April 2019 Thoughts and Insights

The first quarter of 2019 will be remembered as one of the quickest recovery periods for stocks in recent times and will have erased most of the losses that occurred at the end of 2018. While we would never snub gains, we do continue to hold our cautious outlook on the market. There are both positive and negative forces impacting the markets as the current +10 year bull run nears its end.

Let's start with the positives. Interest rate hikes are currently on pause and the Federal Reserve is expected to refrain from raising interest rates throughout 2019. All else equal, this pause in higher rates should help businesses and households as their interest expense will go down. The unemployment rate is slightly below 4% which is close to the lowest since World War II. The technical signals in the market are also blinking bullish in the short term as price movement has been positive for stocks. Finally, the VIX Index, which attempts to measure volatility, has been relatively low.

With all-time highs on the S&P 500 just a short distance away, there are many optimistic headlines hitting the financial press. However, it should be noted that trading action around all-time highs can be erratic. We think the approaching market levels should warrant careful analysis. Significant strength or weakness at these levels will be important for technical analysts going forward.

While some signs on the surface may appear healthy, broad measures of economic activity have continued to deteriorate.

- Growth in the US economy hit a recent high in Q2 of 2018 registering at 4.2%. Since the second quarter, however, US economic growth has steadily decelerated. In Q4 of 2018, the US economy grew at a pace of only 2.2%. The New York Fed's current economic growth forecast for Q1 of 2019 is just 1.4%. The government shutdown that took place earlier this year may have had an outsized impact on first quarter growth, but the trend is still downward nonetheless.

- First quarter 2019 corporate earnings are also expected to decline by approximately -4%. However, the defensive sectors including Utilities, Health Care, and Real Estate are estimated to remain strong.

- The US trade policy has not been viewed favorably. It is estimated that the 2018 tariffs directly negate over a quarter of the savings from the 2017 cuts in individual and corporate tax rates.

- Although the Fed did decide to move toward an easier policy stance, this is unfortunately due to slower expected economic growth in the US and weakness abroad, specifically in Europe and China.

- The US treasury yield curve recently inverted when the 3-month Treasury rate hit 2.46% while the 10-year rate was 2.44%. When the yield curve inverts a recession historically follows six to eighteen months out.

Despite the recent run up in the equity markets, we remain cautious for the above mentioned reasons. We are sticking with our defensive positions in stocks and larger than normal cash balances. In fixed income, we plan to reduce our exposure to our floating rate fund as well as higher risk securities and increase our exposure to US treasuries/agencies, which have historically been negatively correlated with equities. At DTIM, we place a great deal of importance on a disciplined long-term approach to our portfolios and always seek to provide protection during down markets.

Lastly, for some office news, we said goodbye to Kyle as he was recruited away by a local bank to focus on private equity, but we are thrilled to welcome Mark Gibbens to our team. Mark holds the CFA- Chartered Financial Analyst, CPA- Certified Public Accountant, and CAIA-Chartered Alternative Investment Analyst designations and has held a similar position at another local firm. We are already benefiting tremendously from his experience and look forward to his thoughtful analysis and investment research expertise.

As always, we remain dedicated to serving your investment needs according to your goals. Please call or write with any questions you may have or join us in the lounge with the beverage of your choice for enlightening discussions.

Michelle