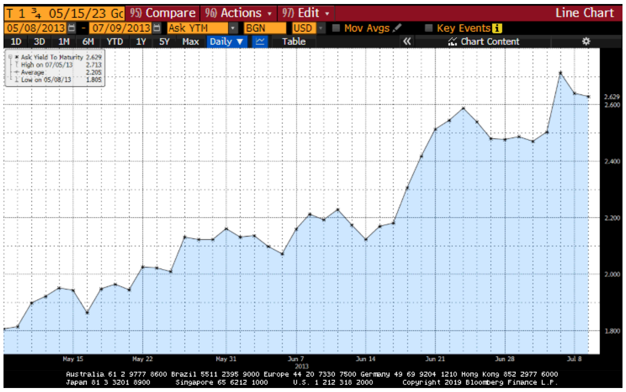
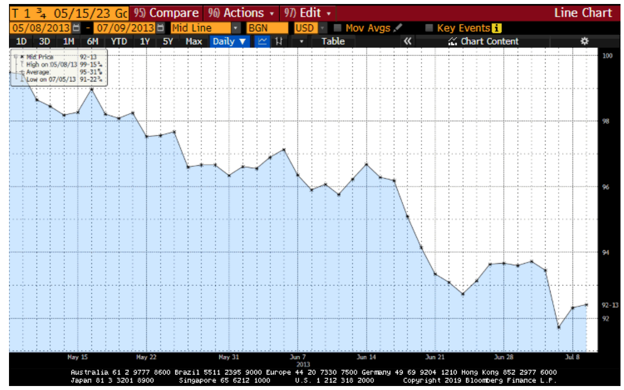
MAP VIEWS
Second Quarter 2019
What a Difference a Quarter Makes

Just three short months ago, investors were licking their wounds on the heels of the worst December for stocks since 1931, and the worst year for stocks since the financial crisis. Investors were dumping stocks as fears mounted that the Fed would push interest rates up too aggressively, potentially squashing an already less than robust economy.

Fast forward three months and investors are elated, following the best quarterly performance for stocks in a decade. Stocks advanced globally, with the MSCI ACWI gaining 12.3% and the Dow Jones Industrials picking up 11.2%. The technology heavy NASDAQ Composite paced the gains, rising 16.5% as technology was the best performing sector.

What caused this 180-degree turn in investor sentiment? Soothing words from Fed Chairman Jerome Powell deserves much of the credit. As the chart below highlights, stocks moved significantly higher after he indicated that the Fed would halt their recent string of rate hikes.

While investors may find solace in the fact that the Fed will be complacent for a while with regard to interest rate hikes, we note that the market can raise (or lower rates) without direct action from the Fed. We point to June 2013. Then Fed Chairman Ben Bernanke hinted that if certain economic data points hit their targets, the Fed would begin "tapering" from their QE3 program. These simple words sent bond prices tumbling and interest rates soaring. As the chart below illustrates, the yield on the 10-year Treasury bond went from 2.33% to 2.73% in a mere 16 days. We are concerned that a growing need for debt to fund operations at the federal and state levels will eventually push interest rates higher. We agree that the economy is not strong enough to warrant the Fed to push rates materially higher from current levels; however, it is disheartening to have the government still running sizable deficits nearly ten years into an economic recovery. Through the first half of the federal government's fiscal year, the deficit is at $691 billion, representing a 15% increase over the prior year.

Accordingly, we have kept the weighted average maturity of our bond holdings in Global Balanced accounts under one year, and are generally not buying bonds with maturity dates beyond two years.

Overall, we were pleased with our first quarter performance. While we trailed our benchmarks, keep in mind that it is not untypical for us, as we typically lag in risk on environments, while picking up alpha (beating the benchmark) when markets are down, flat or modestly higher. Of course, past performance does not guarantee future results, but our value-driven management style has generally served our clients well throughout full market cycles. Framing this market and economy in the proper context is important. We have just completed the 10th anniversary of the current bull market; and in 6 months, we will mark the 10th anniversary of the beginning of the economic recovery following the financial crisis. By historical measures, both the stock market rally and economic recovery are getting fairly long in the tooth. The current bull market is the longest in history (but not the strongest - that award goes to the dot-com bubble induced rally of the 1990s). It is also the second longest period of economic expansion, but ironically it has also been the weakest.

We do not view stock market valuations as excessively high, nor do we view them as low. Rather, we view them as fair given the context of the macroeconomy. We caution, however, that corporate earnings comparisons will be challenging this year as it will be difficult to lap last year’s numbers given the lower tax rates passed in December 2017, coupled with the fact that some companies are struggling to pass along higher costs to consumers. Such an environment, in our opinion, will emphasize the importance of individual stock selection.

Thank you for allowing us the opportunity to serve as your investment manager. We will continue to strive to achieve the best possible risk-adjusted returns possible. We sincerely appreciate your support and patronage.

April 16, 2019
Managed Asset Portfolios’ Investment Team
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