ANFIELD WEALTH MANAGEMENT

February 2019 Newsletter

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What Happened?

- Markets continued their rise this year on a swing from extreme pessimism before Christmas to extreme hopefulness at the end of February.

- For the second month in a row the US stock market was led higher by the riskier assets such as small cap stocks which was one of the worst performing asset classes last year.

Index	February	YTD 2019
S&P 500	3.0%	11.1%
Dow Jones	3.7%	11.1%
NASDAQ	3.4%	13.5%
Russell 2000	5.1%	16.8%
EAFE	2.5%	9.2%
Emerging Markets	0.7%	9.2%
Aggregate Bonds	-0.1%	1.0%
Gold	-0.6%	2.9%

Data from Morningstar as of 2/28/2019

- US-China trade talks continued to dominate the headlines and the decision to avert the increase in tariffs and continue talks was enough to send the market higher both domestically and in China.

- The Federal Reserve also continued to be a constant market moving presence, but this time in a positive way. We received the minutes from the January Federal Open Market Committee Meeting which confirmed they are more likely to keep rates flat rather than continue with further rate hikes this year.

What Did We Do?

- For most of our clients we have recommended continuing along with their identified optimal asset allocation as discovered through conversations and/or a financial plan.

- This has been a “snap-back” rally as markets have turned very quickly. Typically, this is not the type of market that we would recommend chasing (by selling bonds or cash to buy stocks), especially with the major indexes up over 11% already.

- We don’t recommend chasing this as our outlook for the year is for US stock markets to return somewhere in the 10-15% range and we are already there. Certainly, we could see markets continuing higher, but we also believe there could be a bit of a correction in the coming months (see the next section “What’s Next”).

- One area we have been making some changes in is cash management. One of the benefits of shorter-term interest rates moving higher is that very short-term bonds (which mature in less than a year) have seen a nice increase in yields. These bonds typically have very little risk when compared to longer term bonds and are now providing yields of 2% or sometimes more! After much research we have begun utilizing some funds where appropriate instead of holding lower yielding cash.

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What's Next?

- Markets are clearly at a fork in the road. There is plenty of evidence that would point to this rally continuing, but there is also plenty of evidence that could lead one to believe that this could be the market top for this year.

- One practice we use for situations like this is to look historically at what has happened because although history may not repeat itself exactly, it can typically offer some valuable guidance. According to the Wall Street Journal (see chart) the S&P 500 has had a 10%+ return over the first two months of the year seven times. Only one of those years saw the market finish higher in December than it was at the end of February.

- However, this year there are many issues that are still up in the air. The rally back over the first two months was driven not by anything concrete, rather it was driven by a change in sentiment from extreme pessimism to extreme hopefulness. This means that if a few of these issues can resolve themselves positively, the market certainly can continue it's run. If there is any disappointment, though, it could lead to a lower market (leading into that "V" vs "W" recovery I discussed last month). So, what are the main issues that will move markets in March?

1. US-China Trade – This again will dominate headlines. We have seen some progress as the US decided not to increase tariffs on March 1st and the President has indicated that he does plan to meet with the Xi Jinping. However, these talks have been very volatile and the abrupt end to the US-North Korea summit is a bit of a warning sign that this could quickly sour. Our bet is that the talks will continue in a somewhat positive manner and some sort of agreement will be reached.

2. Brexit – This has fallen off many people's radars recently, but unless Parliament makes a major decision, Britain is scheduled to leave the EU on March 29th with no deal in place. This could upset financial markets in Europe which may have a ripple effect into the US.

3. Federal Reserve – The Fed's next meeting is scheduled for March 19-20th. Part of the market's recent rally has been on hopes that the Fed will not raise rates again this year. We think that is a little too optimistic and after this market rally there stands a chance that they may consider putting a rate hike back on the table for later this year, which could temporarily unsettle the market again. However, if they continue with their dovish tone, markets could continue higher on this alone.

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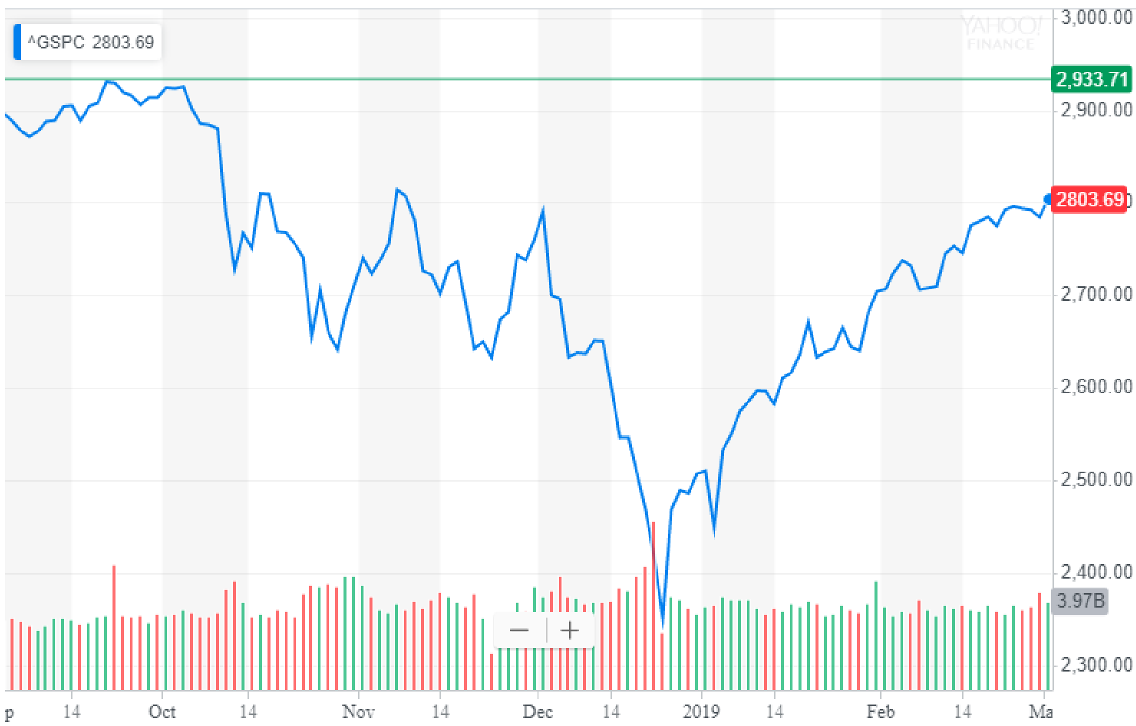
- Each of these three items will most likely move markets this month, but which way is still yet to be seen. We continue to monitor these and many other items for our clients and will adjust as necessary when we finally have more certainty on these variables.

- Although markets have had such a strong run this year, the S&P 500 is still 4% below it's high from October of last year (see chart below). If we do get positive news on the items discussed above we could see the market at least surpassing those highs, but if the news is worse than expected we could see ourselves in a similar spot to where we were at the end of the year and could experience a quick retracement in the market.



If you have any questions or would like to discuss how any of this could impact your portfolio, please contact Alex directly at Alex@AnfieldWealth.com.