SPINOSA WEALTH
MANAGEMENT GROUP

Market Outlook - 2019

January 16, 2019

Happy New Year! We hope 2018 was good to you and that 2019 is off to a great start!

As we kick off 2019, we want to thank you again for the opportunity to be your partner. We are very fortunate that we enjoy what we do and are honored that you allow us to help you achieve your life goals.

The Markets

For 2018, the US Stock Market, represented by the S&P 500, was down (4.38%); the International Stock Market, represented by the Dow Jones Global Index, was down (16.5%); the US Bond Market, represented by the Barclays Aggregate Index, was up .01%; the International Bond Market, represented by the Dow Jones International Bond Index, was down approximately (3.5%). To summarize, it was not a very good year for the investment markets.

In January 2018, we forecasted stock market returns for the year of 8-9%. Twice in 2018 the markets peaked, January 26th up 7.5% and September 20th up 9.4%. Throughout the year, we contemplated reducing market exposure as the market met our targets. We have learned that attempting to time the market movements is challenging, to say the least, and as long as fundamentals of corporate performance are sound, we will stay the course. For example, had we left the market in 2017 when we forecasted 10-12% returns, we would have missed out on the actual 21.83% return.

Our market forecasts over the last two years have averaged a positive market return of 9.75% per year. The S&P 500's average return for the same period was 8.73%. One of, if not the more challenging reasons to not make forecasts is that the markets will act in very peculiar ways to company profit fundamentals. We will continue to make our forecasts based on market fundamentals because we strongly believe that market valuations will ultimately reflect corporate profitability.

For our 2019 Market Outlook, we want to highlight three key themes: Fiscal Policy, Market Volatility and Solid Business Spending.

Key Themes

Fiscal Policy

We expect "gridlock" after these 2018 midterm elections. This may provide a better sense of political balance, possibly leading to an infrastructure spending deal and progress on trade. The ongoing impacts of fiscal stimulus and fiscal policy should continue to play a role in supporting economic and profit growth. We expect the Federal Reserve to slow its pace of interest rate hikes in 2019, thank goodness. Trade will likely

4565 LaSalle Street, Suite 201
Mandeville, LA 70471
www.spinosawmg.com

phone: 985.674.6722
toll free: 888.447.6308
fax: 508.448.6017

continue to make headlines and uncertainty in trade policy remains a risk, although we are sensing some progress toward an eventual resolution. This will be a very pleasant surprise, because in the end, China can hold out much longer with their leadership's lifetime appointment vs the US's two- and four-year election cycles.

Market Volatility

Market volatility will likely persist in 2019, as the market continues to digest the many forces impacting the economy, interest rates and corporate profits. While bouts of market volatility can be unpleasant, it can provide opportunity and should not always be feared. Although we are in the later stages of the economic cycle, where volatility is usually the greatest, we do not see a recession in the near term. There are always added risks brewing, this is why there is an earnings premium paid on stocks.

Solid Business Spending

2018 was a solid year for business spending and surveys point to an expected growth rate of about 7% in 2019. Business spending initiated by fiscal stimulus will continue to be a key factor for supporting economic growth in 2019.

A combination of other factors could also be positive for spending and beneficial to the markets. These include immediate expensing provision, repatriation, overseas profits, reduced regulation, lower fuel costs and increased government spending. These will help maintain both business and consumer spending levels, and should more than compensate for slower global growth, flat housing growth, and uncertainty from trade and budget deficits.

Stocks

9-10% Returns

We expect 2019 to be a good year for domestic stocks (keep in mind, we also expect continued market volatility) with returns of 9-10%. Although we feel that corporate profits and a steady economy will support stocks in 2019, we'll watch for scenarios that could negatively impact stocks, such as trade risk, a larger than expected slowdown in the global economy, or a significant slowing in business and consumer spending and adjust accordingly.

We strongly believe that during volatile periods, we must focus on the fundamentals supporting earnings. Current stock valuations are slightly below historical norms relative to earnings and with forecasted future earnings looking strong, this should be a good environment for stock market gains, even above our forecast.

Bonds

Flat – 2%

We expect interest rates to continue to rise at a moderate pace in 2019, but more slowly than in recent years, leading to near flat returns for the Bloomberg Barclays Aggregate Bond Index. We'll most likely see a flat long-term yield curve, too, but in the context of solid economic growth and modest inflation, we don't think it signals rising recession risk, yet. Higher quality bonds will become more attractive as rates rise, but we still emphasize above-benchmark credit risk and below-benchmark rate sensitivity

---

Bearing all of that in mind, we recognize the challenges facing the market today and also reinforce our confidence in the fundamentals sustaining growth in the economy and corporate profits in 2019. We do believe the pace of growth will be slower in 2019, but that it will remain supportive of solid potential stock gains.

It may take some time for the market to turn around, however, given the severity of the damage. Several factors are weighing on investor sentiment right now, including trade tensions with China, weaker oil prices, the path of interest rates, and uncertainty regarding the political environment, notably the government shutdown. Consequently, a few major domestic and global equity indexes have slipped into a bear market (a decline of 20% or more from recent highs).

It's important to point out that we could enter a bear market without the economy experiencing a recession, although there is the possibility that a "self-fulfilling recession" may develop. In other words, as political and trade uncertainty leads to falling asset prices and limits business investment, this could pressure growth in productivity, employment, and consumption, thus slowing down the overall economy. However, given the current record levels for U.S. gross domestic product and employment, stable inflation, and manufacturing and services reports that are still indicating expansion, we continue to believe a recession is unlikely for 2019.

Many of us often wish to start a new year with a renewed positivity about the opportunities that may come in the year ahead, and this current market environment certainly makes that challenging. But a new year is also about making a commitment to make positive changes for the long term. A successful new year's resolution is about having discipline, consistency, and dedication—thinking beyond the action you may take in January and instead envisioning sustainable improvements.

This is the perspective we as investors must strive to maintain during these difficult times. The fundamental backdrop supporting growth in the economy and corporate profits appears to remain sound, and the economy and markets have a long and successful history of finding ways to adapt, recover, innovate, and grow. If we can maintain our commitment to focus on those fundamentals and rely on the right guidance, we can weather these challenges in pursuit of our long-term investment goals.

As always, if you have any questions, I encourage you to contact us.

Sincerely,

Randy

Randy Spinosa, CFP®, CPA, ChFC®
Spinosa Wealth Management Group