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April 2019 Commentary

The first quarter marked the tenth anniversary of the market bottom which occurred on March 9, 2009. While bull markets and business cycles don't have pre-determined expiration dates, it's a good time to take note of how far we've come and what may lie ahead.

The stock market rebounded significantly in 2019 despite on-going economic and political uncertainty. The first three months of 2019 are a reminder that staying invested for the long run requires taking the good with the bad. Last year's fourth quarter market drop, and this year's first quarter rebound have felt like a rollercoaster ride. In the first quarter 2019, the S&P 500 index rose 13.6% and the Dow Jones Industrial Average increased 11.8%. The 10-year Treasury yield fell in the final weeks of the quarter to 2.4%, the lowest level since the end of 2017. Global stock markets also rebounded with developed market stocks rising 10.2% in U.S. dollar terms and emerging markets gaining 9.9%.

While the prices of stocks and bonds can swing dramatically on a daily, monthly or quarterly basis, they tend to follow the business cycle over the course of years and decades. What matters for long-term investors is constructing diversified portfolios based on market and economic fundamentals. Trying to predict a market top or bottom is challenging to say the least. In contrast, knowing whether you're investing at a high or low valuation and at what stage of the cycle is a more achievable discipline.

It's important for investors to look beyond the short-term market noise. A tremendous amount of the coverage and discussion on markets is essentially trivia. How did the market perform on this same day twenty years ago? Did the market cycle begin in 2009 or was it really 2013? How will some political event affect markets this week? This is the junk food of the investment profession and represents a large portion of the financial press' diet. However, the real nutrition comes from holding balanced portfolios that help investors achieve their financial goals.

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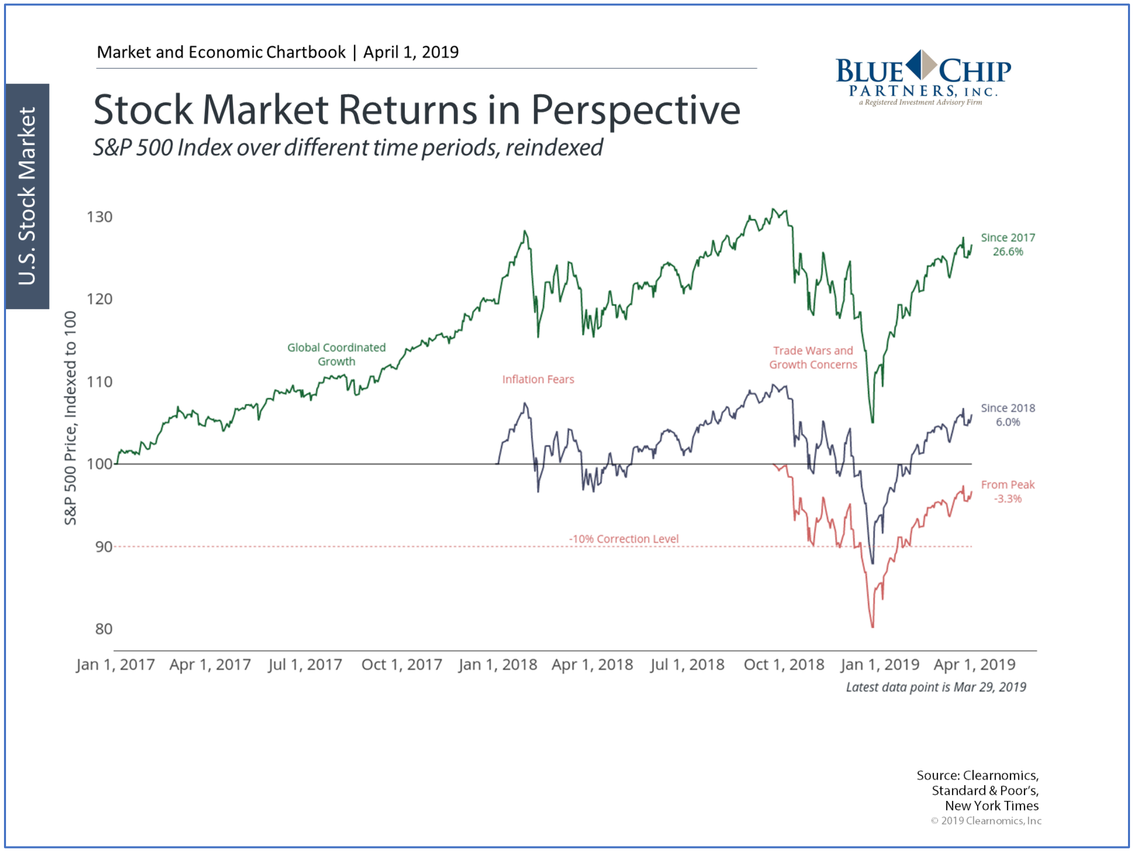
Keeping perspective on the markets is as important as ever



As we begin Q2, it's important for long-term investors to stay disciplined and maintain perspective. At quarter-end the S&P 500 index was only 3.3% below last year's peak and was up nearly 9% with dividends since the beginning of 2018 and almost 32% since the start of 2017. These are healthy returns, despite interim market volatility.

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Longer-term interest rates have pulled back

Interest rates have been a conundrum for investors, economists and policymakers over the past ten years. Despite steady U.S. economic growth and an unemployment rate near historic lows, long-term interest rates have remained unexpectedly low. Traditional economic models would have predicted rising inflation and interest rates. The fact that this hasn't occurred is a result of slower global growth and a reversal in Fed policy, among other reasons.

Long-term rates have faced many false-starts and, despite the recent market recovery, rates have declined further. The yield on the 10-year Treasury had risen above 3.2% as recently as last November. It's now hovering around 2.5%, near the same level that was seen at the start of both 2017 and 2018.

Unlike last year when a flattening yield curve was seen as a sign of an upcoming recession, most investors don't appear to be over-reacting to these dynamics. Economic uncertainty and a deceleration in global growth from 2017 have put downward pressure on long-term interest rates. Factors such as trade uncertainty between the U.S. and China have also played a role.

At its March 21st meeting the Fed indicated it will pause its policy of monetary tightening, signaling that no rate hikes are likely in 2019, and the possibility of only one increase in 2020. As of mid-April, the market, via fed funds futures, indicates zero chance of a rate hike, and a 57% possibility of a rate reduction by year-end.

This is a double-edged sword for investors. Lower rates mean portfolio income is still difficult to obtain via CD's and Treasuries. Investors often need to rely on other riskier assets including stocks and corporate debt to generate sufficient income. On the other hand, declining interest rates have supported fixed income prices somewhat, resulting in even greater portfolio stability.

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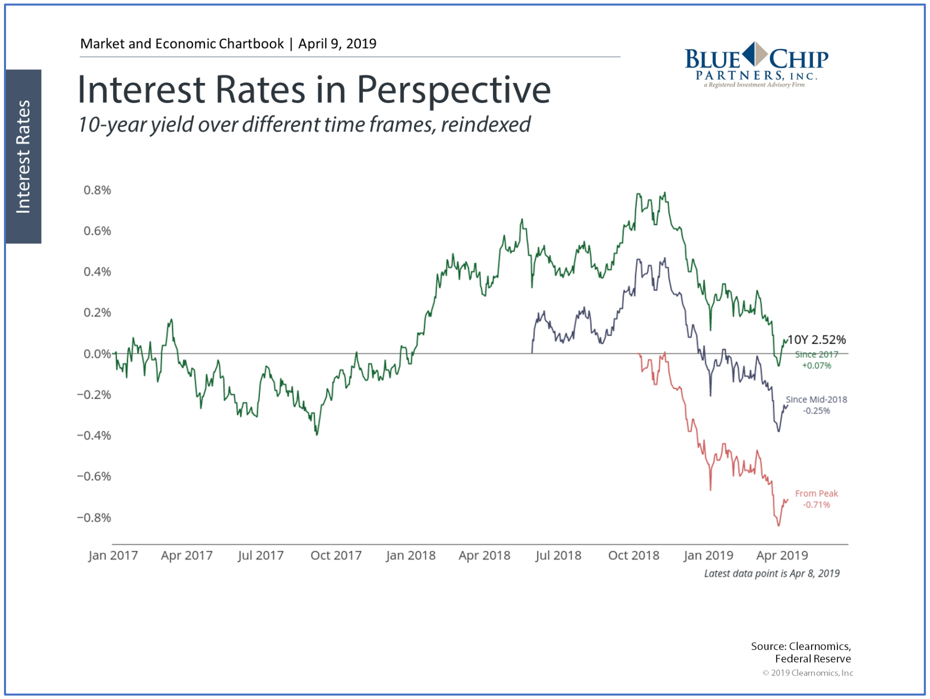

The chart above shows how rates have moved over the past several months, the past year and past two years. Interest rates have fallen from their peaks last year and are still near levels seen at the beginning of 2017. There have been many false-starts for rising rates, including the 2013 "taper tantrum" and in late 2016 following the presidential election. Dynamics such as slower global growth and Fed policy suggest there could be downward pressure on rates for some time.

The bottom line? It's important for investors to keep a long term perspective and stay balanced across asset classes.

Source: Clearnomics, Inc. Expressions of opinion are as of this date and are subject to change without notice. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Every investor's situation is unique, and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. The Dow Jones Industrials Average is a price-weighted measure of 30 U.S. blue-chip companies. It covers all industries with the exception of transportation and utilities and includes reinvestment of dividends. Inclusion of indexes is for illustrative purposes only. Investors cannot invest directly in an index. Past performance does not guarantee future results. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that any statements, opinions or forecasts provided herein will prove to be correct.

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