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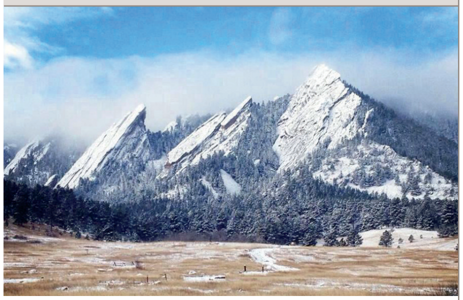
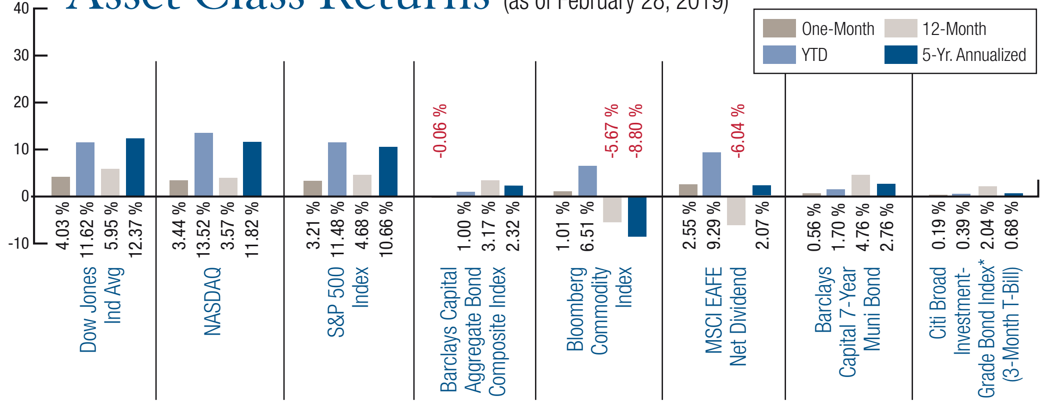
market update

From the Office of Jeff Sgroi, CFP®



"No taxes can be devised which are not more or less inconvenient and unpleasant."
-President George Washington

Asset Class Returns (as of February 28, 2019)



Material prepared by Raymond James for use by its Financial Advisors

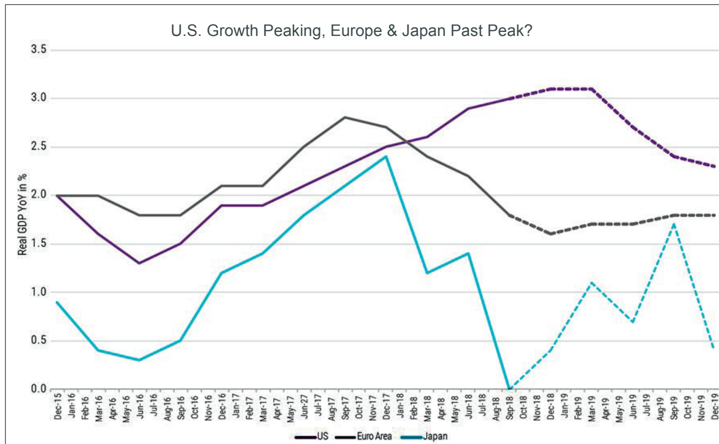
Market & Economic Synopsis

- Strong employment figures prevail, as private-sector payrolls average 186,000 three month increase and unemployment rate dips to 3.8%
- Boeing, travelers face safety concerns as second 737 Max 8 plane crashes within five months
- Ten-year U.S. Treasury rates level out between 2.60%–2.70%
- 2019 U.S. equity market gains led by industrial and technology sectors
- Amazon continues in search of HQ2 after chilly reception from many New Yorkers and politicians
- U.K. Parliament votes to delay Brexit
- Bull market celebrates 10-year run after markets bottomed out in March 2009
- U.S. and Chinese officials continue to negotiate trade agreements, as initial deadlines for resolution have been extended
- Analysts now estimate Federal Reserve will hike Fed Funds rate once in 2019, down from previous expectations of three or four rate hikes this year
- College admissions scandal rocks high profile parents, testing authorities and universities

Market Update

The Market Update section of our January 2019 Market Letter started off: "What a difference a few months can make." Interestingly, the same line is perfectly appropriate as a lead into this month's market letter as well. The equity markets exited 2018 with a whimper, but have roared back to begin 2019.

After 20+ years of working in finance and supporting clients' investment management needs, I still get excited to come to my office early in the morning. Much of this has to do with the ever-changing markets and the thrill of not knowing what the day is going to bring. The theme of the unknown and change, much like the markets as of late, was a common thread carried throughout a recent white paper authored by David F. Lafferty, CFA, SVP, Chief Market Strategist at Natixis Investment Managers. Natixis is a highly respected money management firm whose research and insight we rely upon for our own investment decisions. Below are five key points in Mr. Lafferty's expectations for capital markets in 2019 – appropriately referred to as "Winds of Change".

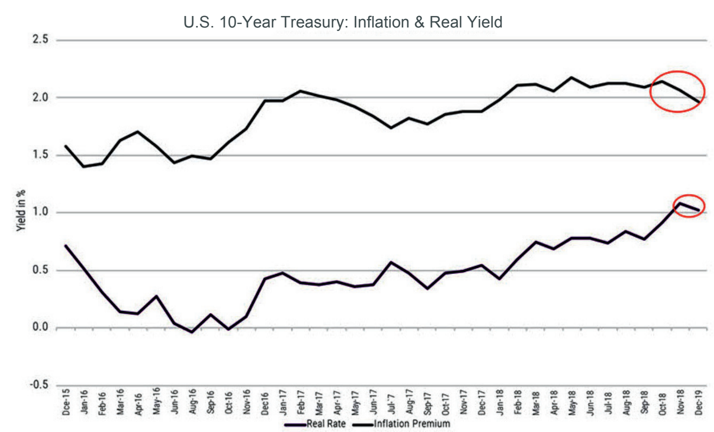


Source: Bloomberg, Natixis Investment Strategies Group, Q4:2015–Q4:2019 (quarterly). Bloomberg consensus estimates for Q4:2018–Q4:2019.

1. Growth – *For most of the post-global financial crisis recovery and expansion, growth has been positive but slow. By and large, our call each of the last few years was for growth to be solid with a modest upward trajectory—nothing spectacular, but movement seemed to be accelerating in the right direction. In retrospect, 2018 probably was the apex of this growth in the U.S., turbo-charged by the tax cut and the massively expansionary Bipartisan Budget Act. Likewise, growth in the euro area, as measured by real GDP and other activity metrics, appears to have peaked in Q4 2017. The same could be argued for Japan.*

We see this slowdown as an inevitable deceleration from above-potential and unsustainable growth to more natural long-run levels. It does not, as yet, imply that a recession is imminent. It does, however, play a key role in the other major changes we see on the horizon.

2. Interest Rates – *Like most observers, we have been anticipating higher U.S. Treasury yields for some time. However, the cyclical rise in rates failed to materialize in 2014, 2015, and through most of 2016—until the November election of President Trump. A strengthening economy coupled with Trump's expansionary policies finally goosed rates higher in 2017–18, but we think that may be it for a while.*



Source: Bloomberg, Natixis Investment Strategies Group, December 2015–November 2018 (monthly).

Having reached what we believe is the interim peak in global growth in early 2018, we think rates are more likely to move lower or be somewhat range-bound. The key drivers of this view include decelerating global growth, putting downward pressure on real rates and lower oil prices reducing inflation expectations. While we don't think rates will plunge, for the first time in many years, we don't see a big risk to bonds from a jump in yields. As a result, we're increasingly less concerned about term structure risk. Stated more simply, we aren't afraid of a little duration risk and we don't hate the return profile of high-quality bonds anymore.

3. U.S. Dollar *– Commensurate with stronger U.S. growth, rising interest rate differentials, and more aggressive central bank policy, we have generally been bullish on the greenback for most of the last five years. This proved prescient in four of those years, with 2017 the only exception.*

Today, with U.S. growth slowing from a higher peak and the Federal Reserve sounding more dovish, U.S. dollar gains seem less assured. As with our view on U.S. yields, we don't see the dollar plunging. More likely, it will remain range-bound, while markets watch and wait to see who backpedals faster—Powell or Draghi. So what's the big change? For the first time in five years, we aren't outright bullish on the USD.

4. The U.S. Fed *– Since the inception of the dot plot, it has become common to monitor the divergence between the Fed's predicted rate path and the market's forecasted path as gleaned from Fed Fund futures. Going back as far as 2015, the market, as priced by Fed Fund futures, has routinely had less faith in the Fed's ability to actually raise rates, projecting a slower, shallower path for hikes. Until now, the Fed has won this battle, raising rates methodically over the past three years, undeterred by market volatility, geopolitical storms, and, more recently, presidential disapproval.*

Today, however, we believe this has changed. There was still a meaningful gap between market expectations—for less than two hikes next year—versus the Fed's dot plot of three hikes. However, in conjunction with last week's hike, the Fed has begun walking those projections down a bit. This is a significant shift because for the past three years the market has had to catch up to the Fed's view. In 2019, we think the Fed will have to downshift closer to the market's view.

5. Volatility *– For several years now, extraordinary monetary policy combined with strong earnings growth have artificially suppressed equity volatility, with 2017 one of the most tranquil years in history. In this environment of historically low volatility, our annual outlooks have consistently called for a knee-jerk mean reversion toward higher volatility levels.*

However, as we move into 2019, we believe the volatility spikes of January–February and October–December 2018 have set a higher bar—a bar that largely reflects a more appropriate base level of market uncertainty moving forward. In addition to a higher threshold, we suspect the market will begin suffering some geopolitical risk fatigue. While investors have been thrown off balance by trade, tariffs, and tweets, we believe these events are starting to lose their shock value.

Even so, there is still plenty of room for higher volatility, especially if the economy falters more than we expect or if the Fed over tightens. But for the first time in several years, we aren't predicting a dramatic rise in volatility levels moving forward. That's the good news. The bad news? Current levels of volatility can still shake investor confidence.

Again, the theme here is change—whether it be growth of the economy, change in the Fed's rate policy, the U.S. dollar's role, or expectations for volatility, we expect that 2019 will likely not look like 2018, which looked nothing like 2017. This is where I see opportunity and I am looking forward to working with you to reach your financial goals.

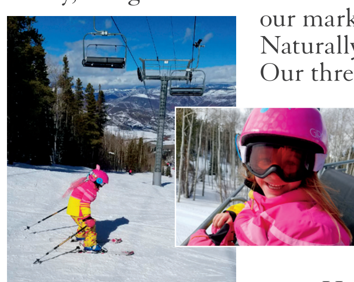
From the Officefront

We are excited to announce that our newest associate, Laura Phillips, joined our team in February. Laura began her career with Raymond James in 2014 and will work with us (and you) as a client service associate in our Casper, Wyoming office.

Originally from Casper, Laura attended college in Colorado and owned and operated a business in Arvada before returning to her hometown six years ago. Laura has two grown daughters and in her spare time enjoys knitting, weaving, water sports, and reading a good book. Please join me in welcoming Laura—we are thrilled to have her aboard!

From the Homefront

What a winter we have enjoyed in Aspen and the Roaring Fork Valley, along with much of the Mountain West! As I type this part of our market letter, more snow continues to fall. Naturally, with great snow comes great skiing. Our three girls wrapped up ski school at Snowmass this past weekend and they have made incredible strides this season. They think they can outski their Mom and Dad and for now we are holding back to boost their confidence. The next year or two may be a different story. Here is Lily at Buttermilk on a recent Sunday afternoon. She loves speed and has taken to any trails with jumps and terrain features!



We hope you enjoy the remainder of winter and stay safe.

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