SARD
WEALTH MANAGEMENT GROUP, LLC

CLIENT NEWSLETTER **BY: JONATHAN SARD, CFP®**

2nd Quarter - 2019

Last week, a key House committee unanimously passed a bill intended to increase the flexibility of 401(k) plans and improve access to the accounts, particularly for small businesses and their employees.

The proposal, known as the Secure Act, was backed by the top Democrat and Republican on the tax-writing Ways and Means committee.

The bill includes a host of provisions aimed at encouraging small businesses to provide private retirement benefits to their workers. It allows them to band together to offer 401(k)s and creates a new tax credit of up to $500 for companies that set up plans with automatic enrollment. Businesses with long-term, part-time workers would be forced to allow them to become eligible for retirement benefits. It would repeal the maximum age for IRA contributions and it would raise the age for required mandatory distributions from 70½ to 72. It would also expand the use of 529 plans, from only college-related expenses to include home schools and student loans. We will keep you posted should any of these provisions become law!

THE QUARTER IN BRIEF

The strongest first quarter for stocks in 21 years featured all kinds of news. Central banks revised their outlook on monetary policy, seeing less robust economies in 2019. Faint glimmers of progress emerged in the U.S.-China trade dispute. Concerns over near-term corporate earnings and bond yields grew. The possibility of a "hard" Brexit loomed in Europe. The real estate market showed signs of heating up again.

After diving nearly 14% in the last three months of 2018, the S&P 500 rebounded more than 13% in the opening quarter of 2019. [1] While consumer spending is still strong, many analysts still see slightly less economic growth this year (between 2%-2.5%). Stock market analytics firm FactSet is now projecting 4% profit growth for S&P 500 firms in 2019; when 2018 ended, the projection was near 10%. Economies in Europe and China appear to be less robust, and that could put a drag on the revenue of S&P 500 companies, 40% of which comes from outside the U.S. An abrupt April Brexit could also be a negative for global equity markets. The financial markets showed great resilience in Q1, forcing some financial firms to reconsider their full-year outlook.[1]

DOMESTIC ECONOMIC HEALTH

Late last year, the Federal Reserve was forecasting two interest rate hikes for 2019 and maintaining a fairly hawkish outlook. On March 20, the central bank veered away from all that. It cut its 2019 growth forecast for

the economy by 0.2% to 2.1%, indicated it would not raise interest rates this year, and projected just one quarter-point hike through 2021. At a press conference immediately after the release of the March policy statement, Fed Chairman Jerome Powell shared his view that the "growth of economic activity has slowed," but he added that Fed policymakers did not foresee a recession developing.[2]

The financial markets reacted swiftly. Demand for longer-term Treasury notes rose. By March 22, the yield on the 10-year Treasury had fallen dramatically, to the point where the yield on the 2-year Treasury exceeded it. (Bond yields fall when bond prices rise.) Economists refer to this as an inverted yield curve. Some economists see an inverted yield curve as a recession signal, while others disagree. The sudden flight to longer-term Treasuries did seem to reflect a lessening of risk appetite among institutional investors. Just six days after the Fed made its pivot, the CMEGroup's FedWatch Tool, which tracks market expectations about interest rate changes, gave the Fed a 71.7% chance of making an interest rate cut by the end of the year.[3,4]

Some of the incoming data during the quarter seemed to correspond with the Fed's revised assessment of the economy, but some did not. (Some was actually delayed as an effect of the federal government shutdown that carried into late January.)

Inflation pressure eased. In October, the Consumer Price Index showed a 2.5% annualized advance. By February, inflation was running at just 1.5%.[5]

Job creation surged, then fell off. There were 311,000 net new jobs in January, but just 20,000 in February. From January to February, though, the unemployment rate declined from 4.0% to 3.8%, and the broader U-6 rate, encompassing the underemployed, dropped from 8.1% to 7.3%. (The federal government shutdown may have affected some of the above numbers.)[6]

The quarter also ended with the Bureau of Economic Analysis downgrading fourth-quarter gross domestic product (GDP). The prior estimate was 2.6%; the revised estimate was 2.2%.[7]

One important consumer confidence gauge rose and fell during the quarter: the Conference Board's index declined sharply to 124.1 in March, after hitting a 3-month peak of 131.4 in February. The University of Michigan's consumer sentiment index performed better: it started the quarter with a drop of 7.1 points in January, but by late March, it was at 98.4, a tenth of a point above where it was in December.[8,9]

The Institute for Supply Management's monthly purchasing manager index, following manufacturing activity, was nowhere near 60 (a level it reached last summer), but remained well above 50 (the mark delineating sector expansion from industry contraction). ISM's manufacturing PMI was at 56.6 in January, 54.2 in February, and 55.3 in March.[10]

GLOBAL ECONOMIC HEALTH

Financial markets worldwide breathed a collective sigh of relief as the trade dispute between the U.S. and China eased. Negotiations between the two nations continued during the quarter, but no deal emerged. While some trade analysts see an agreement being reached in the second quarter, there are doubts that such an accord will resolve the issue at the center of the tariff fight – the concern that Chinese firms are using their technologies to steal U.S. intellectual property. In March, President Trump said that he would prefer leaving 25% tariffs on $50 billion of Chinese products in place, even if a new trade deal was forged.[11]

The quarter ended without a Brexit or even an accepted Brexit path – with the United Kingdom facing a potentially unpleasant outcome. The revised Brexit deal, which Prime Minister Theresa May brought to Parliament, was rejected for a third time in late March, raising the possibility of the U.K. leaving the European Union on April 12 without any kind of defined trade agreement. The European Central Bank surprised financial markets in early March with a decision to revive some of the economic stimulus measures it had recently ended, and it also indicated that would leave interest rates unchanged until at least 2020. The latest forecast from the Organization for Economic Cooperation and Development (OECD) projects only 1% growth for the Eurozone this year and less than that for the economies of Germany, Japan, and the United Kingdom.[12,13]

WORLD MARKETS

The S&P 500 was just one of many equity benchmarks advancing double digits in the first quarter. In fact, nearly every foreign stock index posted a quarterly gain of some kind. China's Shanghai Composite surged 26.77%; Italy's FTSE MIB, 16.17%; Hong Kong's Hang Seng, 14.41%; France's CAC 40, 13.10%; all outperformed the S&P for Q1. Other notable gains: Canada's TSX Composite, 12.42%; Euro Stoxx 50, 11.66%; Germany's DAX, 9.16%; Brazil's Bovespa, 8.56%; the United Kingdom's FTSE 100, 8.19%; India's BSE Sensex, 8.11%; Japan's Nikkei 225, 7.56%; South Korea's KOSPI, 6.19%. MCSI's World index rose 11.88% in the quarter; MSCI's Emerging Markets index, 9.56%.[14,15]

There are always a lot of strategies to think about and we always stress how important it is to plan. Be sure you are sitting down with us on a regular basis to discuss your entire financial situation. Each quarter we want to remind you to alert us to changes in your financial situation or investment objectives to ensure that we are aware of any situation that might require changes in the management of your accounts. Please remember to contact us to discuss how these changes impact your investment accounts!

CITATIONS:
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We wanted to thank those of you who have participated in our Client Introduction program. As you know, marketing for new clients takes a great deal of money, time, and energy and we would much rather spend our resources improving your financial health. We, like most businesses are looking to grow; however, for the benefit of our existing clients we are only able to take on a limited number of new clients each year. Over the years, we have learned that encouraging you to introduce us to people you know works well for all of us…we

help you, and you help us. If you aren't familiar with our friends helping friends program, please call our office or be sure to ask us at your next meeting. The few minutes it takes to learn about how it works will be well worth your time and energy!

Also, if you would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a FREE subscription to this newsletter, please call our office and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for FREE with people you know, with no hassle for you?