

## Animal Spirits on the Rise

Equities rallied last week as moderating economic data and Dovish comments from Federal Reserve Chairman Jerome Powell led investors to the conclusion that a short-term interest rate cut is on the horizon.

The Fed Chairman's speech on June 4th indicated the Fed would take appropriate action to maintain expansion of the economy in the face of uncertainty caused by global trade initially with China and then Mexico. Inflation remains low, so the Fed has the capability to reduce its current short-term interest rate target range, currently 2.25% - 2.50%, as necessary to support economic growth. Weaker employment growth in May, first seen in Wednesday's ADP National Employment Report and confirmed on Friday in the Labor Department's Non-Farm Payroll Report, accelerated the notion that the Fed would reduce interest rates sooner rather than later.

After a four week decline in the S&P 500 and Nasdaq and a six week decline in the Dow Jones Industrials, Animal Spirits (see context below) of market participants flipped from pessimism to optimism and led the major market averages to their best weekly returns this year.

Late Friday, the U.S. government also announced that Mexico had agreed to take action to stop illegal migration coming through Mexico to the U.S. southern border. This removes the 5% tariff on Mexican imports that was scheduled to go into effect this coming week. Removal of one of the two trade concerns could add to the strength of Animal Spirits in the coming week.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	4.4%	14.6%	International Stocks (MSCI ex-US)	2.8%	10.0%
Dow Jones Industrial Average	4.7%	11.4%	Aggregate Bond Index	0.1%	3.8%
NASDAQ 100	4.1%	17.2%	U.S. Dollar Index	-1.2%	0.4%
Russell 2000 (Small Cap Index)	3.3%	12.3%	WTI Crude Oil	0.9%	18.9%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Animal Spirits

Animal Spirits is a term coined by British economist John Maynard Keynes in 1936. It is meant to describe how investors make decisions under periods of uncertainty. When fear and pessimism exist, Animal Spirits are weak. When confidence and optimism exist, Animal Spirits are strong. The stock market moves on a combination of data and emotion. The emotion of market participants is Animal Spirits at work.

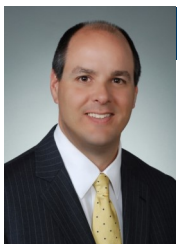
This contrast is often observed at turning points in market sentiment. The pessimism seen during the month of May caused by fear over economic growth drove down equity prices. The Dovish Fed speech by Jerome Powell this past week ignited Animal Spirits among investors as the prospect of an eventual reduction in interest rates coupled with an oversold position from May's downturn brought a rush of optimism back to the market.

## The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 and has also worked at Balentine & Co, Wright Investment Management, and Smith Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the United States Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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