APRIL 2019

Perspectives

2019: We’re off to a Strong Start

Up, Up, and Away

Investors have been riding a roller coaster the last six months. Going into the fourth quarter of last year, the S&P 500 index was up 11% for the year, but a sharp drop in the fourth quarter sent the index into negative territory last year. By the end of the first quarter, the S&P regained its footing, gaining 13.6% for the quarter.

All Eyes on the Fed

The Federal Reserve’s policy moved ever-more front-and-center in 2019 as the debate over the future path of interest rates hit a fever pitch. The Fed announced in January that it would pause interest rate hikes given the strength of the economy and low inflation, but left the door open for a hike later this year. The market doesn’t agree, and as of the first quarter, the CME Group’s FedWatch Tool predicted almost no chance of additional rate increases this year, with the chances of a rate cut increasing as the year goes on. It’s also likely that the Fed will end its balance sheet rundown sometime this year. Investors will continue to pay close attention to everything the Fed says, news which often moves the markets significantly. Two recent examples stand out. First, in early October of last year when Fed Chairman Powell said that we were “a long way” from a neutral fed funds rate. While the comment alone can’t be blamed for the cratering of the stock market during the fourth quarter, it certainly didn’t help. In January of this year, Powell changed his tune, saying that the Fed would be “patient” with any future rate increases, causing the S&P 500 Index to jump 3.4%. Furthermore, the yield curve inverted during the first quarter, historically a pre-cursor to recession.

Deal or No Deal?

Brexit, initially a hard deadline set for March 29, has been pushed back after a divided parliament failed to negotiate a deal with the EU before the deadline. Whether this is good news or bad for the United Kingdom remains to be seen. Several parties in parliament are pushing for a new Brexit vote, in hopes of reversing the decision all together, while others want to press on. The situation is complicated and messy with no easy resolution in sight. The turmoil in the UK caused stock there to trail the broader global stock market.

Market Metrics

After a rough fourth quarter, investors who stood pat in their allocations were rewarded with a quick bounce back. The S&P 500 Index gained nearly 14% last quarter and the Russell 2000, which lost nearly 30% in the fourth quarter of 2018, rose nearly 15% last quarter. The international indexes continued to trail as news from China, the UK, and other countries continue to have more complicated growth stories. The below table shows returns for major market indexes through March 2019.

Calendar Year Returns 2007-2019

	Total Return (%)				
Index	Q1 2019	1 Year	3 Year	5 Year	10 Year
Equities					
S&P 500 (Large Caps)	13.65	9.50	13.51	10.91	15.92
Russell 2000 (Small Caps)	14.58	2.05	12.92	7.05	15.36
MSCI EAFE (Intl Equity)	9.98	-3.71	7.27	2.33	8.96
MSCI Emerging Markets	9.91	-7.41	10.68	3.68	8.94
Fixed Income					
Bloomberg Barclay’s US Aggregate Bond	2.94	4.48	2.03	2.74	3.77
Bloomberg Barclay’s US Corporate High Yield	7.26	5.93	8.56	4.68	11.26

Data as of 3/31/2019. Source: Morningstar
Past performance is not indicative of future results.

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Important Information:
The **S&P 500 Index** consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value.
The **Russell 2000 Value Index** invests in stocks in the Russell 2000 Value Index, a broadly diversified index predominantly made up of value stocks of small U.S. companies.
The **MSCI EAFE Index** is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.
The **MSCI Emerging Markets Index** is an index designed to measure equity market performance in global emerging markets.
The **Bloomberg Barclays US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.
The **Bloomberg Barclays US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

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