Wealth Management

QUARTERLY PERSPECTIVE

SPRING 2019

The Numbers Count

Global equity markets rebounded in the first quarter of 2019, with most market averages posting solid gains. These strong returns should be taken in context, though, having bounced off the year's low starting point following 2018's broad-based fourth quarter drawdown. While current economic conditions are probably not as good as market performances suggest, they also were likely not as bad as price levels indicated in December. Investors were emboldened in the first quarter by fairer equity valuations, a dramatic bond market rally, and a more constructive macro backdrop. On this latter point, the U.S. and China trade dispute teeter-tottered, while the Federal Reserve pivoted from continued tightening to a more accommodative "pause" posture.

2019 Performance 1/1/2019 - 3/31/2019	1st Quarter 2019	4th Quarter 2018	Full Year 2018
S&P 500 Index	13.65%	-13.52%	-4.38%
Dow Jones Industrial Average	11.81%	-11.31%	-3.48%
Nasdaq Composite (tech)	16.81%	-17.29%	-2.84%
Russell 2000 Index (small cap)	14.58%	-20.20%	-11.01%
MSCI EAFE (net) (foreign developed)	9.98%	-12.54%	-13.79%
MSCI Emerging Markets (net)	9.93%	-7.47%	-14.58%
Bloomberg Barclays US Aggregate Bond Index (bonds)	2.94%	1.64%	0.01%
BofA Merrill Lynch 3-month Treasury Bill (cash)	0.60%	0.56%	1.87%

Source: Zephyr StyleADVISOR

Investing and overall wealth management use numbers as the basis for just about every financial decision. We use them to interpret, compare, inform, justify, and comfort. The quality (and quantity) of those numbers typically improve the quality of our lives. Let's take a look inside some recent numbers to see how they may impact current and future investment and financial planning considerations.

Highest Close Ever: The S&P 500 Index achieved an all-time closing high on April 30, 2019, when it closed at 2,946 points.[1] This was the Index's 211th record close during the ongoing bull market that began March 10, 2009.[1] Is the market's growth slowing? Yes. Can the market's run continue? Certainly, given economic indicators that remain generally positive. Should investors get out at the top? No, but it is a good time to rebalance portfolios, trimming over-weighted positions and replenishing those that are underweighted. Also, if one's investment strategy remains long-term, and the same high quality securities owned today would be owned in the future, stay invested. Conversely, if clients need money for short-term expenses, this is a good time to raise it.

Higher Here Than There: The U.S. economy is projected to grow +2.2% in 2019, nearly a percentage point higher than the +1.3% projected growth rate of the collective economies of the 19 nations that make up the Eurozone.[2] Investments in U.S.-based companies have also outpaced international companies for most years of the bull market run. While continuing to diversify portfolios globally makes sense, and a U.S.-centric bias is the norm, now may be a prudent long-term opportunity to rebalance allocations and replenish the international components to their target levels.

Inflation in Check: March's core Personal Consumption Expenditure (PCE) year-over-year reading came in at 1.6%,[3] below expectations and further away from the Federal Reserve's 2% target. By many estimations, core inflation has been benign and is expected to remain relatively moderate. But, looking at the gas pump, we see that from the end of 2018 through mid-April 2019, the price of a barrel of oil increased approximately 41% and the price of a gallon of gasoline increased approximately 24%.[4] In higher education, the average cost of one year of college (tuition, fees, room and board) at an average 4-year public institution has tripled over the last 22 years, rising from $7,142 per academic year 1996-1997 to $21,370 during academic year 2018-2019.[5] Consequently, the need to save regularly and continue growing investments remains a primary financial planning focus.

Hikes and Inversions: The recent dovish tone adopted by a number of central banks (e.g. European Central Bank, Bank of Canada, U.S. Federal Reserve) suggests that policy rate hikes are unlikely across most regions for the time being. This, along with an outlook for slower global growth and low inflation expectations, has contributed to lower yields which are likely to persist. March's yield curve inversion when the 10-year Treasury note yield dipped below the 3-month Treasury bill's triggered investor worry. Many economists historically view an inversion as a sign of future economic weakness and a precursor of recession, but the timing and duration of any approaching recession is anyone's guess. What we do know is that the U.S. has been in a recession during just 83 months over the last 50 years, equal to just 14% of the months during the last half century.[6]

Prepare For It: At age 65, an American couple has a 48% chance that at least one of them will live to age 90, i.e. at least a 25-year life expectancy.[7] So, with the anticipation of global market growth slowing, and interest rates and inflation remaining lower for longer, forward-thinking asset allocation decisions are crucial. The importance of following a disciplined financial plan to help ensure fiscal stability has never been greater. Tax law changes, Social Security benefit options, cash flow and investment income needs, required minimum distributions from retirement accounts, insurance planning, estate planning, and charitable giving, etc. all reinforce the need for experienced and comprehensive oversight. Simplifying the complex isn't easy, but it is doable when someone like your CNB Wealth Management CERTIFIED FINANCIAL PLANNER™ professional helps develop the plan.

You Are Here: The current economic expansion may soon clock in as the longest on record. Interest rates, despite nine rate hikes since December 2015, remain low on a historically relative basis. Market volatility has regained momentum and reminded us of the importance of investment risk control management. The S&P 500 Index's 4Q18 loss of -13.5% was followed by a 1Q19 gain of 13.6%, just the sixth time in the last 50 years that a double-digit loss quarter has been followed by a double-digit gain quarter.[1] Global economic, monetary, and political rumblings reverberate throughout the financial system, often leaving lasting effects, but almost always prompting emotionally-charged investor behavior. Whether or not we're close to the end of one cycle and the beginning of another, it remains a challenge to follow the disciplined plan you and your advisor have laid out.

Despite good market performance through the first quarter of 2019, clients seem more anxious. Real or imagined, temperaments toward recent market fluctuations suggest now is a good time to talk with your CNB Wealth Management advisor and review your investment and financial plans. Our team is knowledgeable, experienced, and prepared to discuss the changing economic landscape and how it may affect you and your family's personal situation – now and in the future.

[1]Source: BTN Research [2]Source: International Monetary Fund [3]Source: Bloomberg [4]Source: NYMEX, AAA [5]Source: The College Board [6]Source: National Bureau of Economic Research
[7]Source: Social Security Administration