Peregrine
asset advisers

3rd Quarter 2019 Market Overview

Range Bound

It is evident the stock market is having difficulty clearing obstacles. A familiar drumbeat of a slowing economy and nagging trade tariff concerns combined to constrain major market indices and to minimize gains for the third quarter.

The S&P 500 finished the third quarter with a gain of 1.5%, only to have that slim margin erased in the initial days of October. The markets were volatile during the quarter with eight days of at least a 1.5% decline in the index.

Amidst all of the machinations, volatility, political wrangling, international negotiations, and the emotions over the past twelve months, the broad market indices have made virtually no progress.

This time last year, the market began a downward spiral in October. Are we in for a repeat this year?

According to FactSet, corporate earnings are expected to decline 4.1% in the third quarter and this would be a concern as we enter earnings season this month.

Even though lower earnings can foreshadow lower stock prices, investment conditions are distinctly different from last year. Today, the Federal Reserve is friendly to stock market bulls. Last year, the Fed badly miscalculated the health of the economy and was systematically raising rates. That proved bad for markets. Now, since the Fed is lowering rates, it is accommodative to the economy, and will likely support the stock market through the end of the year.

With the Fed as its friend, the broad market should at worse, remain in its established trading range and we can be reassured there will be no repeat of last year.

The Silver Lining

The evolvement of a trading range for almost two years presents an interesting dichotomy. Market leaders such as Costco, Nike, Apple, Walmart, and Microsoft have advanced to all-time highs and look expensive. On the other hand, many other stocks are languishing.

Right now, strength in some areas of the market is being offset by weakness in other areas.

For example, bank stocks are acting poorly and have generally retreated to 2017 levels.

Another example of deterioration is the energy space which hovers near 2012 levels.

Even prominent FANG stocks like Amazon and Netflix have handed back long term gains of sizeable proportions.

A favorite long term holding, Caterpillar, is down 25% from its highs from January 2018. Stocks such as these are rebound candidates for the months ahead.

Obviously, the woes of Boeing could also be lifted.

Restless investors will seek areas of the market that offer superior value. The *best relative prospects for improvement, even from depressed levels,* now hold the best potential for gains. Some of these could come from the above examples.

Investors can capitalize on this by investing accordingly.

Investing in the out of favor and neglected stocks could be a silver lining to investors.

Peregrine Strategy

Peregrine returns remained level in the third quarter along with the broad market. Total return with low risk is the current emphasis for client accounts. This means a concentration of stocks that pay dividends and are resilient to a slowing economy. Our core positions are in food and power companies. These holdings fit a defensive mold.

Asset allocation for client accounts has also been conservative given since the economy is showing so much uncertainty. Peregrine clients currently hold a heavy weighting in cash and fixed income investments, like treasuries. Investments such as these provide income for client accounts but their biggest advantage is they represent safe reserves which can be invested when the stock market indicators improve.

If these signals do improve, the market could emerge beyond the current trading range and therefore, client holdings of cash and treasuries would be channeled into equities.
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