2019, ISSUE 3

APRIL 10, 2019

EWS INVESTMENT FOCUS

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After the worst quarter of investment performance (4Q 2018) since the recovery began over 10 years ago, the investment markets saw an equally substantial rally in the 1st quarter of 2019. The S&P 500 (which measures large US companies) was up 13.65%, while the foreign markets were up nearly double digits as well with the developed markets up 9.98% (MSCI EAFE) and the emerging markets up 9.92% (MSCI Emerging Markets). With interest rates declining in recent months, bond performance has also been positive with the US market (Barclays Aggregate) up 2.94%.

Why the recent surge? Well, one of the biggest market threats in late 2018 was the possibility of further interest rate increases by the Federal Reserve in 2019. Throughout history, many recessions followed periods of time where the Fed raised rates too much, too fast. Recent speeches now indicate that we may not have *any* rate increases in 2019, which is quite the departure from expectations last year when many believed we'd see 2 or 3 hikes. While some have even called for rate *cuts*, David Kelly, Chief Global Strategist of JP Morgan Asset Management, doesn't expect either change to happen. As he notes, if we cut rates it would send a very chilling message to markets: "What are they so scared about?" "Why are they so worried?" And if they were to increase rates, they will get a lot of political pushback, especially if the markets fall.

In the 1st quarter we also reached the 10-year anniversary of the Great Recession's market bottom, which occurred on March 6th, 2009, with the Dow Jones hitting a level of 6,469.95. With the Dow closing at 26,424.99 on April 5th, we've witnessed a 308% increase in slightly more than 10 years. In speaking with clients, it's interesting to note that the market crash no longer feels like "yesterday", but most certainly doesn't feel like 10 years either. The psychological impact of the market crash will likely remain with investors for years to come.

We've also had to deal with less volatility in the 1st quarter, as the Dow fluctuated within a range of 25,000 and 26,000 for most of February and March. This has given investors a welcome break from the 4th quarter's constant swings and terrifying news headlines.

Even with the threat of rate hikes subdued for now, other threats remain. The talk of a recession continues, with growth slowing and the yield curve's recent inversion (more

Upcoming Dates

Conferences:

- Raymond James National Conference— 4/29 to 5/3 (Chris and Jess)

Economic:

- 1st Quarter GDP— 4/26

Year-To-Date Performance

As of 4/5/19

Stocks:

- S&P 500 (US) = 16.0%
- MSCI EAFE (Foreign) = 12.2%

Bonds

- Barclays Aggregate (US) = 2.6%

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"In terms of a more short-term outlook of the US stock market, on April 1st, Jeff Saut wrote, '...my work continues to suggest there is not much downside risk here with the grind higher likely to extend into June on an intermediate basis.'"

on this below). As both Jeff Saut (Raymond James' Chief Investment Strategist) and David Kelly have recently said, a *slowing* economy is very different from a *stalling* economy though. In 2018, the US economy experienced it's greatest GDP increase since the recovery began, but this shouldn't come as a surprise given the tax cuts and increased fiscal stimulus (government spending). In 2019, they believe we'll see a slowing economy, but one that is growing at a more sustainable rate of 2%. The 1st quarter GDP announcement will occur in late April, and while many are expecting low growth, Jeff Saut wrote on March 6th that he's not paying much attention to the reports because of the lengthy government shutdown. The 2nd quarter should be more telling, as many are expecting a nice bounce back.

The yield curve - as mentioned above - illustrates the different interest rates over different lengths of time such as 2-, 10-, and 30-years. In most economic environments an investor is paid higher amounts of interest the longer their money is tied up. When things are flipped or "inverted", the shorter time periods are paying higher amounts of interest than the longer periods. The reason why this is notable is that inversions tend to be an accurate predictor of an upcoming recession. As Eagle Asset Management wrote in late-March (Eagle is a mutual fund company owned by of Raymond James): "On March 22, 2019, the yield on the three-month U.S. Treasury eclipsed the yield on the 10-year U.S. Treasury. This garnered widespread attention among economists and market watchers because a yield curve inversion between the three-month and 10-year U.S. Treasuries has historically been a reliable predictor of recession. This is the first time since 2007 that this portion of the yield curve has inverted. While this disappearance of the yield gap between long- and short-term Treasuries has preceded the past seven recessions, it has historically taken six months to two years after the inversion for an economic slump to follow."

In terms of a more short-term outlook of the US stock market, on April 1st Jeff Saut wrote, "...my work continues to suggest there is not much downside risk here with the grind higher likely to extend into June on an intermediate basis." For the full article, please click here.

Longer-term, we're keeping a close eye on interest rates and the yield curve, along with the Chinese trade talks. We expect to adjust portfolios in the coming months, though with the threat of rising rates now more subdued, changes to our "conservative" portfolios are likely further in the future.

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