BARKOW WEALTH MANAGEMENT GROUP of RAYMOND JAMES®

2019 First Quarter Commentary

Calendar year 2018 turned out to be the worst year for the stock market since 2008. Along with poor performance, investors experienced higher than usual volatility, especially in the fourth quarter. The US stock market (as defined by the S&P 500 Index) ended the year on a positive note, but still with a negative return of -4.38%. The fourth quarter was the most devastating to yearly performance, with the market down approximately -14.25% for the period.

Thankfully, the market made its turn on December 26th and began a run that left the S&P 500 Index up 13.1% for the first quarter. We attribute this rebound to three factors; the oversold condition in December, apparent progress on a US – China trade deal, and a significant change in posture by the Federal Reserve Board (Fed).

December's volatility seems irrational when we look back on it. It's clear that the market was oversold and once year-end selling abated, we began to recover. This was aided by the Fed changing its posture. In October the Fed was predicting two to four interest rates increases in calendar year 2019 and that sparked fears that it would push the US economy into recession. Now, their posture is that we are at or near equilibrium, and some analysts forecast a reduction in interest rates, should US economic growth slow.

On the trade front, headlines continue to point to progress, which should resolve a major headwind for the market if an agreement is signed. Fourth quarter earnings in the US were strong. Nonetheless, concerns about the trade deal and global economic slowing keep forward looking expectations modest. More recently, analysts have become worried about the inversion of the US Treasury yield curve. This happens when the yield on the 10-year US Treasury is lower than the yield on the 2-year US Treasury.

The next recession could come from Europe, but we do not anticipate a significant impact to US earnings. It is our opinion that the reason behind increased buying demand of the 10-year US Treasury comes from overseas, especially Germany where the German 10-year Bund in now in a negative yield situation. It is our belief that the US economy will continue to have forward growth, and do not forecast a US recession unless global issues become significantly worse. We are keeping an eye on developments in Europe, as these may affect the rate of US growth.

Fears of a US recession, concerns about a US-China deal, and possible recession in Europe continue to be headwinds for stocks. Investors should expect continued volatility until then. Raymond James' Chief Investment Strategist, Jeff Saut, continues to believe that we are in the midst of a secular bull market, and the fourth quarter was a correction within the forward upward direction. We are investing accordingly.

Economic activity in the US continues to grow, though may be at a slower pace in 2019. Major US economic indicators remain positive. Relative to the rest of the world, the US macro environment remains on solid footing with 2019 Real GDP expected to grow at 2.4% year-over-year. Unemployment is low and we are not seeing significant wage growth or inflation. It is unlikely that the US will move from growth to recession while in a full employment phase. Furthermore, we remain on the forefront of energy independence and we are growing onshore manufacturing, both of which support further US economic growth. The repatriation of capital has had a positive effect on stock prices through buybacks and mergers, as well as laying the groundwork for increased capital expenditures by corporate America.

Now that portfolio values have recovered from the end of 2018, it is an excellent time to review your comfort with volatility. Think back to how you felt during the fourth quarter. Were you nervous about the drop in values? Did you sell assets and move to cash, or want to? These are important questions to consider, as your comfort with volatility is important to how we build and maintain your portfolio. It's important that your investment plan is aligned with your personal goals as well as your risk tolerance. Periods of volatility such as we've recently experienced often provide for a re-evaluation of risk tolerance. It's important to review your overall asset allocation and to evaluate whether your portfolio is still positioned appropriately.

Have your goal or time horizons changed over the past year? Have there been events in your life that will change your outlook? Now is a good time to make decisions about adjustments and rebalancing that may be needed to realign your portfolio.

Sincerely,

Scott Barkow, CFP®
CERTIFIED FINANCIAL PLANNER™
Senior Vice President, Investments
Managing Director

Keith Ginsburg, CFP®
CERTIFIED FINANCIAL PLANNER™

Barkow Wealth Management Group
Of Raymond James & Associates, Inc.
2333 Ponce de Leon Blvd, Suite 500 ****NEW ADDRESS****
Coral Gables, FL 33134
(305) 461-6610
(866) 522-9520 Fax2Mail
(800) 523-3295 toll-free
www.barkowgroup.com

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