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## TAPE WATCHING

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Market Review    **MARCH 2019**

Most of the major equity markets ended the first calendar quarter of the year with double digit percentage gains. Much of last year's losses have been put in the past. What's more, popularly followed indexes are closing in on last year's all-time highs. Those that abandoned stocks at the end of 2018 have surely missed out on a fast, yet sizeable market rebound.

Internals on the stock exchanges have been particularly strong. The NYSE, NASDAQ, and AMEX combined have seen an advancing ratio of stocks at new 52-week highs to those at new lows. Today the ratio is measured near 6-to-1. For comparison, the ratio fell to almost 0-to-1 at the end of last year. Additionally, the percentage of stocks on exchanges with prices in excess of their 200-day moving price average is back to a healthy level of around 52%. US equity returns have shown up well in the S&P 500. The S&P 500 advanced about 14.2% in the last quarter. Even better, the index level is only about 2%-to-3% below last year's record high!

US small-cap stocks viewed in the S&P 600 have also advanced. Their 3-month record offers a gain of around 11.5%, which lags the large-cap index slightly. The technical pattern of the S&P 600 doesn't resemble that of the S&P 500. Small-cap stocks have much further to climb before reaching previous highs of 2018. Specifically, the index's price level is still about 13% below last year's high mark. Small-cap stocks are far more sensitive to activity in the domestic economy. Perhaps their lag behind large-cap stocks says something about the outlook on the US economy? Or, merely, small-caps got too far ahead of themselves last year. It is possible that today's price level of the S&P 600 is better aligned to the reality of the index's future earnings.

Renewed hopes for the Chinese economy was another big theme over the last quarter. It seems that global stock indexes all benefited from a rebounding Chinese stock market. The Shanghai Composite experienced over a 27% price gain in the last 3 months. Its performance put China's stock market in this year's top place. Whether on grounds of new stimulus in the Chinese economy or optimism that a trade deal will be reached with the US, the global investing community is betting that Chinese growth will make a return. Hopefully, today's gains stick and this isn't simply a phenomenon of "buy the rumor" and "sell the news" as it pertains to trade. Clearly, the world's

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second-largest economy is systemically important to global stock markets as some correlation seems to exist among international exchanges.

Despite recent strong foreign equity returns, global growth remains a concern for investors. Leading economists, namely, the bond market, suggests growth is slowing down. That is reflected in the bond yields being quoted around the world. In fact, longer-term bond yields have fallen once again. These lower yields can indicate that inflationary trends are going to be modest, which is synonymously a reflection on growth. And, the yield curve is inverted, with global long-term yields falling below short-term yields.

Of certain interest is the path of interest rates in the US economy. The yields that the government borrows at are essentially flat across maturity sectors. The fear is yields are coming close to signaling a future recession. Recessions are typically brought on when lenders are unable to earn a spread between borrowing short-term and lending long-term. That's when credit freezes. However, credit freezing doesn't seem relevant today. Yields on 30-year mortgages are near 4.2% and high-quality corporations still borrow around 5.5%. It appears there is still spread to be earned by lending institutions.

Yes, a reality of slowing growth isn't a favorable trend. But as long as interest rates stay low, stocks have little competition. Until there is a clear indication that credit has dried up, today's equity bull market may still have legs to run on.

## Market Movers

Despite fairly flat equity returns in March, stocks experienced a stupendous quarter. US and Foreign equities have given rise to respective returns of 13.4% and 10.3% this year. The quick appreciation in international equity prices may have one wondering if this year's returns will all be packed into the first quarter. If it were true, that would illustrate how a full-year's gain can be tightly woven into a short window of time. That is why we believe it is better to diversify uncertainty versus trying to time it. Our Core Allocation portfolios make great steps to diversify risk through diligent and prudent use of diversifying asset class exposures. Sure, they won't ever be all bets in on the latest fad, yet we believe that through appropriate diversification, our investors will be better suited to weather the tests of time. Through the first quarter of the year, the Core Allocation portfolios have participated nicely in the market's gains.



**US STOCKS** cooled off in March. Still, in percentage terms, they barely slid as a composite. Actually, the category average of Large-Caps advanced another 1.4% last month to bring their year-to-date gains up to almost 13.0%. The Small-Cap stock average fell back -2.3% in March. Yet, year-to-date, the Small-Cap average remains near 13.3%.



**FOREIGN STOCKS** were mostly in the green in March, with the biggest contributor being Emerging Markets. The Emerging Market category average offered a 1.1% return last month. Additionally, the Developed Large-Cap category average advanced 0.7%. This year, the record among foreign stock categories are closely aligned near 10%. The Mid- and Small-Cap average hangs on to a slight advantage lead.



**US BONDS** performed well in March. Largely, interest rate policy has softened even more, which has brought in bids for bond assets. The Corporate bond category average led last month with returns of 2.3%. Their year-to-date record is now about 5.0%. Still, in the first 3 months of the year, High-Yield bonds are in the lead with returns of 6.4%.

## Asset Categories

## Monthly

## YTD

Asset Categories	Monthly	YTD
<b>US STOCKS</b>	<b>-0.39%</b>	<b>13.43%</b>
<b>FOREIGN STOCKS</b>	<b>0.52%</b>	<b>10.31%</b>
<b>US BONDS</b>	<b>1.22%</b>	<b>4.08%</b>
<b>FOREIGN BONDS</b>	<b>0.84%</b>	<b>4.12%</b>
<b>HARD ASSETS</b>	<b>1.63%</b>	<b>13.34%</b>
<b>HYBRIDS</b>	<b>0.60%</b>	<b>9.07%</b>

\*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING MARCH 31, 2019.



**FOREIGN BONDS** also gained ground along with their US counterparts. With an advance of 0.8% in the month, Foreign Bonds are now showing returns of about 4.1% for the year. The Emerging Market bond category average has been the most impressive this year with returns of 5.5%. Still, the category of Developed bonds is doing well year-to-date with returns of 2.8%.



**HARD ASSETS** still maintain their keep in a diversified portfolio. The category advanced again last month and is now up 13.3% this year. This year's returns are particularly credited to the robust Energy and Real-Estate markets. Categories for Energy and Real-Estate own respective year-to-date returns of 20.6% and 15.0%. Slipping last month was Precious Metals. The category of Precious Metals fell -2.6% in March narrowing its year-to-date returns.



**HYBRIDS**, likely correlated to the recent performance of equity markets, experienced another month of positive returns. The Hybrids category is posting strong year-to-date returns of 9.1%. Both the Convertible bond and Preferred stock category averages share similar performance this year. The category of Convertible bonds has the advantage lead with returns of about 9.8%.

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