

## First Quarter Summary

Stocks rebounded strongly during the first quarter of 2019 on the heels of its worst fourth quarter since The Great Depression (1931). In our view, the rebound was due to three primary reasons. First, the Federal Reserve abruptly changed its stance on monetary policy from one that was moderately hawkish to one that is very dovish. Second, the U.S. appears to be close to a trade deal with China, one of its most important trade partners. The threat of further significant tariffs imposed on Chinese goods roiled the market in 4Q 2018. Third, the longest ever federal government shutdown that also began in 4Q 2018 ended in late January of this year.

On a quarterly basis, the S&P 500 increased 13.7%, its best first quarter return since 2009. Bonds continued their healthy returns from last quarter, with the Bloomberg Barclays Aggregate Bond Index rising 2.9%. Investment returns were strong across most asset classes, with equities leading the charge. For example, small-cap stocks, as represented by the Russell 2000 Index, increased 14.6% in Q1. International stocks, as represented by the MSCI World (ex U.S.) Index, increased 10.5%. Real estate, as represented by the S&P REIT Index, surged 16.5%. Returns across alternative asset classes were also positive, but somewhat tempered. For example, the HFRX Global Hedge Fund Index increased 2.8% in Q1 and the Bloomberg Commodity Index increased 6.3% in Q1. In fact, not a single one of the dozen plus diversified benchmarks that we routinely track delivered negative returns during the first quarter.

## Market Outlook

The strong rebound year-to-date has put the stock market in roughly the same position it was in late September, 2018. In our view, gains going forward are likely to be more pedestrian for the remainder of the year. Specifically, given valuations that are now in line with 25 year historical averages, we believe gains may be proportional to earnings growth in the high single-digits for the rest of 2019. Economic growth appears to be decelerating from more than 3% last year to roughly 2% this year. We believe interest rates are likely to stay somewhat flat across the entire yield curve, especially with few signs of inflation exhibited in recent economic reports. In our view, the Fed will remain on hold for the remainder of the year, but an outside chance of a single 0.25% increase remains if the economy reaccelerates in the back half of the year. We also believe the benchmark 10 Year U.S. Treasury Note will remain in a 2.0% to 3.0% range as negative interest rates around part of the world (e.g., Germany, Japan, Switzerland) are counterbalanced by a ballooning federal budget deficit that may approach \$1 trillion this fiscal year and the Fed's desire to avoid an inverted yield curve. In fact, some portions of the yield curve remain slightly inverted, but the slope between short-term and long-term interest rates remains positive.

In the current market environment we still have a preference for stocks over bonds, but are mindful of the long nature of the current bull market and economic expansion. Stronger signs of a forthcoming recession, would result in us recommending a more cautious portfolio. We continue to closely monitor U.S.-China trade relations and geopolitical risks in Russia, North Korea, Europe, Venezuela, and the Middle East. The full report from the Mueller investigation is expected to be released later this month and its findings may result in increased market volatility, despite a disseminated summary report that was largely shrugged off by financial market participants.

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