Market Commentary

1st Quarter 2019

As dramatic as the plunge that stocks experienced during the 4th quarter of 2018, an equally impressive rebound has occurred during the 1st quarter of 2019. For the past 3 months the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite rose 11.2%, 13.1%, and 16.5% respectively. U.S. equities scored their largest quarterly gains in nearly a decade, having now recouped almost all the losses they suffered in the final months of 2018.

Year-end concerns that slowing growth here and abroad as well as a Federal Reserve bias toward a tighter monetary policy stoked fears of a 2019 U.S. recession culminating in the 4th quarter debacle. Conversely, in January the Fed backed off its rate-increase campaign and foreign countries kept their interest rates at historic lows. Additionally, it appears that U.S. growth, while moderating, will be solid. Also, China and the Eurozone, while experiencing slower growth than the U.S., should be strong enough to prevent a global downturn.

Gains were broad in the stock market with all 11 S&P 500 sectors ending higher for the quarter for the first time since 2014. Yields have fallen during the quarter reflecting reasonable economic growth, yet generally positive for equity prices. The benchmark 10-year U.S. Treasury note settled at 2.416% well below the 2.684% where it ended last year. With yields falling and Central banks' softer approach to monetary policy, investors are being reassured that corporate profits and consumer spending should be sustainable as the year progresses.

Further underpinnings of the stock market include inflation data stable at a relatively low 2% rate, wages rising over 3%, and unemployment at an historically low 3.7%. Along with a low interest rate environment that is favorable for housing and automobile sales, Gross Domestic Product should pick up in the coming months. The current quarter is projected at less than 2%, which was heavily influenced by the government shut down. Last year the economy grew at 3% and most economists expect a bounce upward to a healthy 2.5% growth rate for the remainder of the year.

With Brexit unresolved, trade negotiations with China still uncertain, and Euro trade diplomacy unsettled, volatility should continue to be anticipated in the coming months. Hopefully, the collusion and impeachment concerns have abated, but they may still contribute to stock market tumult. Overall however, fundamentals appear sound. Equities are fairly valued at 16-17 forward price/earnings ratios. Obviously, we do not anticipate 1st quarter gains to be replicated, but a vibrant environment for stocks remains in effect.

As we reiterated in the 4th Quarter Commentary, our best advice is to invest in good value equities that generate solid performance and profitable returns over the long-term. Trading in and out of the market is subject to being whipsawed – extremely difficult to time and equally problematic to do well. Obviously, the foregoing two quarters are reminders of the uncertainty in attempting this short-term strategy.

Thank you for your continued support. We remain optimistic and on track for a profitable 2019.