QUARTERLY
Market
TALK

1ST QUARTER - 2019

Disney recently released a remake of "Dumbo," the story of the flying elephant that originally came out in 1941. In both movies, Dumbo is hoisted on a platform rising toward the ceiling of the Big Top. He jumps and plummets toward the ground to certain doom – only to pull up at the last second and fly majestically around the tent.

The stock market pulled a similar stunt over the first three months of 2019. The fourth quarter of 2018 left many investors feeling as if they were hurtling toward the ground, as the year ended with the worst December since 1931[1] and the worst 12 months for stocks in a decade.[2] Things looked bleak; the new year started with a government shutdown over a spat between Congress and President Donald Trump over border security funding and an escalating trade war with China.

But then, the market caught air and soared. Despite the gloom and doom, unemployment remained at its lowest level in 50 years. The economy kept growing. While the on-again, off-again trade deal with China has kept things interesting, the market has shrugged it all off and the first quarter of 2019 ended on a high note.

FRIENDLY SKIES

When it was all said and done, the first months of the year were among the best in recent memory. The rally in U.S. equities actually began Dec. 26, when the Dow surged more than 1,000 points for its all-time largest one-day gain.[3] The Dow has increased 18.62% since market close on Dec. 24 and ended the first quarter up 12.56% year to date.

On March 9, we celebrated the 10-year anniversary of the stock market low from the financial crisis. Since that date, the S&P 500 is up roughly 420% and ended Q1 up 13.1%. This is only the 11th time since 1950 the index gained more than 10% in a first quarter and is its strongest performance in any quarter since September 2009.

The tech sector was a winner for U.S. stocks with a nearly 20% increase in Q1. Other high achievers included real estate, energy and industrials. Within the S&P 500, the health care and financial sectors had the smallest amount of growth, ending the quarter up roughly 5% and 7%, respectively. Overall, stocks also did well globally, with increases in several regions around the world.

CLOUDS ON THE HORIZON

New highs in U.S. equity markets are a real possibility as we glide into Q2, but don't be surprised if pessimism from the media and anxious analysts gets louder. It's normal for the nervous chatter to increase in conjunction with rising market levels.

While the forecast is mostly sunny, there are a few clouds to watch out for.

Expect volatility to make a comeback in Q2, after staying mostly absent until the last week of Q1. Reports on April 3 indicated a U.S.-China trade deal might be drawing closer and that a final trade agreement is possible in the very near future.[4] However, lingering questions remain to be ironed out by both sides.

We'll also keep an eye on the yield curve, which inverted briefly in Q1. An inverted yield curve happens when shorter-term security yields are greater than yields on longer-term securities. A prolonged inversion signals the likelihood of a recession, especially if it remains inverted for a significant period of time.[5] Yields have fallen around the world in recent weeks, leaving some wondering about the longevity of the recent market rally.

The Federal Reserve could also decide the economy is heating up too quickly and change its stance on rates. White House economic advisor Larry Kudlow announced in late March the White House wants the Federal Reserve to "immediately" cut interest rates by 50 basis points.[6] So far, the Fed hasn't made the cuts suggested by the White House.

Global news may also impact both international and domestic markets. The Brexit conversation will most likely continue throughout the quarter, creating economic uncertainty in the UK. Venezuela remains in political crisis, and tensions stay high in the Middle East. As always, it's anyone's guess as to what moves Russia or North Korea might make next.

MANAGING TURBULENCE

With all these lingering questions, how should we approach investing right now? The best thing to do is stick to these four key fundamentals:

1. **Focus on what you can control.** You can't control the decisions of the Federal Reserve or the outcome of the U.S.-China trade deal. You can control risk through allocation and diversification within your portfolio. You can control staying informed and knowledgeable about your investments and how they are performing. Staying focused on the things that are within your power can help you keep calm even through market volatility and uncertainty.

2. **Stay disciplined.** You have a financial plan. External forces will cause you to reconsider that plan. It's not unlike flying: You start your journey with a flight plan, but when you hit turbulence, your plan to stay on the predetermined path is threatened. Markets are going to move up and down, and your accounts are going to move with them. The important thing is to keep the big picture in mind and keep taking small steps toward your goal.

3. **Don't let emotions drive investment decisions.** When emotions dictate decisions, we are more vulnerable to gimmicks that promise short-term success but don't get us to our long-term goals. If you feel anxious about how your financial picture is affected by volatility,

think about your plan and the reasons why you put that plan in place to begin with.

4. **Diversify.** Harry Markowitz, the father of Modern Portfolio Theory, famously called diversification "the only free lunch in finance." Consider enhancements to your allocation outside of stocks and mutual funds. Most importantly, always keep reading and learning, staying informed about not only money management but also the important headlines in your local and global communities.

The biggest thing you can do is rely on your trusted financial advisor to help you through any challenging times that may loom. They can encourage you to stay disciplined, remind you of your plan and provide support on the path toward your investment goals.

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[1] Suzanne O'Halloran. Fox Business. Dec. 31, 2018. "Dow, S&P post worst December since 1931, as Nasdaq has worst on record." https://www.foxbusiness.com/markets/dow-sp-500-having-worst-month-since-1931-as-grinch-hits-wall-st. Accessed April 3, 2019.
[2] Chris Isidore. CNN Business. Dec. 31, 2018. "2018 was the worst for stocks in 10 years." https://www.cnn.com/2018/12/31/investing/dow-stock-market-today/index.html. Accessed April 3, 2019.
[3] Ibid.
[4] Sahell Roy Choudhury. CNBC. April 3, 2019. "US and China are reportedly drawing closer to a final trade agreement." https://www.cnbc.com/2019/04/03/us-and-china-are-reportedly-drawing-closer-to-final-trade-agreement-ft.html. Accessed April 3, 2019.
[5] AE Wealth Management. Dec. 6, 2018. "What an Inverted Yield Curve Means for Investors." https://wealthspeaks.com/what-an-inverted-yield-curve-means-for-investors/. Accessed April 1, 2019.
[6] Thomas Francke. CNBC. March 29, 2019. "White House advisor Larry Kudlow says Fed should 'immediately' cut rates." https://www.cnbc.com/2019/03/29/white-house-advisor-kudlow-says-fed-should-cut-rates-report.html. Accessed April 3, 2019.