Dear present and future clients:

We've all heard it said: "Records are made to be broken." We love to celebrate record-breaking winning streaks from our favorite teams and we hope they avoid a long string of losses.

The bull market that began in 2009 is not the best performing since WWII. That title still resides with the long-running bull market of the 1990s. But it is the longest running since WWII (St. Louis Federal Reserve, Yahoo Finance, LPL Research–as measured by the S&P 500 Index). In the same vein, the current economic expansion is poised to become the longest running expansion since WWII. For that matter, it's about to become the longest ever recorded.

Yet, economic booms and long-running expansions can encourage risky behavior. People forget the lessons learned in prior recessions and overextend themselves. Consumers can take on too much debt. Businesses may over-invest and build out too much capacity. We saw euphoria take hold in the stock market in the late 1990s and speculation run wild in housing not too long ago.

That brings us to the silver lining of the lazy pace of today's economic environment. Slow and steady has prevented speculative excesses from building up in much of the economy. In other words, a mistaken realization that the good times will last forever has not taken hold in today's economic environment.

Despite the attractive momentum of our economy and markets, continued volatility is very likely. As we've repeatedly stressed, the investment portion of your wealth planning is designed, in part, to keep you grounded during the short periods when volatility may tempt you to make a decision based on emotions. Such reactions are rarely profitable.

As important as your investment plan is to you today, the "advance planning" components of your wealth plan are likely to impact your life and the life of your family for generations. These include estate planning, insurance planning, tax planning, education funding, gifting and charitable giving[1]. While we carefully watch economic and market trends, let's be sure that we don't allow ourselves to ignore the other important aspects of our financial life.

Records Are Made to Be Broken

The current US economic expansion began in July 2009. It has run exactly 10 years and, barring an unforeseen event, the current period is headed for the record books. While no near-term economic shift is predicted, sometimes the unpredictable happens. It's worth noting that few have accurately and consistently called economic turning points. Let's weigh some of the factors at work.

Causes of recessions

Long-running economic expansions of the past led to a mistaken belief that various policy tools could prevent a recession. Yet, expansions don't die of old age. A downturn can be triggered by various events. So, let's look at the most common causes and see where we stand today.

1. **Rising inflation leads to rising interest rates**. In the early 1980s, the Federal Reserve pushed interest rates to historically high levels in order to snuff out inflation. The Fed's policy prescription succeeded, but led to a deep and painful recession.

2. **The Fed screws up**. A policy mistake can be the trigger, for instance if the Fed raises interest rates too quickly and restricts business and consumer spending. This is a derivative of point number one. There were fears the Fed was headed down this road late last year. Credit markets tightened, and investors revolted until the Fed reversed course.

3. **A credit squeeze can snuff out growth.** In 1980, the Fed temporarily implemented credit controls that briefly tipped the economy into a recession.

4. **Asset bubbles burst.** The 2001 and 2008 recessions were preceded by speculative excesses in stocks and housing.

5. **Unexpected financial and economic shocks jar economic activity**. The OPEC oil embargo in the 1970s exacerbated inflation and the 1974-75 recession. The tragedy of 9-11 jolted economic activity in 2001. Iraq's invasion of Kuwait pushed oil up sharply, contributing to the 1990-91 recession. Such events don't occur often, but their possibility should be acknowledged.

Where are we today?

Inflation is low, the Fed is signaling a possible rate cut, and credit conditions are easy as measured by various gauges of credit. For the most part, speculative excesses aren't building to dangerous levels.

Now, that's not to say we won't see market volatility. Stocks have a long-term upward bias, but the upward march has never been and never will be a straight line higher.

A sneak peek at the rest of the year

The Conference Board's Leading Economic Index isn't signaling a contraction through year end.

Of course a protracted trade war is a worry due to its likely impact on the U.S. and global economy, business confidence, and business spending. By itself, trade barriers with China – which accounts for just under 1% of U.S. GDP - are unlikely to tip the economy into a recession. Even with higher tariffs, exports to China won't grind to a halt and completely erase that 1%.

What's difficult to model is the impact on business confidence and business spending, which in turn could slow hiring, pressuring consumer confidence and consumer spending. Simply put, there isn't a modern historical precedent to construct a credible model. Hence, the heightened uncertainty we've seen among investors.

Is a recession inevitable?

It has been in the U.S., but other countries have more enviable records: Australia is enjoying its 28th straight year of growth. Canada, the U.K., Spain and Sweden had expansions in the past that reached 15 years and beyond.

If trade tensions begin to subside (a big "if") and if the fruits of deregulation and corporate tax reform kick in, we could see economic growth well into 2020 (and with some luck, into 2021 and beyond).

The Fed to the rescue

Rising major market indexes for much of the year can be traced to positive U.S.-China trade headlines (at least through early May), a pivot by the Fed, and general economic growth at home. We witnessed a modest pullback in May after trade negotiations with China hit a snag and the threat of tariffs against Mexico was added to the mix. Then on June 4th, Fed Chief Jerome Powell signaled they would consider cutting interest rates to counter any negative economic headwinds. While Powell's not promising anything, the CME Group's measure of fed funds probabilities puts odds of a July Fed rate cut at 100% (probabilities subject to change).

Lower interest rates tend to be a tailwind for equities because, in a nutshell, stocks face less competition from interest-bearing assets.

Let's add one more wrinkle – economic growth. Rate cuts coupled with economic growth may fuel further market gains like we experienced in the mid-1980s, mid-1990s, and late 1990s.

It's not a coincidence that bear markets coincide with recessions and bulls are inspired by economic expansions. Ultimately, steady economic growth has historically been an important ingredient for stock market gains.

Final thoughts

Control what you can control. You can't control the stock market, you can't control headlines, and timing the market isn't a realistic tool. But, you can control your portfolio.

Your plan should consider your time horizon, risk tolerance, and financial goals. There is always risk when investing, but we tailor our recommendations with these factors in mind.

If you're unsure or have questions, let's have a conversation. That's what we're here for.

As always, we're honored and humbled that you have given us the opportunity to serve as your financial advisors. Let us know if there is someone you care about that might need our help. Likewise, if there is someone you know that might want to receive these monthly emails, let us know and we will add them to the list.

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[1]While Baird does not offer tax or legal advice, our Financial Advisors regularly work with clients' attorneys and tax professionals to help ensure that all phases of wealth management are addressed.