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Wealth Management, LLC

April 2018

First Quarter Market Review

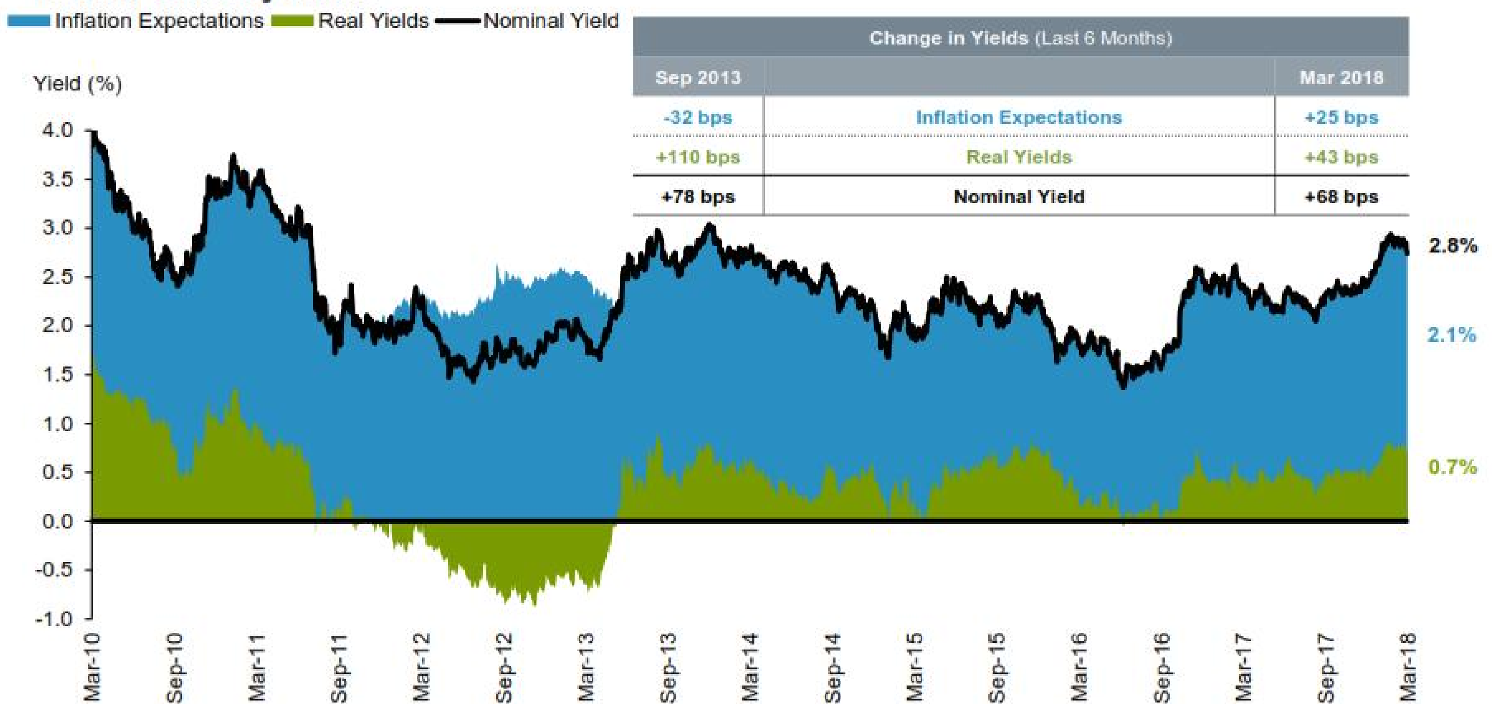
The confirmation of major U.S. tax reform and robust earnings boosted growth expectations in the beginning weeks of 2018, elevating global equities and bond yields. But shortly thereafter the market plunged, and the S&P 500 entered correction territory on February 8th, which is labeled as a decline of at least 10% from recent highs. This can be attributed to worry that the Federal Reserve would accelerate the pace of interest rate hikes, and though it did not end up increasing its rate projection from three to four, the Fed did raise the federal fund rate by 25 basis points in March. It has hinted it will adopt a more aggressive approach to keep inflation under control, forecasting three rate hikes in 2019 instead of two.

Stocks tumbled when the presidential administration announced proposed tariffs against China in early March, and these ongoing geopolitical concerns in addition news of potential increased regulation in the tech sector spurred market volatility during the latter part of the quarter. This was the stock market's first quarterly loss since the third quarter of 2015, but we must remember that 2017 was the exception—an irregular, albeit lucrative, year.

"The individual investor should act consistently as an investor, not as a speculator."

Benjamin Graham

Nominal yield: 10-year Treasury yield



Change in Yields (Last 6 Months)		
Sep 2013		Mar 2018
-32 bps	Inflation Expectations	+25 bps
+110 bps	Real Yields	+43 bps
+78 bps	Nominal Yield	+68 bps

Source: Federal Reserve, Haver Analytics, Fidelity Investments

As inflation rises, so do bond yields. Many central bankers have expressed confidence inflation would finally rise to its 2% target over the coming year. This quarter, the 10-year Treasury yield rose to its highest level in four years.

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July 2018

Second Quarter Market Review

The United States economic and earnings picture still looks good as we enter the second half of the year. With more than 100 consecutive months of expansion recorded, the economy remains self-sustaining. The Fed is still tightening financial conditions with two more rate hikes penciled in for the year after it raised the federal funds rate target by 25 basis points in March and then again in June. In concert with last month's rate increase, interest rates also rose for short-term U.S. Treasury securities.

Over the quarter, U.S. energy equities performed well given the sharp rise in oil prices, and growing consumer confidence reflected consumer discretionary stock gains. In addition, technology equities generated gains, and the market shifted to support more traditionally defensive areas such as utilities.

Highly publicized trade tensions weighed mostly on equity markets outside the U.S., especially in China. While industrials did suffer stateside, the U.S.'s positive earnings momentum transcended the escalating trade posturing. Emerging markets were not exempt, however, and they recorded a sharp fall in the second quarter. The increasing strength of the U.S. dollar has further put pressure on some of the most vulnerable emerging market economies such as Turkey and Argentina, both of which have hefty external financing needs. Brazil had the weakest index market because of a crippling truck driver strike and growing political uncertainty.

As illustrated in the graph below, sentiment about the market has shifted within the last three years which serves as a good reminder to view the daily national drama with a long-term perspective in regards to your investments. *We sincerely hope you have enjoyed your summer thus far and hope you will reach out to your advisor if you feel the need.*

Market moods

Main themes in global economy, 2015-2018

	2015	2017	2018
Growth	Activity deteriorates across the world	Upside surprises in eurozone and China	U.S. spurt offsets eurozone downside; China steady
Inflation	Disinflation and deflation fears	Downside surprises in the U.S.	Inflation rising to target in the U.S.; subdued elsewhere
Policy & financial conditions	Credit spreads widen; doubt over policy effectiveness	Fewer Fed hikes than expected; easing conditions	Faster pace of Fed hikes priced in; tightening conditions
Macro uncertainty	Fears over Chinese currency crash, growth slowdown	Rising confidence in economic expansion	Trade actions and fiscal stimulus widen range of outcomes

Sad — Neutral — Happy

Source: BlackRock Investment Institute

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October 2018

Third Quarter Market Review

As the third quarter of 2018 concludes, the economy continues to hum along as U.S. stock indexes hit record highs again while the bond sector suffered. The Bloomberg Barclays Aggregate Bond Index is down 1.6% year to date which may result in one of the weakest years ever for the bond market. Jobless claims are at their lowest level since the 1960s, and we could see the federal funds rate, the rate at which depository institutions lend reserve balances to other banks on an overnight basis, rise above 3%. No one was surprised by the Federal Reserve's s most recent rate increase which illustrates a move into more restrictive territory.

It seems the only thing certain about U.S. trade policy is its uncertainty, but so far businesses are maintaining resiliency. These ongoing trade concerns, a key source of risk between now and the end of the year, has not yet derailed business confidence or capital expenditure as evidenced by strong economic and earnings growth. As of early September, the U.S. imposed tariffs on $50 billion in Chinese imports and China retaliated with equal measures. Most recently, the North American Free Trade Agreement started undergoing its cosmetic changes.

The U.S. has already enacted 25% steel and 10% aluminum tariffs against Europe, and may initiate additional, although Congress is generally unsupportive of further sanctions against our eastern neighbors. Europe has been dealing with turmoil around the new Italian government, uncertain Brexit negotiations and overall weak economic momentum.

It's been a challenging three months for emerging markets (EM). Turkey and Argentina remain at the center of EM strife, and as the U.S. dollar continued to strengthen (all year), it emphasized foreign exchange risk for EM currencies. Since late January, there has been a 20% sell-off in the MSCI EM Index. As we move into the last quarter of 2018, the Japanese economy shows signs of momentum as the dollar is expected to begin depreciating. This will also contribute to positive EM outlook.

At the end of August, the president directed the Treasury Department to review the required minimum distribution rules for retirement accounts, and asked the agency to develop new small business retirement plan guidelines with the Labor Department. Keep an eye out for our next newsletter where we will update you on these developments, plus enlighten you with the year's end economic and market lowdown.

A Change Of Scenery

Depending on your investment model, you may soon notice trading activity in your account(s), as we are implementing a couple investment allocation changes. We have decided to remove Pimco's Long-Term U.S. Government Fund due to flat bond yields and lower bond prices, and instead invest in more Griffin Institutional Access Real Estate Fund. In addition, we are exchanging American Fund's Capital Income Builder for their American Balanced Fund. The latter security has provided more consistent performance over a long period of time.

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January 2019

Fourth Quarter Newsletter

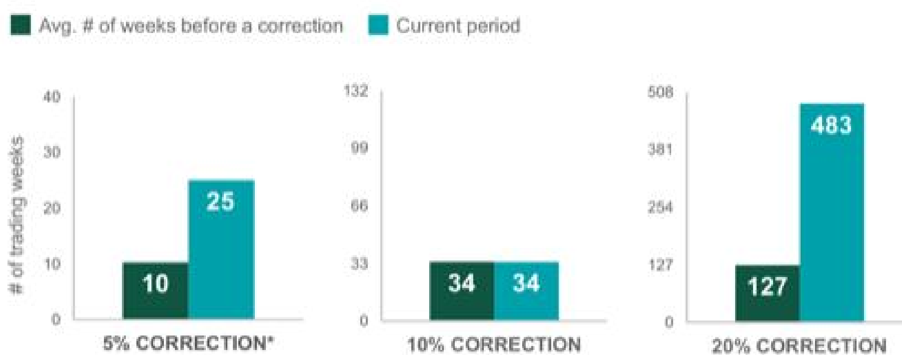
Major stock market indices reached new highs upon entering the fourth quarter, only to finish 2018 in a downward descent. U.S. stocks logged one of their best starts on record by gaining 7.5% within the first three weeks of the year, but 12 months later had suffered their steepest annual declines since the financial crisis. In fact, major equity markets outside the U.S. also experienced their worst declines since 2008 including China's Shanghai Composite, Japan's Nikkei 225 Index, and Europe's Stoxx 600. You could say 2018 began and ended in a flurry, albeit in opposite directions.

But 2018 wasn't all bad. Retail sales this holiday season were the best in years. Economic growth and prior-year tax reform helped corporate earnings rise by about 20%. Additionally, the unemployment rate reached its lowest level in half a century.

Monetary policy will continue to tighten, as indicated by Fed Chair Jerome Powell at the Federal Reserve's December meeting. Bond prices would typically fall further pushing yields higher, but after two years of rising yields, the 10-year Treasury bond yield may have peaked at the 3.25% level. The Federal Open Market Committee also lowered its expectations for real GDP growth for the upcoming year. Finally, the Fed is likely to raise rates once or twice in 2019.

Investors have a lot to digest coming into the New Year. Last month investors pulled $98 billion from U.S.-based stock funds ahead of a perceived economic slowdown and continuing U.S. and Chinese trade spats. We're here to remind you that declines are part of the normal market cycle, and having a financial plan and diversified portfolio, which all our readers have, are key steps to weathering whatever 2019 brings.

A 5% Correction Was Long Overdue



*Trading weeks before latest correction = 25

Source: Northern Trust Investment Strategy, Bloomberg. Time between correction data from Ned Davis Research and S&P 500. Data through 10/11/2018. Past performance does not guarantee future results.

As indicated in the graph, it typically takes only 10 weeks before the market experiences a 5% correction, but we hit 25 weeks before seeing one. Similarly, we haven't witnessed a 20% correction in over 483 weeks when it usually only takes 127.

ANNOUNCEMENTS and UPDATES

Some clients may receive correspondence from Charles Schwab regarding "deactivated moneylink/bank ETF instructions." This notice was sent out in error, so if you have a monthly deposit or withdrawal, please know that it hasn't truly been affected.

The contribution limits for IRAs and 401(k)s have both increased by $500 for 2019. That means the new maximum contribution amount for IRAs is now $6,000, and the limit for 401(k), 403(b), and 457 plans is $19,000. Don't forget if you're over age 50 you are eligible for the yearly $1,000 catch-up contribution.