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AE WEALTH MANAGEMENT

WEEKLY MARKET COMMENTARY

THE WEEK IN REVIEW: March 17 - 23, 2019

Index Performance: Return (%)					
	1 WK	YTD	1YR	3 YRS	5YRS
S&P 500:	-0.75%	12.26%	8.07%	13.24%	10.71%
S&P MidCap 400:	-2.05%	11.93%	0.51%	10.82%	7.79%
Russell 2000:	-3.05%	11.99%	-1.33%	12.66%	6.21%
NASDAQ:	-0.60%	15.18%	6.64%	16.60%	12.31%
MSCI ACWI:	-0.56%	11.02%	-0.51%	8.42%	4.58%
MSCI EAFE:	-0.34%	10.09%	-3.88%	7.33%	2.90%

Interest Rates:		
	3/22/2019	3/15/2019
UST 10-YR Government Bond Yield	2.44%	2.60%
German 10 YR:	-0.02%	0.09%
Japan 10 YR:	-0.80%	-0.03%
30 YR Mortgage	4.11%	4.31%
Oil	$58.83/ppb	$58.49/ppb
Regular Gas	$2.61/ppg	$2.54/ppg

All data as of March 22, 2019

Source: Morningstar 2019

MUELLER AND INVERSIONS AND BEARS ... OH MY!

No, I'm not talking about March Madness mascots, although the week was dominated just as much by the NCAA tournament as it was by a wild week in the markets featuring a Fed meeting, a momentary yield curve inversion, and drama surrounding trade and Brexit, just to name a few.

The topsy-turvy week was capped off with a significant sell-off on Friday. Investors began taking risk off the table after Indonesian national airline carrier Garuda Indonesia announced it was pursuing a cancellation of its Boeing 737 MAX orders. Garuda had taken delivery of one plane and said it was considering cancelling the remainder of its contract for an additional 49 jets because “passengers have lost confidence in the MAX.” The Boeing announcement was a fitting backdrop as concerns over a slowing global economy came full circle: one report showed factory output in the eurozone fell in March at the fastest pace in six years, while the Fed pronounced on Wednesday that growth in our economy was slowing.

Let’s wind the clock back to the beginning of the week and see how we got here.

Early in the week, rideshare network Lyft was seeking a $23 billion IPO valuation as it began a roadshow for investment banks. Boeing was still reeling from the prior week as data from the black boxes on the doomed Ethiopian and Lion Air planes showed “clear similarities,” casting doubt on whether Boeing would be able to quickly provide a fix for its grounded planes. Markets experienced early losses but recovered somewhat as they waited for the start of the Fed meeting on Tuesday.

A strong start on Tuesday was immediately pushed down due to a variety of factors, among them reports that China was waffling on some of its concessions and indicating a potential delay in a trade deal. Other headlines driving the market included a setback for U.K. Prime Minister Teresa May and Brexit, a report that that the FAA would be auditing Boeing, and oil prices creeping back up to the $60/ppb level. However, traders seemed almost disinterested by all the news and looked ahead to the Fed’s announcement on Wednesday afternoon.

Fed decision day dawned with the announcement that the EU whacked Alphabet (Google’s parent company) with $1.7 billion in fines for anti-competitive practices, bringing their total EU fines to more than $7 billion since 2017. Markets opened on Wednesday down across the board, and President Trump’s comments that sanctions against China might remain “for a while” did not help.

Markets still dragged lower for the day, even though it was considered to be a foregone conclusion that the Fed would not raise rates. Accommodative talk from the Fed has largely been responsible for the 3,500+ point rise in the Dow since Christmas Eve. Given the recent run-up in U.S. equities, investors took some gains in advance of the announcement.

The Fed did, indeed, leave rates alone. However, they changed expectations from two hikes in 2019 to zero increases this year and projected only one in 2020-21, a striking turnaround. The Fed also projected that the economy would continue to slow from 2.3 percent to 2.1 percent annually and announced they would taper their balance sheet buybacks, ending them altogether in October this year. (This was viewed as a monetization of the Fed's acquired debt at 17 percent of GDP.) Basically, the Fed is conceding that they cannot retire the debt even in this strong economy and there was even talk of the Fed cutting rates later this year if the economy weakens.

After the Fed announcement, the Dow rallied from -150 points into positive territory, only to fade back into negative territory after Fed Chair Jerome Powell's news conference where he expressed that the economic outlook was soft. Powell's comments, along with the Fed's assertion that monetary policy is back to "normal" – indicating the Fed has chosen to have less tools for the next economic downturn – momentarily spooked the market.

On Thursday, the market shrugged off growth worries and chose to focus on the news that the Fed would not be raising rates for the next two years. While banks and financials took a hit, tech stocks (led by Apple) gave the market some strong lift. The U.K. asked the EU for a delay for Brexit until June 30, kicking the Brexit crumpet down the road for a few weeks.

The week ended with the Dow down -279.19 points (down 1 percent). Investors retreated to neutral corners, wondering if this is a momentary pullback in the rally that began on December 26 or a signal that we're heading into a rocky period for our economy and markets. The short answer to that question: It depends. Currently there is not enough information to make the call one way or the other. What is certain is that after a period of fairly calm markets we are seeing the beginnings of the return of volatility.

Much has been made of the yield curve inverting on Friday, with many stories heralding the start of a recession in the near future. It remains to be seen if the yield curve inversion will hold or if it was a one-session occurrence. Recessions tend to start six to 18 months after an inversion, but an inversion does not guarantee a recession will occur. It is important to wait and watch, read and learn, don't panic, and stick to your plan.

WHAT TO WATCH FOR THIS WEEK

The final nail in the market's coffin on Friday was the worst-kept secret in Washington. After much speculation as to the timing, the Mueller report was dropped with the Attorney General on Friday – an hour after markets closed. How the markets knew the report was completed and headed to the AG is one of the mysteries of how markets can anticipate potential bad news. Instead of being long equities over a weekend with the potential of major bad news spilling out from the report, stocks accelerated their sell-off into the close, losing 460.19 points.

So far, there has not been major fallout from the report as each side fine-tunes its talking points. The market will probably regain some footing early in the week, as Apple will announce its own streaming service and attempt to pivot the company towards services as iPhone and other gadget sales continue to lag.

The rest of the week will feature more economic data as we close out the quarter and obtain readings for Q1 earnings, which will be especially of interest as the market tries to gauge just how much the U.S. economy is slowing down.

The Case-Shiller home price index will be released on Tuesday, as well as the most recent number for home starts and building permits. Homes are typically the biggest investment most Americans make, and these reports provide a solid measure of the health of the housing industry. The Consumer Confidence report is also scheduled for Tuesday and is expected to tick up to 132.4 versus last month's 131.4.

Trade data will dominate mid-week, with the trade deficit expected to come in at $57.7 billion against last month's $59 billion . Wednesday will also bring a reading of the current account deficit, which last month stood at -2.4 percent of GDP. The current account is our country's trade balance plus net income and direct payments, which has been running a negative balance since the 1980s.

On Thursday, Q4 2018 GDP is expected to be revised down to +2.2 percent from an earlier +2.6 percent, further supporting the Fed Chair Powell's assertions that our economy is slowing. By the end of the week, focus will on the Consumer Price Index, with numbers highlighting the current state of sentiment and spending.