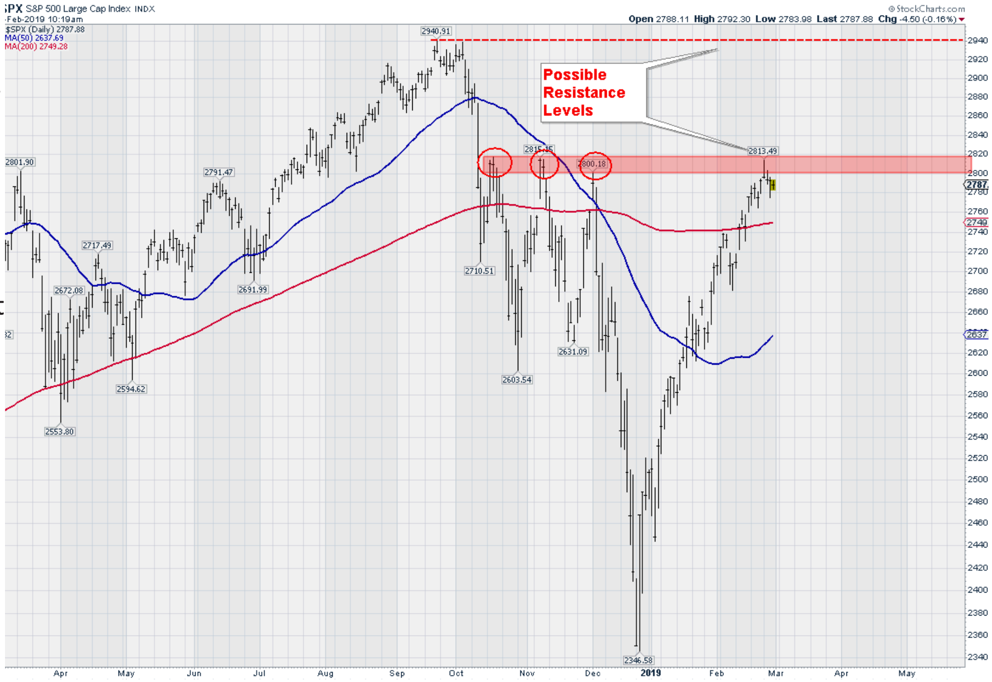
Monthly Newsletter
March 2019

COMMENTARY



The S&P 500 index continued to climb through most of February, clearing the 200 day moving average (red line). It is now right up against another possible resistance zone (2800-2815). The 2800-2815 range has proved to be tough for the market to break through, as it has held as a resistance point three times before (red circles). We expect to see some profit taking at this level so some sideways to slightly down price action may be in store, in the short-term. If the profiting taking (selling) drives prices down, anything more than a normal pullback (3-5%), we would see this as a buying opportunity on weakness.

President Trump extended the March 2nd deadline to the escalate tariffs on Chinese imports indefinitely as the two countries have made substantial progress in trade talks. Without the extended deadline, President Trump was prepared to increase the tariffs imposed on $200 billion in Chinese imports from 10 to 25 percent. Global markets have rallied as there has been continued good news coming from both countries. Our base case continues to be that a deal will be worked out, although the timing of the deal is hard to gauge.

The Federal Open Market committee (FOMC) and Chairman Jerome Powell have made significant headline news this year. The January 2019 FOMC meeting was a complete reversal from the December 2018 meeting. The guidance for further rate hikes changed from increasing in 2019 to a more neutral stance.

ECONOMIC HIGHLIGHTS

S&P 500	2,782.51
DJIA	25,916.00
NASDAQ	7,532.53
OIL	$57.22/barrel
GOLD	$1,316.10/ounce
10-YEAR TREASURY YIELD	2.71%
UNEMPLOYMENT	4.0%
GDP	2.6% (Q4 2nd estimate)
CONSUMER PRICE INDEX (CPI)	-0.1% / 12 month change: +1.9%
CORE CPI	+0.2% / 12 month change: +2.2%

GDP – fourth-quarter estimates showed the economy growing at 2.6 percent, down from the previous two quarters but still solid.

ISM Manufacturing – Growth has been solid in January after a weaker December. January results were 56.6 (above 50 is good) an increase from December of 54.1.

Retail Sales – December holiday sales saw the largest decline since September 2009 with only autos and building materials showing positive growth. The question now is: is this a bump in the road or the start of concerning trend.

We see the most likely outcome to be no rate hike in 2019. One thing we are watching closely regarding inflation, which could cause the FOMC to raise rates, is wage growth. The current level of growth is stable and not concerning, but a spike higher could force the Feds hand. Current probabilities in the market show an 85% chance (CME Group https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html) for no rate hike in 2019. The Fed's balance sheet has also become a topic at the FOMC meetings. For a refresher, the total assets on the Fed's balance sheet increased from $870 billion in 2007 to $4.5 trillion in 2015 as quantitative easing (QE) was used to pull the economy out of the recession. In 2017, the Fed started the process of normalizing the balance sheet. It currently sits just under $4.0 trillion as of February 2019 (https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm). The current message is that the Fed will adjust the balance sheet unwind if slower economic growth continues and may stop the ongoing balance sheet run-off towards the end of 2019. The U.S. is really the only country in position to curtail a possible recession (if one happens soon, which is not our current base case) because most other developed countries are still around a zero interest rate. The last thing the Fed wants to do is tighten too quickly and send the global economy into a recession. A soft landing is very much needed.

Our long-term view (multiple years) for equity markets is still bullish. We believe we are in the middle part of a secular bull market. With the previous two secular bull markets lasting 17 years, we could be in for a nice ride if this secular bull market is of similar duration. The economy is still strong and corporate earnings have been good for the last few quarters. The Fed has done an about-face turn in regard to the target rate on the Federal Funds and have been more dovish in 2019. Our S&P 500 target for 2019 is 2800 for the year-end.

In Fixed Income, we are maintaining our over-weights in International and Floating Rate bonds and underweight in U.S. Government Bonds and Mortgage-Backed Securities. Our research team is constantly evaluating our products and tactical positions inside both our fixed income portfolio and equity portfolio, looking at both larger trends and short-term opportunities. We've identified two positions we are currently moving out of in select models – real assets with an energy focus and high-yield bonds. The real assets position with an overweight to energy/oil has been a bumpy ride but a good one when looking back. High-yield spreads have been tight for a while and we believe they are still a good investment, but more likely to provide a total return closer to "clipping-a-coupon" and less price appreciation. This provides less reward for the amount of risk we've seen in the past. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	1.42	4.68	15.28	10.67
MSCI EAFE	3.98	6.04	9.32	2.07
BARCAP AGG BOND	2.86	3.17	1.69	2.32

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Barclays Capital U.S. Aggregate Bond Index, which used to be called the 'Lehman Aggregate Bond Index', is a broad base index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.