Financial & Economic Review

Equity markets staged a significant rebound in the first three months of 2019, after correcting over 20% last quarter. All signs are not flashing green with respect to the bond markets however. Just three to six months ago, we were anticipating three to five increases in the federal funds rate in the next year. Now with the Federal Reserve pausing its monetary tightening plans, the first quarter without an increase since Q3 2017, there is talk of a possible recession. Adding gasoline to this fire, the yield curve inverted briefly in March, with the 3-month T-Bill trading above the 10-year T-Note. The last three recessions have been preceded by this occurrence. We still see the current posture of the Fed Funds Rate, 2.25%-2.50%, as still historically low and should therefore remain stimulative to the overall equity markets in the United States for the time being. Crude oil oversaw one of the largest quarterly increases in recent years. OPEC redirected its initiatives to decrease supply, while at the same time Iran decreased its supply due to new sanctions from the Trump administration. The Venezuelan oil supply also continued to be low due to political unrest in the country. These factors combined resulted in the price of oil increasing over 33% in the quarter.

Every equity sector in Q1 ended on a positive note, with Technology, Energy Limited Partnership and Real Estate performing best, gaining 19.7%, 19.1% and 16.1%. Precious Metal Equity, Utilities and Financials has the lowest sector returns for the quarter, still all posting impressive quarterly returns of 8.1%, 10.1%% and 11.1% respectively. In fixed income, the U.S. Aggregate Bond index benefitting from the Feds dovish stance increased 2.9%, while the 10-year Treasury yield ended the quarter down -10.4% to 2.41% from 2.69%. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Index rose 11.8%, 13.6% and 16.8% in the first quarter respectively. After the strong quarter, the brief discount to fair value all but dried up in equities. The sectors trading at the largest discount to fair value of Morningstar's coverage universe were Energy, Financial Services and Consumer Cyclical, each trading at approximately 90% of fair value[1]. Basic Materials and Utilities were trading at the highest price to fair value to end the quarter. We are hoping the U.S. economy continues to forge ahead, defying expectations in Q2, as we search for new investment opportunities.

We sincerely wish to thank you for allowing us to continue to manage your investments throughout 2019 and look forward to continually earning your business and referrals as we navigate the markets together.

Jack A. Kennedy
Chief Investment Officer

Like

[1] Results referenced from Morningstar.com

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