock and bond markets that will continue to chug along in a reasonably boring manner until the next crisis.

Important Disclosures:
Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk and there can be no assurance that future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Aviance Capital Partners, LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Aviance Capital Partners, LLC. Any questions regarding the applicability of any specific issue discussed above to an individual's situation should be directed to the professional adviser of his/her choosing. Aviance Capital Partners, LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Aviance Capital Partners, LLC's current written disclosure statement discussing our advisory services and fees is available for review upon request.