STRAIGHT TALK

1st Quarter 2019

Steven F. Mosshart AIF®, Chief Investment Strategist   Sonny Mehra, Director of Research

Market Returns

Domestic Large
S&P 500
13.51%

Domestic Small
Russell 2000
12.92%

Intl Developed
MSCI EAFE
7.27%

Emerging Markets
MSCI EM
10.68%

Fixed Income
BBgBarc US
Aggregate Bond
2.03%

**Market data is from Morningstar and is through 03/31/19. All returns are with dividends reinvested.*

Markets have taken us on a wild ride during the last six months. It's hard to recall two consecutive quarters so opposite in investor sentiment and Fed policy direction. Losses in the fourth quarter have been replaced with gains across nearly all asset classes in Q1 2019. Sentiment has gone from expecting a recession to a more positive outlook. The Fed and other central banks have taken a noticeably dovish turn after thoughts of tightening and increasing rates. As bleak as things appeared in Q4 to cause an overreaction, we need to apply temperance to overly rosy expectations after the recent turn around. There are still concerns in the economy and trade issues that warrant caution. Truthfully, we weren't surprised to see stocks rally after the selling that took place late last year. The leading indicators were, and still are, decidedly positive and it doesn't look like the start of a recession. It does however, look exactly like a late stage bull market. The length of this stage is an unknown.

The single biggest macro issue in our minds is the ongoing trade dispute between the US and China. There appears to have been some progress in negotiations, but until a deal is finalized this will remain the key issue in market direction and depth. It was hoped that a deal would have been reached by now, but some key sticking points still need to be negotiated. Hopefully the signs pointing to a possible deal in the coming weeks are accurate. After a trade deal is struck, focus will likely shift to Europe where the process should be much more efficient.

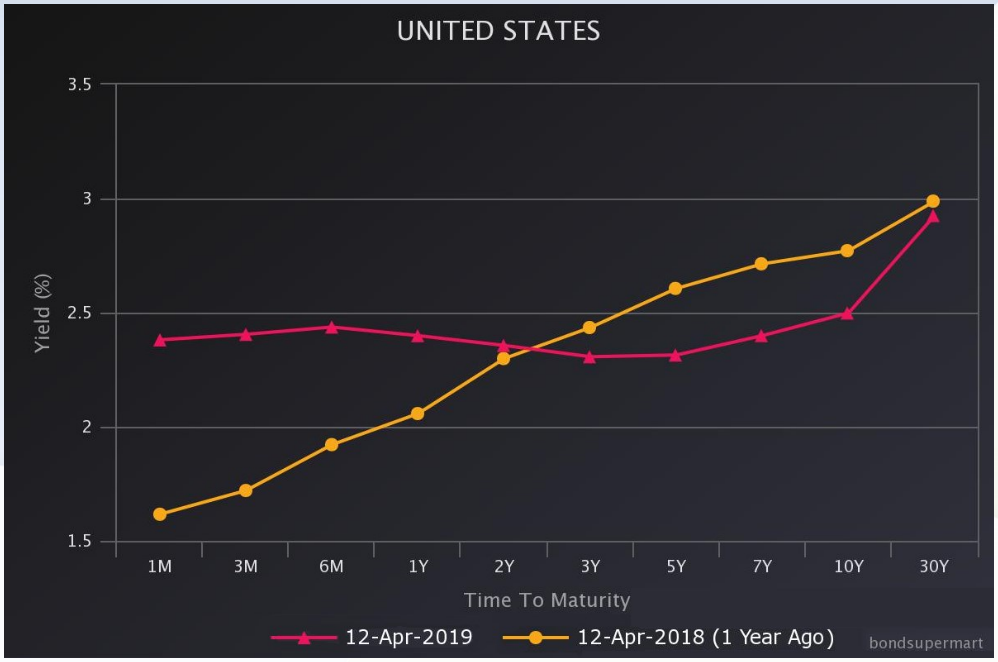
We've also seen a significant turn in fixed income markets. After spending most of last year in the red, bonds rallied late and have continued to gain into this year. The Fed paused their rate hike cycle and now appears set to hold rates steady for the near term. Any significant change in economic growth or inflation would, of course, cause policies to adjust again. For now the equations look like this: economic growth = Fed tightening = rise in rates = lower bond prices = stock market pressure, and conversely: slower growth = Fed holding or loosening = reduction in rates = higher bond prices = stock market boost. We have a constant eye on the Fed and will make any necessary adjustments.

Now, to throw a bit of the old fly in the ointment, the yield curve is inverted in the mid range (1-7 years), meaning that you can get better rates keeping maturities short vs. mid range debt. Also, the long term maturities get only a 0.50% - 0.75% bump. There is no reason to lock money up beyond 1-3 years currently. It is also our belief that after a clear slowdown in the second half of last year, economic conditions could improve in the second half of this year and with it we may see longer-term bond yields move higher. The chart on the following page shows the change in the yield curve over the last year.

STRAIGHT TALK

1st Quarter 2019

Steven F. Mosshart AIF®, Chief Investment Strategist   Sonny Mehra, Director of Research



For many years higher quality bonds have been the safe, stable place to keep your money. Additionally, bond holders received great returns boosted by the reduction of rates for the last 30 years. Things have changed however, and while bonds will still provide some safety and stability, the returns will be muted. It is further complicated with different maturities and different sectors, and the unique dynamics each display. At the end of the day much of their movements can be explained by simple math, and currently the math shows money markets and very short term maturities are the best. As such we've made changes to our portfolios, favoring cash and select bond holdings over broad exposure as in the last three decades. This strategy all but eliminates any interest rate risk and offers great liquidity when rates do change for the better.

Overall, we feel that the stock market could surprise on the upside and that our fixed income strategy is very sound for the current rate environment. Our recent adjustments on the equity side match the areas we feel have the greatest chance for growth without testing any risk parameters. As stated, if the trade deals come this likely will be a positive event for both international and domestic holdings. Please contact us if you have any questions. Have a great Spring and hopefully we'll talk to you soon.

STRAIGHTLINE
PERSONAL. UNBIASED. PROACTIVE.

www.straightline.com
866-401-5238
info@straightline.com