

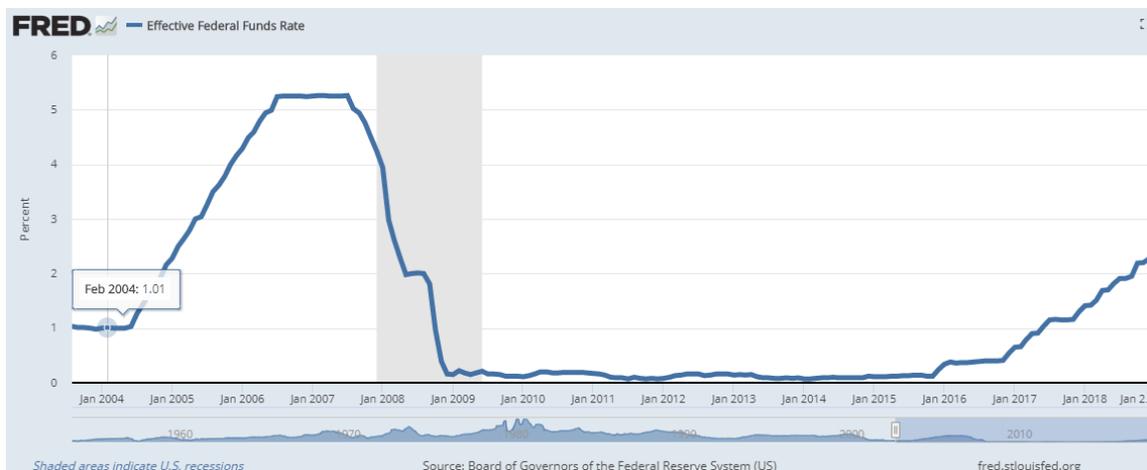
What Happened?

- Markets kicked off 2019 by recovering from some of the selloff that characterized the end of last year.
- US stocks led the market this month exemplified by the S&P 500 having it's best January in three decades. Importantly we also saw strong returns in areas that were hit hardest during the selloff such as tech stocks and small cap.

Index	January	YTD 2019
S&P 500	7.9%	7.9%
Dow Jones	7.2%	7.2%
NASDAQ	9.7%	9.7%
Russell 2000	11.3%	11.3%
EAFE	5.6%	5.6%
Emerging Markets	8.7%	8.7%
Aggregate Bonds	0.8%	0.8%
Gold	3.2%	3.2%

Data from Morningstar as of 1/31/2019

- Earnings season kicked off and we've gotten many double-edged reports so far. Most companies are still beating their earnings estimates, but by less than they have over the last couple of years. Over the last 8 quarters most firms beat expectations by a median of 5.4% while this quarter the beats have been around 2.8%. Although they are still beating, earnings are decelerating which is a trend we are watching closely.
- One of the big risks coming into this year was the risk that the Federal Reserve would raise interest rates too quickly. That seems to no longer be as much of a possibility after Fed Chairman Jerome Powell gave his address in late January stating that they would not raise rates at this meeting and the case for raising rates further "has weakened". This had investors cheering and helped fuel the market rally. The chart below shows the fed funds rate over the last 10 years and shows that although rates are low, they have risen a significant amount over the last two years since the Fed began tightening.



What Did We Do?

- We took some of the cash that many clients held over the last couple of months and began to reallocate it into the market where opportunities presented themselves.

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- One investment opportunity we are currently watching is Gold. Gold typically acts as insurance for a portfolio and performs well in times of turmoil. Given the market is already up almost 10% and it appears we may be on the edge of more political upheaval with the shutdown deal due to expire, it could provide some buffer during turbulent times. That being said, this is recommended on a case by case basis and you should consult your financial plan to see if it would benefit you.

What's Next?

- As mentioned in the last newsletter there are still three items that could become a catalyst for either continued market growth or a resurgence of market volatility. They are:
 1. Federal Reserve
 - As mentioned above the Fed gave us good news when they decided to pause rate hikes. However, that was quickly followed by a very strong jobs report and if we continue to see strong economic news, they may feel they made a mistake and continue to raise rates. It is still unclear if the market would put more importance on a strong economy or on further rate hikes but that should become more clear as we approach the next Fed meeting and press conference on March 19-20.
 2. China
 - Trade talks have continued with China, but the news continues to be either hot or cold. One day we hear that the administration is making progress and the next we hear that talks have fallen apart. This continues to be important because the market has been moving on trade headlines recently and many US firms mentioned the trade war with China as one of the main drags on earnings over the last quarter. The pressure isn't just from the US though, China's economy continues to struggle and each poor economic report that comes out increases the pressure on Xi's administration to work out some sort of deal. Hopefully this will resolve itself soon but given how it's gone in the past that isn't guaranteed by any stretch of the imagination.
 3. Governmental Risks
 - The deal to reopen the Government is due to expire on February 15th. I am writing this on the day of President Trump's State of the Union Address which is always risky as no one is too sure what he will say or if he will declare a state of emergency. The pressure to sort the issues out continues to grow, especially on the back of reports that the shutdown cost the US roughly \$11 billion and the majority of Americans blame the President for the shutdown. This pressure may cause a state of emergency to be declared which will immediately result in lawsuits and controversy which could spill over into markets.
- So, will the stock market continue to go up from here? If we look historically, we really only see one time the market had a V shape recovery from a selloff (meaning after dropping it recovered all the

losses without any further drop, forming a “V” shaped chart). The majority of the time these sell offs tend to work out in a “W” shape and I believe that is most likely the case this time. We’ve seen a nice recovery but without a catalyst (unless we get some news on one of the three items I mentioned above) and with some further political risk, I would not be surprised to see a reemergence of volatility. That being said, we are not on the brink of a recession and as long as earnings can continue to beat expectations, and the Fed keeps rates subdued, the market should be able to stabilize over the year.



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.