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EWS INVESTMENT FOCUS

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January was a welcome relief for investors following a rollercoaster 4th quarter and an especially frightening December. While we experienced a greater than 1% up or greater than 1% down day in 10 of 19 trading days in December (over 50%), since the turn of the new year we've only had 6 such instances (~22%). Though the 4th quarter was filled with uncertainty and a drop in confidence, it appears we at least have a better idea of the Federal Reserve's intentions when it comes to interest rates for 2019 (issues such as global trade and the threat of subpoenas, indictments, and another shutdown in Washington remain).

The Fed raised rates four times in 2018 and was widely expected to continue its hikes in 2019, though recent speeches by Chairman Powell in January have indicated a change in thinking. I attended an investment conference during the last week of January. During one presentation, Phil Orlando, Chief Equity Market Strategist from Federated Investments, noted that Chairman Powell used the word "patient" 8 times in his speech on January 30th when describing their plan for moving forward. Former Fed Chair Janet Yellen went as far as to say on February 6th that the next move may even be a rate *cut*.

With a lowered chance of rising rates, the investment markets worldwide experienced a rebound off of the lows of Christmas Eve. Later in Phil's presentation, he gave a prediction of where the US market (as represented by the S&P 500) would be by year-end 2019, with a price target of 3,100. With a low of 2,351 on Christmas Eve, this would represent a ~30% climb. Though this may at first blush seem far-fetched, we've already experienced *half* of this increase, with the S&P already back to 2,707 as of the close on Friday February 8th (~15%).

Several speakers also noted that history is on our side. The 3rd year of a Presidential cycle – on average – has been the best year of the four, and performance in January has also been a consistent predictor for the calendar year. As investment firm, BlackRock, noted earlier in February: "Historically, positive January returns for US stocks bodes well for the rest of the year. Since 1926, when January has been positive the calendar-year return has averaged over 17% versus years when January was negative the average calendar-year return was only 3.3%."

Another hot topic during the conference was the potential for the next recession. The speakers agreed that

Upcoming Dates

Economic:

- ◊ Inflation Readings—February 13th
- ◊ 4th Quarter GDP (delayed) - February 28th

Year-To-Date Performance

(Through 2/8/2019)

Stocks:

- ◊ S&P 500 = 8.24%
- ◊ MSCI EAFE = 5.04%

Bonds

- ◊ Barclays Aggregate = 1.20%

the probability of one beginning in 2019 was extremely low, with 2020 also being unlikely. Recessions – while unpleasant – are not uncommon. The consensus was for the next to be "short and shallow", which would be a sharp contrast from the most recent recession in 2008 and 2009. We plan on keeping a close eye on the economic readings and will adjust the portfolios accordingly.

As we believe that the chances of sharply rising interest rates has diminished, we're likely to adjust the "Conservative" portion of client's portfolios in the coming months. For instance, there are certain categories currently within accounts that were added in recent years because of the threat to interest rates, so as that threat is reduced we will look to re-align certain elements.

While January was less volatile than December, we believe that the heightened volatility is not yet over. Trade issues with China have not been resolved and with the 2020 Presidential race now officially underway, we could see increased negativity in Washington.

Longer-term, however, we remain on the optimistic side. Our Chief Investment Strategist at Raymond James, Jeff Saut, continues to compare this bull market to the bull market we experienced in the '80s and '90s. On February 7th he wrote:

"Well, I think the first leg of the secular bull market actually began in October 2008. After being bearish since the Dow Theory sell signal of November 21, 2007 (I wrote about it), 92.6% of stocks made new annual lows on October 10, 2008 (I also wrote about that). In October 2008 was when the majority of stocks bottomed, even though the indices went lower into March 2009 because the financials kept going down. On March 2, 2009 I was on Bloomberg TV saying, "The bottoming process we wrote about in October 2008 is complete this week and we are all in!" I think the first leg of the secular bull market ended in May 2015. The subsequent upside consolidation, where EVERYONE turned bearish, while my team said this is merely an upside consolidation, ended in February 2016 when Royal Bank of Scotland told investors to sell "everything except high quality bonds." That is where I believe the second leg of the secular bull market began. The second leg is always the longest and strongest. When it ends is unknowable. But when it ends the indices should go into another upside consolidation like the May 2015 – February 2016 affair. Then the third leg of the secular bull market should begin. To size that, in the 1982 – 2000 secular bull market the third, or speculative leg, began in late 1994 and lasted until the spring of 2000." For the full article, please click here.

If there are any topics of interest or questions you would like to ask, please feel free to email me at:

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