

August 2019

In our July issue of Market Insights, entitled “**The Wall of Worry**” we provided an update of the three overriding themes that we thought would play out over the course of 2019. Given the recent market gyrations so far in August we felt it prudent to briefly revisit our themes and how we see best to manage through them in client portfolios.

To reiterate, Theme 1: *The Path of Interest Rates is Changing*, and Theme 3: *Earnings Growth Becomes More Difficult*, have been accurate so far in 2019. But Theme 2: *Volatility is Here to Stay* had, through the end of July, remained elusive with the S&P 500 up **18.5%** for the first half of the year and the CBOE Market Volatility Index (VIX) running at a below average level.

Unfortunately, as we have moved into the second half of the year volatility has begun to creep higher as market participants have become more concerned about the health of the global economy. This concern was highlighted most recently with the 10 year Treasury bond’s yield falling below the 2 year Treasury bond’s yield. A negative spread between the 2 and 10 year treasuries is called a yield curve inversion and it has occurred before the last 7 recessions. While the recent developments in markets are concerning they are not a reason for all out panic.

A few data points to remember:

- **Historically**, while inverted yield curves have preceded the last 7 recessions, inverted yield curves occurred in 1966 and 1998 without a recession to follow
- **Furthermore**, an inverted yield curve is a forward looking indicator with a recession not beginning for another 15 months on average
- **Lastly and most frequently overlooked**, following the past 5 inversions, the S&P 500 has produced positive returns averaging over 10%

MARKET Insights

At Webster Private Bank we have been cognizant of the fact that we are getting late in the economic cycle and have been managing portfolios accordingly. Overweight positions in equity markets have been reduced or eliminated over the months leading up to the recent volatility, and for more aggressive clients, we have used recent volatility as a buying opportunity. Fixed income exposure has seen its overall quality increase to help buffer downside moves in equity markets and alternative asset exposure, which also helps to mute volatility in client portfolios, has been moved to an overweight level.

While volatility can be disconcerting to investors they should never let it deter them from their long term goals. Webster Private Bank's investment team is monitoring markets closely and stands ready to make appropriate adjustments in client portfolios. Should you have more questions or concerns in regards to your personal portfolio please reach out to your relationship or portfolio manager so your questions and concerns can be addressed in a one on one setting.

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