

Market Watch With RMH

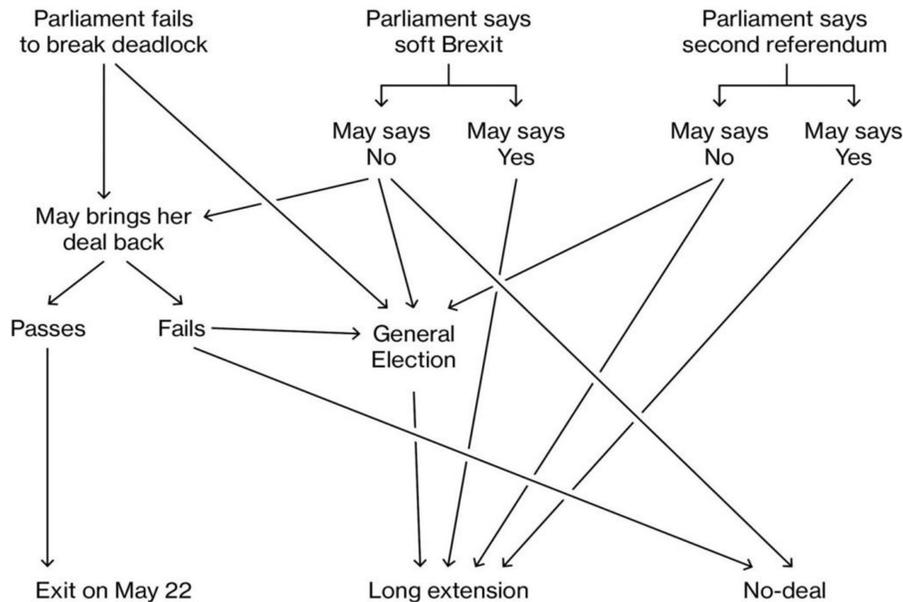
April 2019

We start this month’s letter referring back to February’s letter: Quoting an unknown predecessor, Winston Churchill said it best when he addressed the House of Commons in 1947, “Many forms of Government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed **it has been said** that democracy is the worst form of Government except for all those other forms that have been tried from time to time”. It would be wonderful if we had an orator like Churchill to summarize Brexit.

This chart from Bloomberg shows the drama known as “**Brexit’s Tangled Web**”. It clearly shows the complexity of politics, and the markets move on. A key takeaway from this chart is to keep an eye on the big picture, trying not to get tangled in the day-to-day drama of the press wanting our attention.

Brexit’s Tangled Web

Several outcomes are still possible, with many ways to get there



One of the most powerful and resilient forces of the 10 year bull market has been the consumer, as the consumer represents close to 70% of the United States Gross Domestic Product (GDP). A key factor to the consumer is their income. As incomes increase, consumers purchase more goods and services, which then expands GDP. This brings us to our second chart

titled “**Expected Change in Real Income.**” The data shows that the change in real income has jumped significantly to the upside which is a very positive sign. If we add this positive data point to the current positive news from the last jobs report, it will be very difficult for the United States Economy to have a recession in the near term, with income reaching close to all-time highs and the economy currently almost at full employment. It is important to point out that the data is near historic highs and that is usually late in the economic cycle.

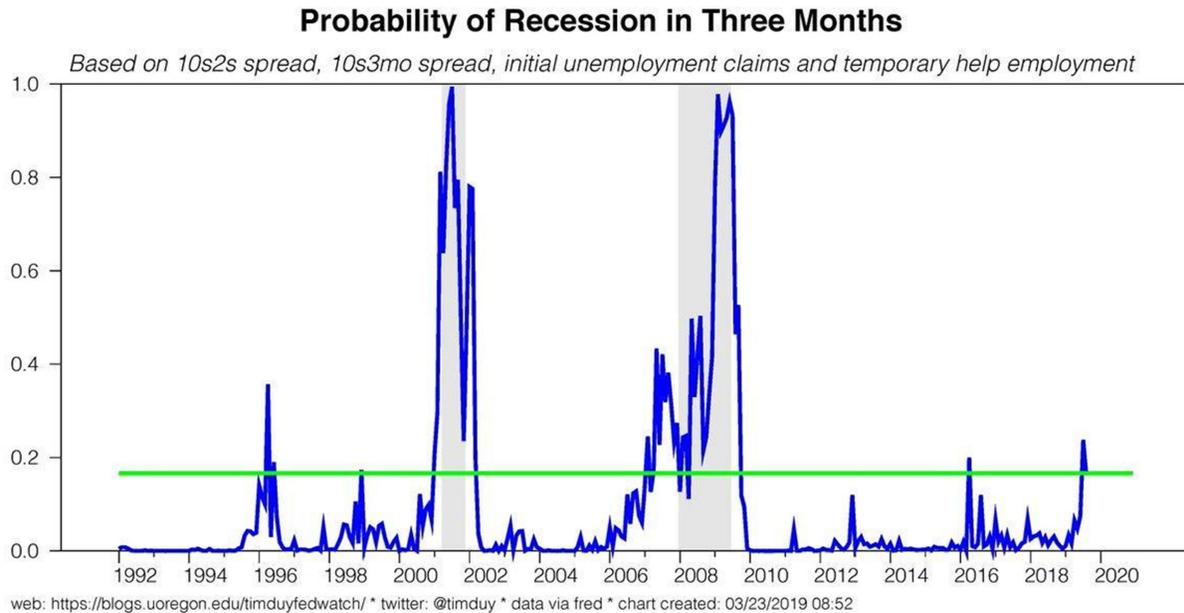


University of Michigan 2019

Speaking of a recession, this brings us to our third chart titled “**Probability of Recession in Three Months.**” As one can see in the chart, the probability has now risen to over 20% although we could be looking at old data. Expansions do not die of old age, they usually end from a combination of imbalances in the economy and excessive Fed tightening (which seems to be on hold at present).

If we look at potential imbalances in the economy, it is hard to see them:

- Household balance sheets are not strained as in 2008.
- Corporate balance sheets have increased their leverage used for financial engineering (a concern of ours), not for the massive overinvestment in cap-ex spending as in 2001.
- An exception to this was the US Energy Sector over investment 3 – 5 years ago, and the number of companies that went bankrupt, however that sector is not big enough to pull down the US economy. Now we have prolific energy production in the U.S.
- Wage and price pressures while rising as in chart 2, could be rising at a faster rate. Inflation seems benign at this time.
- Finally, the Fed has backed off further tightening at this time, with a number of models showing 0 – 1 rate hikes for 2019.



Things that we are keeping our eye on are:

- China trade deal. The talks have been ongoing; however the deadline keeps getting pushed. We are worried that all of the good news about this process is out, and the old adage, “sell on the news” might be a catalyst for lower equity prices.
- 1Q/2019 earnings are coming out shortly, and a number of analysts are predicting an earnings recession. What does this mean, 3 – 4% profit growth, not the double digit growth of last year. Stay tuned, just kidding!!!!

One of the things we believe in very strongly at RMH is giving back to the community. Edwin Hopper has been involved from the beginning to fund the Southern Arizona Veterans and First Responders Living Memorial on 2.5 acres of land from the Town of Oro Valley.



Art, monuments, and landscaping that are symbolic to all branches of the Department of Defense and First Responders will fill the Southern Arizona Veterans and First Responders Living Memorial, and the memorial will be free to all visitors.

"We now have the opportunity to create a once-in-a-lifetime project to honor all the military branches and first responders," said Dick Eggerding, chair of the Living Memorial Executive Board and the originator and proponent of the memorial concept to the Oro Valley Town Council. "At the same time, we can create a project that provides an environment for meditation, important events, and educational opportunities."

The fundraising goal of \$1.9 million will provide for the construction and maintenance of the Living Memorial to be located on 2.5 acres in Naranja Park, allocated by the Town of Oro Valley, in full view of the Catalina Mountains' Pusch Ridge.

We are thrilled to report that we have so far raised more than \$300,000 towards the project and will spend 2019 working to "Fund the Memorial Now!" Expect a call from us or [visit our website to learn more. \(vfrm.org\)](http://vfrm.org)

We thank you all for taking the time and reading "Market Watch." It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us. Please feel free to always reach out with questions, thoughts, or comments. If there are ever any topics you wish us to explore, please share.

On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH's focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients

to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires.

Richard Munding, CFA

Edwin Hopper