

Market Update

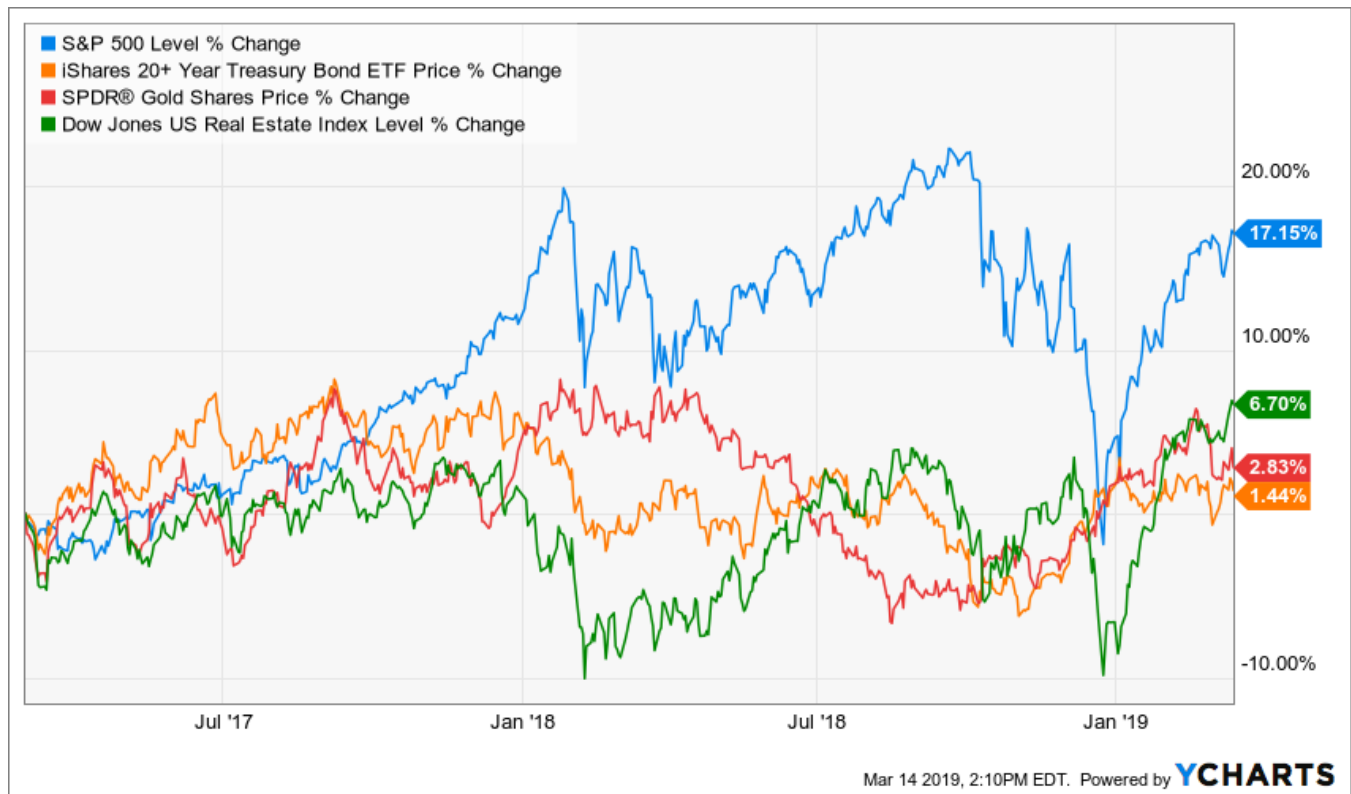
March 14, 2019

U.S. Equities are Still Recovering from Year End 2018

Major Market Driving Themes

1. Federal Reserve Interest Rate Policy Decisions
 2. China-Trade Negotiations and Brexit Issues
 3. Yield Curve Flattening
- Recently we saw housing data come in that was encouraging. Home sales rose 3.6% in December and housing starts were up 18.6% in January.
 - A recent payroll report showed job growth slowing however, with the Federal Reserve's current "patient" approach and other factors like seasonality and bad weather, investors have not shown an overwhelming amount of concern.

U.S. equity markets have been in rally mode since the beginning of 2019, despite a slightly inverted front end of the yield curve, Brexit issues, and the continuation of trade negotiations with China. Although US equity markets have rallied since the beginning of the year, we are still below the all-time highs set back in 2018. Equity market volatility has declined significantly since year end 2018. This has given investors some confidence to look at getting back into the markets, as a place to put capital at risk in the short term. The Federal Reserve's "patient" approach towards further interest rate decisions has been a key catalyst in reducing investors short term anxiety, on the direction of the markets and the strength of the economy.

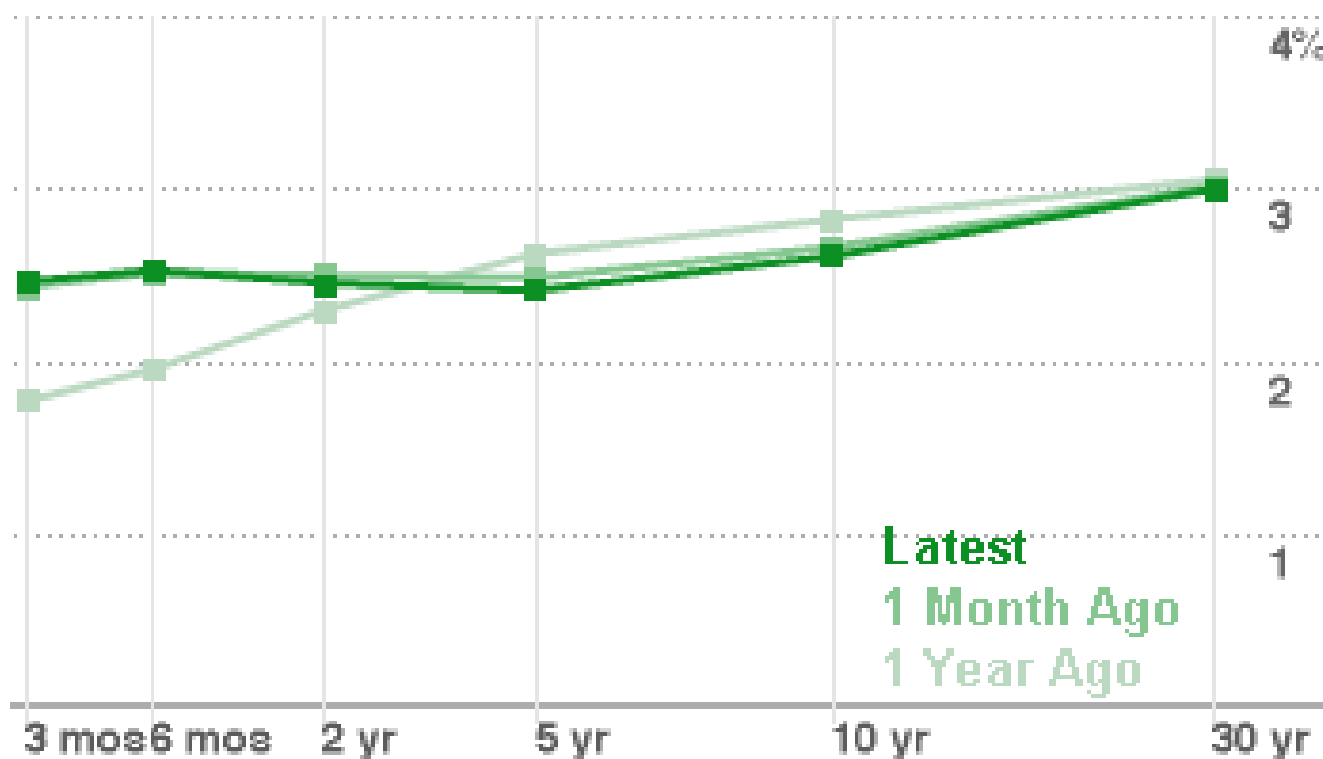


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Below, you will find the U.S. Treasury Yield Curve. We see some further inversion at the front of the curve. However, investors have shrugged this off, due to recent Federal Reserve statements of patience on future decisions, on interest rate policy. It has even been discussed that the Fed may consider a rate cut should the data warrant. This has signaled to investors that the Fed is more proactive in their assessment of the economy and the use of the tools at their disposal, to help stabilize the economy. Toward the end of the year 2018 commentary about a systematic academic approach to interest rate decisions started to concern investors. This was a main driver of the volatility we experienced. For now, the investor community is more confident in the Federal Reserve, due to the Fed's change in stance.



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We continue to feel that there are signs of a later stage economic environment. The biggest concern for the economy in the next 12 months continues to be the Federal Reserve interest rate decisions.

Overall, we prefer domestic equities over international equities although, some international markets may become more attractive as the U.S. economic cycle continues to mature. One area that we have started to make some shifts in domestic equities is between growth and value stocks. Value stocks tend to move more slowly in either direction when the markets react to stimulus. In later stage economic environments, a tactical shift to overweighting value type stocks can reduce portfolio risk.



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This is an area we are now looking at, to continue to make tactical changes, over the course of the coming months. We are currently neutral to bearish on fixed-income and interest rates. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios if necessary.

If you have questions or would like to discuss this further with regard to your personal portfolio, please contact me at 310-469-7254.



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