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Warwick Shore Advisors

Warwick Shore Advisors LLC (WSA) is an independent investment advisor focusing on investment strategies designed to outperform the market and mitigate risk over the long-term. We employ a rules-based academic approach that incorporates top-down, macroeconomic analysis and quantitative research. Our rigorous research and portfolio construction process gives us opportunistic insight in to the investment landscape.

Our rules-based top-down macroeconomic approach differentiates us from traditional bottom-up investment management firms. We believe a global perspective driven on macroeconomics is needed to fully synthesize the current market environment. This approach is also paramount in forecasting the road ahead and building risk-controlled, goal-oriented portfolios.

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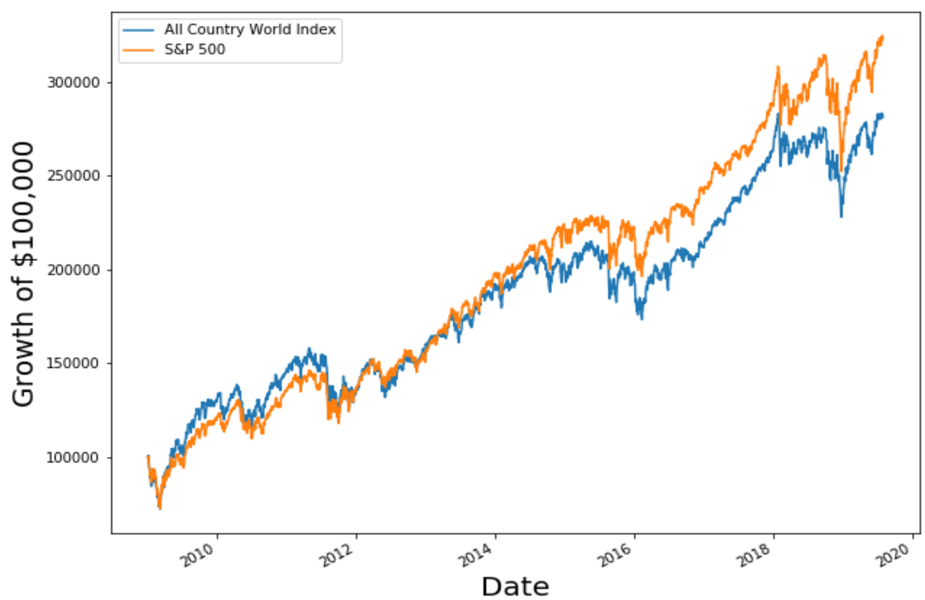
The President and the Fed

FOMC rate decision, political pressure and independence

Over the past several months, President Trump has used a tone of discontentment when speaking to the current monetary policy of the Federal Reserve Bank (Fed). It appears that the President is trying to persuade the central bank to employ monetary policy that would reduce interest rates. This sort of influence could lead to a lack of faith in the central banking system as it is designed to be independent of political pressure. The Federal Reserve Act, which was signed into law in 2013 by President Woodrow Wilson, a mandate to maintain price stability and efficiency within the monetary framework of the United States. The central bank is designed to make its decisions on economic data solely. In addition to monetary policy, the Federal Reserve is tasked with improving credit conditions driving full employment and supervising banking and financial institutions within the domestic economy.

Global Equity Returns
Since Last Rate Cut



Source: Morningstar. S&P 500, All Country World Index performance since Jan 1st, 2009 to July 30th, 2019

Globally Diverging Monetary Policy

Until today, the major central banks around the world have moved in a different direction than the Federal Reserve over the past 10 years. The Federal Reserve placed an end to the monetary tightening stance by decreasing interest rates by 0.25% and ending its reduction of financial securities on its balance sheet. The central banks in Japan and Europe are currently employing expansionary monetary policy. With the Federal Reserve cutting interest rates today for the first time in 10 years, the U.S. is now moving in tandem with other countries and monetary unions across the globe. However, was the rate cut driven by data, which has been mixed but positive overall? And, if it was, has the Fed signaled caution ahead for the investment landscape?

The equity markets saw an increased amount of volatility as a result of the rate cut and speech given by Fed Chairman Powell. In his press conference following the announcement, the chairman mentioned that this rate cut was a “mid-cycle adjustment” and not a long-term change in the current monetary policy. He advised that the Fed will remain data-dependent and maintain independent of political pressure.

Investment Implications

In the wake of the Feds monetary policy decision and tone that this rate cut may not be the start of a new trend, the U.S. equity markets saw a great deal of volatility with the S&P 500 retracting -1.19%. As we forecasted at the end of 2018, volatility in 2019 was expected to rise. This forecast has been true and as a result, we remind investors to maintain a goal-oriented and disciplined approach to investment management. If the Fed remains independent and data-driven, we should not see large gyrations in the capital markets as a result of monetary policy. However, we are keeping a watchful eye on the unsettled trade war between U.S. and China and globally slowing economic conditions.

Treasury Yield Curve- Is a measure yields and maturities for current government fixed income securities. The yield curve is often used as a benchmark for lending rates. Investors inspect the shape of the yield curve for insight in to the current state of the economy.

Housing Starts- Is an economic indicator that measures the amount of new housing units starting construction for a given month. These data are designed to measure living dwellings and not commercial property. The living dwellings are considered single-family units, townhomes, apartments and apartment buildings that have less than 5 units.

Gross Domestic Product- A measure of the market value of all final goods and services produced within an economy. This is measured on an annual or quarterly basis and provides insight on the growth of an economy.

Term Structure of Interest Rates – A measure of the relationship between interest rates of different term or maturities along the yield curve. A normal yield curve is upward sloping with short-term rates (1-month, 3-month, 2-year) providing a lower yield than long-term rates (7-year, 10-year, 20-year)

Disclosures