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Clear Direction in a Complex World

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Quarterly Insights – April 2019

Stocks rebounded strongly in the first quarter of 2019 thanks to a combination of improving U.S.-China trade relations, the Federal Reserve halting interest rate increases, and a better outlook for corporate earnings.

The most impactful event of Q1 was the Fed meeting that took place on January 29th and 30th when the Federal Open Market Committee opted to hold interest rates steady, but also stated that it would be "patient" regarding further rate increases. This is a major shift from a month before in December 2018 when the Fed raised rates and implied two or three rate increases for 2019. The January 2019 Fed "pause" in rate hikes was later confirmed by the Fed at the March meeting as official projections for interest rates (known as the "dot plot") showed no more rate hikes are expected in 2019. The Fed keeping interest rates steady in 2019 should relieve pressure on the global economy. And, we have already seen some positive effects in the United States of that move via a decline in mortgage rates and a rebound in housing sales during the first quarter.

Also, corporate earnings were better than expected in the fourth quarter of 2018. More than 70% of S&P 500 companies reported earnings that beat estimates, while over 60% of companies reported stronger than expected revenues.

However, while there was clearly more good news than bad during the first quarter, it would be a mistake to think that the economic "coast is clear." As such, we think it would be premature to expect the second quarter to produce returns similar to the first quarter (as we all know, past performance is not indicative of future results).

While there was real improvement in U.S.-China trade negotiations, Fed policy outlook and earnings expectations, economic data in the first quarter was disappointing and continued to show a loss of positive momentum not just in the United States, but globally. The current estimate for first quarter GDP is 1.7%, well below the 2.2% growth in the fourth quarter. Internationally, European and Chinese manufacturing data showed outright contraction in activity in Q1, while continued Brexit uncertainty is acting as a headwind on the British economy.

Finally, some parts of the yield curve have inverted; meaning Treasury yields are higher on short term debt compared to longer dated maturities. In the past, that dynamic has sometimes preceded slower economic growth and lower inflation, neither of which are positive for stocks.

In sum, there has been real improvement in the macro-economic outlook for markets during the first quarter of 2019. While the outlook for markets has improved, notable risks remain. We continue to expect, and are prepared for, more volatility within the context of a still on-going, multiyear bull market.

1st Quarter Performance Review – A Solid Rebound to Start the Year

By market capitalization, small caps outperformed large caps, which is a reversal from the fourth quarter. The reduction in global trade tensions, combined with the Federal Reserve signaling no more interest rate increases in 2019, helped small caps to outperform large caps. From an investment style standpoint, growth outperformed value mostly due to strong tech sector returns in Q1, which is also a reversal from the fourth quarter.

On a sector level, all 11 S&P 500 Index sectors finished the first quarter with positive returns, however, technology and real estate sectors were the notable outperformers. Tech was driven higher by improvement in the trade outlook, while the real estate sector benefitted from a decline in mortgage and interest rates following the Fed's January and March meetings.

On the contrary, historically defensive sectors underperformed in the first quarter but still finished with positive returns. Consumer staples, healthcare and financials lagged the S&P 500 as investors rotated to more growth-oriented sectors during the previous three months.

US Equity Indexes	Q1 Return	2018 Return
S&P 500	13.65%	-4.38%
DJ Industrial Average	11.81%	-3.48%
NASDAQ Composite	16.89%	0.04%
S&P MidCap 400	14.49%	-11.08%
Russell 2000	14.58%	-11.01%

Source: Morningstar

Looking internationally, foreign markets also had a strong start to 2019, but as has been the case frequently over the past year, foreign markets again underperformed U.S. markets, in part because economic readings from Europe showed the EU economy was clearly losing momentum. However, despite that disconcerting European economic data, foreign developed markets outperformed emerging markets, due in part to the lack of an official trade deal between the U.S. and China by quarter's end, along with a stronger U.S. dollar, which is traditionally a headwind on emerging markets. Foreign developed markets were aided by the European Central Bank announcing in March it would re-start a stimulus program to help the EU economy.

International Equity Indexes	Q1 Return	2018 Return
MSCI EAFE NR USD (Foreign Developed)	9.98%	-13.79%
MSCI EM NR USD (Emerging Markets)	9.91%	-14.58%
MSCI ACWI Ex USA NR USD (Foreign Dev & EM)	10.31%	-14.20%

Source: Morningstar

Commodities saw strong returns in the first quarter, thanks mostly to a surge in oil prices. Oil rose sharply over the past three months primarily because of supply issues, including the uncertain nature of Iranian sanction waivers, new Venezuelan sanctions that reduced U.S. imports, and a pledge by OPEC to extend previously announced production cuts for all of 2019. Those supply risks offset demand concerns related to disappointing global economic growth. Gold, meanwhile, logged only modest gains for the first quarter thanks to headwinds from a stronger U.S. dollar and lack of acceleration in inflation.

Commodity Indexes	Q1 Return	2018 Return
S&P GSCI (Broad-Based Commodities)	14.97%	-13.82%
S&P GSCI Crude Oil	30.68%	-20.49%
LBMA Gold Price	1.26%	-0.93%

Source: Morningstar

Switching to the fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) saw positive returns during the first quarter, but bond indices lagged stocks, which is a reversal from the fourth quarter of 2018.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter-durations during Q1, which is a continuation of what we observed in the fourth quarter of 2018. And, given the Fed's pledge not to raise rates any more in 2019, the outperformance of long duration bonds was expected.

Corporate bonds, both investment grade and high yield, handily outperformed government bonds in the first quarter thanks to a better than expected earnings season, a reduction in macro risks via the apparent U.S.-China trade progress, and the Fed "pause" on interest rate hikes. Both investment grade and high yield bond funds had their best quarterly returns in years.

US Bond Indexes	Q1 Return	2018 Return
BBgBarc US Agg Bond	2.94%	0.01%
BBgBarc US T-Bill 1-3 Mon	0.59%	1.82%
ICE US T-Bond 7-10 Year	3.06%	0.90%
BBgBarc US MBS (Mortgage-backed)	2.17%	0.99%
BBgBarc Municipal	2.79%	1.28%
BBgBarc US Corporate Invest Grade	6.22%	-3.69%
BBgBarc US Corporate High Yield	8.08%	-2.57%

Source: Morningstar

Second Quarter Market Outlook

The outlook for markets has improved since the depths of the correction in the fourth quarter. The Fed has signaled no additional interest rate increases in 2019, corporate earnings have exceeded conservative expectations, and U.S.-China trade relations appear to be moving in the right direction. While it is largely expected that the U.S. and China will sign a new trade deal that will result in tariff reduction, as of this writing, that has not occurred and anything can happen.

Looking forward to the second quarter, we will be searching for signs that global economic growth has stabilized and US growth continues higher. Additionally, we'll seek out further clarity on the Fed's plans for interest rates up or down. Meanwhile, this upcoming corporate earnings season, which begins in two weeks, will be very important. Finally, regarding trade, we'll review and analyze any trade deal to see if it is the economic positive investors believe it will be.

So, we start this second quarter of 2019 thankful for the strong start to the year, but also mindful that now is not a time to become complacent – because risks to investors' portfolios remain. But, even if volatility returns, history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can help overcome periods of heightened volatility, market corrections, and even bear markets.

At Zick Whitted Taub Investment Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even the ups and downs in the

markets we have all experienced in the last six months are unlikely to alter a diversified approach set up to meet your long-term investment goals.
Remember, it is critical for you to stay invested, remain patient, and stick to the plan. We've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. Therefore, we aim to take a diversified and disciplined approach with a clear focus on longer-term goals.

We understand that volatility can be both unnerving and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment. Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

PS: I was going to write about the good weather we are currently having in Goshen, New York with the start of Spring but was concerned that if I did we would get a blizzard next week! So instead, all of us at Zick Whitted Taub, wish you good weather wherever you live and the best to you and your family!

Sincerely,

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Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transitions costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Commodities' investing is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuation even during periods when prices overall are rising. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

Barclays Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed Securities indices.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index.

The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.

MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI Emerging Markets Index is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea,

Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.
The S&P MidCap 400® provides investors with a benchmark for mid-sized companies.
LBMA Gold Price refers to the London Bullion Market Association (LBMA) Gold Price.
S&P GSCI (Broad- Based Commodities) is a leading measure of general price movements and inflation in the world economy.
Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.
The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.
The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase.
The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.
The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance Benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, and mortgage backed securities with a maturity of at least 1 year.
The **Bloomberg Barclays US Mortgage Backed Securities (MBS) Index** tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.
This material was prepared by Sevens Report for use by the associates of Zick Whitted Taub Investment Strategies.
Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of strategy selected, including diversification and asset allocation. Past performance is not indicative of future results.
Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

Investing in emerging markets can be riskier than investing in well-established foreign markets.
Investing involves risk and investors may incur a profit or a loss.
Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.
The prices of small company stocks may be subject to more volatility than those of large company stocks.
Expressions of opinion are as of this date and are subject to change without notice. There is no guarantee that these statements,opinions or forecasts provided herein will prove to be correct.
Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.
The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With
1,136 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
Long-term Corporate Bonds are debt obligations of the issuing corporation.
U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term (less than one year) obligations of the U.S. government.