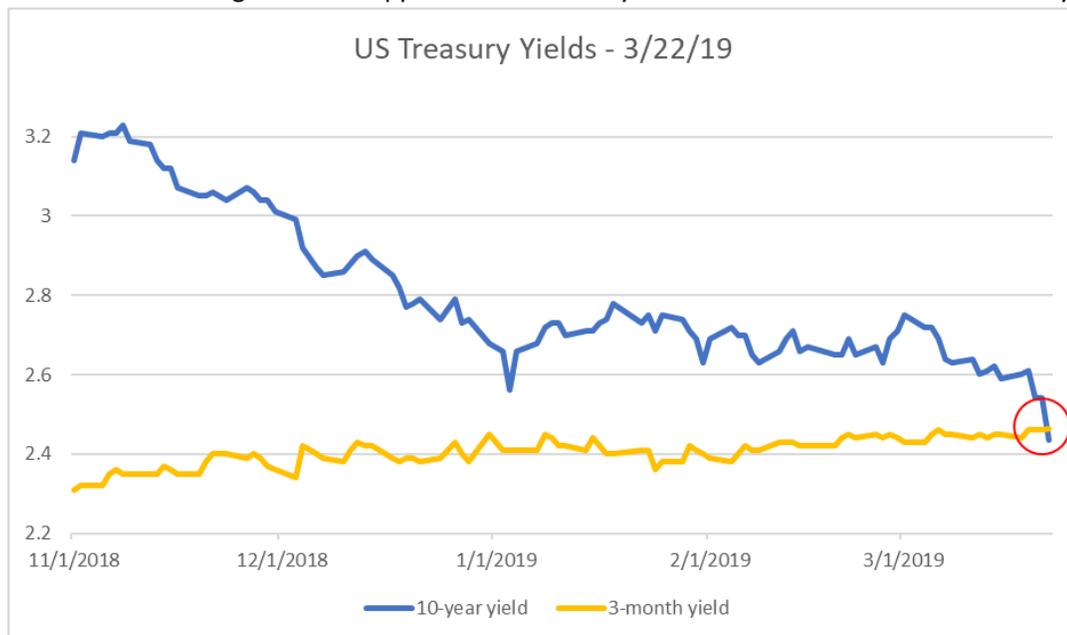


## What Happened?

- Stock markets continued their strong performance so far in 2019, however the rally began to weaken a bit in March.
- Where the return came from for a diversified portfolio was a little different in March. Tech stocks continued to lead but bonds also became one of the best returning areas of a portfolio.
- There has been a noticeable breakdown in small cap stocks after their strong start to the year. These typically represent a smaller portion of most diversified portfolios, but still warrants some attention.
- The US yield curve inverted March 22<sup>nd</sup> when the 10-year treasury yield fell below the 3-month treasury bill yield (see chart below) for the first time since 2007. This is typically an indicator that a recession could be coming as it has happened before every other US recession over the last 60 years.

Index	March	YTD 2019
S&P 500	1.9%	13.7%
Dow Jones	0.1%	11.2%
NASDAQ	2.6%	16.1%
Russell 2000	-2.3%	14.2%
EAFE	0.9%	10.3%
Emerging Markets	1.8%	10.5%
Aggregate Bonds	2.1%	2.9%
Gold	-1.6%	0.6%

Data from Morningstar as of 3/31/2019



However, this does not mean a recession is around the corner, rather an inverted yield curve has preceded a recession by as long as two years and many times stock prices have continued to rise over that time. So, although it was a worrying signal, it does not necessarily mean it's time to sell everything.

- The Fed continued their position that there will be no rate hikes this year, and many market participants feel the next move is more likely to be a cut in rates rather than another increase. This is always welcome news and helped propel stocks higher in March.

### What Did We Do?

- Many areas of the market have done well this year (such as tech/growth stocks) and accordingly we have allowed those positions to become a larger portion of the overall portfolio. This continued to be beneficial in March, however it is now an item that we may adjust in April (see “What’s Next” section).
- We have also continued to enjoy the benefit of higher short-term bond rates as many safe bond funds such as money markets and short-term bonds are yielding well over 2%, sometimes even 3% which has made it useful to hold some cash for the first time in years.

### What’s Next?

- For most of the year one of the main risks to the market was that the Fed would continue to raise rates. Now that they have clearly stated they do not intend to do that, other factors have come more into focus. Over the next few months the following topics are likely to have market moving consequences:

- 1Q Earnings - The first quarter has come to an end and for the first time in a while many analysts are expecting earnings to slow a bit. For the past few years we’ve seen continually higher record earnings which has pushed the market on despite headwinds.

If this trend does reverse and earnings begin to decline the market may be in for some turbulence. This can be especially risky for investors who are heavily invested in individual stocks because when earnings slow, they tend to be spotty at first with some companies badly missing estimates while others continue unscathed.

- Brexit – Brexit has turned into an almighty mess across the pond with both Parliament and the Prime Minister completely unable to come up with a deal. This continues to be more of a risk to European equities for now, but as it continues it could have spillover effects, so it is something to keep an eye on but not necessarily to make any trades on just yet.
- Trade Talks – The US and China have continued their negotiations on a potential trade deal, but the prospect of an actual solution seems to vary based on the day. Over the last few quarters many companies have said the current state of trade with China is one of their biggest risks for 2019 earnings. If talks continue without a deal, we could see this becoming a bigger factor again as earnings are released.

Coming into this year many people thought the main risks to the market would be the Fed and China. As previously mentioned, the Fed seems to no longer be a risk and if an agreement can be reached with China the market may have room to run even higher.

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- Economic Signals – At the end of March the commerce department reduced their GDP growth rates for the US from 2.6% to 2.2% for the fourth quarter and from 3.1% to 3% for the year. GDP peaked at 4.6% in the second quarter of 2018, so the trend has begun to get a bit worrying. The economy is not the stock market, but it does have influence on what happens to markets via its effects on earnings and we will get a much better feel on this over the next month or so of earnings releases.

Most areas of the US stock market and International stock markets have had a very strong first quarter. This most likely will continue into April, but we do not expect it to continue at the same velocity. We still believe equities are the best place to be for now, but markets are starting to diverge, and that may warrant some shifts in which equity markets you want exposure to.

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**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](mailto:Alex@AnfieldWealth.com).**