connieHORSTKOTTE, CFP®

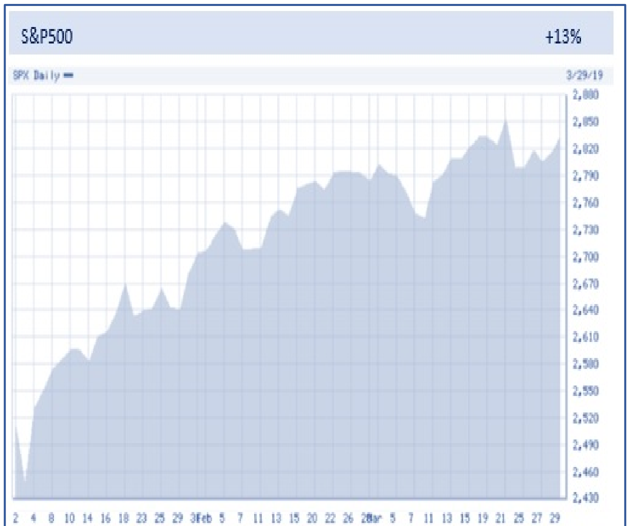
Quarterly Economic Update-First Quarter 2019

During the first three months of 2019, investors had a lot to cheer about as U.S. equity markets turned in their best quarterly gains in nearly a decade. This helped many of the major indexes to recoup a good portion of the losses that they suffered in the final months of 2018.

For the quarter, the S&P index rose slightly over 13%, marking its best start to a year since 1998. The Dow Jones Industrial Average (DJIA) advanced an equally impressive higher than 11% for the quarter. Gains for the quarter were broad, and all eleven S&P 500 sectors ended higher for the quarter for the first time since 2004. ***(Sources: Barron's 4/11/2019, Wall Street Journal 3/30-31/2019)***

While many factors contribute to strong equity gains, analysts feel that much of the first quarter's rally was fueled by investors reacting to central banks backing off their previous plan of interest rate hikes in favor of announcing they will not raise interest rates this year. Another major factor sighted as a reason behind the increase was the fact that many investors had stepped back into equities after the late 2018 selloff.

On Friday March 29th, the last business day of the quarter, the yield on a 10-year Treasury U. S. Note finished the day at 2.416%.



MONEY RATES (as posted in Barron's 4/1/2019)	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	2.41%	1.73%
Bank Money Market -z	0.24%	0.15%
12-month Cert -z	0.97%	0.49%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

This was well below its 2018 year-end 2.684% yield. The Wall Street Journal reported that for the quarter, yields,

which fall as bond prices rise, had retreated around the world in the quarter's last weeks. While some analysts are saying that the first quarter's gain puts equity markets above their 2019 year-end projections, others are quick to point out that indexes are still below the all-time highs reached in 2018. ***(Source: Wall Street Journal 3/30-31/2019)***

Global Economics

The new year brought investors a different result than the end of 2018, with equities and credit rallying strongly across the world. Analysts felt the sell-off in equities and credit in the final quarter of last year was triggered predominantly by concerns about; the potential for a heightening of the trade war between the US and China, worries that higher interest rates could hurt the US economy, and broader uncertainties about a slowdown in global growth.

For the first quarter and also moving forward, global worries kept many analysts in a state of concern. China, one of the world's largest economies continues to slow. China is in the midst of a recession and according to the National Bureau of Statistics (NBS), Gross Domestic Product (GDP) grew by 6.4% compared to a year earlier, the weakest increase since Q1 2009. "Growth in China could plummet to 2 percent over the next decade — from the expected 6.0

to 6.5 percent target this year", predicted Capital's Chief Asia Economist Mark Williams at a conference in Singapore on March 5th. Williams added, "China's time as an emerging markets outperformer is ending." ***(Source: CNBC 3/6/2019)***

Brexit, the United Kingdom (UK) leaving the European Union (EU), is another major concern for investors. The original vote to do this was in June of 2016 and it had a deadline of March 2019. A delay has pushed this deadline into the second quarter, so at the end of the first quarter (which is when this report was written) Brexit is another source of uncertainty.

Is the global slowdown a problem or only a pause? Global economies are important to equity markets and so they are something that investors will have to watch carefully in the months ahead.

Interest Rates are Still Critical

During the Federal Reserve's March two-day meeting, after evaluating the health of the U.S. economy, as expected, interest rates remained unchanged. After Chairman Jerome Powell and other senior Fed officials reexamined old assumptions for inflation, they cited, "stubbornly low inflation" as the chief reason for shifting its direction from its earlier plans to raise the key interest rate that influences the cost of borrowing for businesses and consumers.

"We are almost 10 years deep into this expansion and inflation is still not clearly meeting our target," Powell said in a press conference following the March meeting. He added, "we are being patient" and, "if your models are not working, take a wait-and-see approach." ***(Source: MarketWatch 3/20/ 2019)***

Investors now know that the central bank wants to see more evidence — clear and overwhelming evidence — that inflation is really heating up before it raises interest rates again. The Fed's current benchmark interest rate is at a range of 2.25% to 2.5%, which is up from near zero as recently as 2015. To help put that in perspective, the current rate is still quite low by historical standards.

U.S. Economic Outlook

One of the most critical data points for the U.S. economy is Gross Domestic Product, or GDP. This rate, which measures the growth of the U. S. economy is expected to stay between 2% and 3% for 2019. The Federal Open Market Committee at their March 21st meeting forecasted that the U.S. GDP's growth will slow down from 3% in 2018 to 2.1% in 2019. They also indicated that it is predicted to be 1.9% in 2020 and 1.8% in 2021. ***(Source: The Balance 3/29/ 2019)***

Key Points

1. **Q1 started 2019 with strong returns for equity investors.**
2. **Yields on 10-year treasury notes declined to 2.416% at the quarter's end.**
3. **Many global economies struggled in early 2019.**
4. **The Fed said they do not currently plan to raise interest rates in 2019.**
5. **The U.S. economy could be showing signs of a slowdown.**
6. **Investors still need to still be very cautious and watchful.**
7. **Focus on your personal goals and call us with any concerns.**

The Bureau of Labor Statistics has projected that the U.S. unemployment rate will be 3.7% in 2019. They feel that it will increase to 3.9% in 2021. ***(Source: The Balance 3/29/ 2019)***

A weaker housing market and rising oil prices can put further pressure on the overall U.S. economy. Although it is facing some challenges, the U.S. economy is still the largest and most important in the world. The U.S. economy represents about 20% of total global output and it is still larger than China's economy. ***(Source: Focus Economics 3/26/ 2019)***

Bloomberg reports that, "concerns that a recession is coming are rising, with a quarter of all economists saying that a slump is possible in the next 12 months." Are we headed for a recession? If so, what does that really mean. ***(Source: Bloomberg 4/4/ 2019)***

Recession

After several years of growth, analysts and reporters on nightly news and television stations are now cautioning that the United States might be headed for a recession within the next year. "The global economy is highly likely" to go into a recession if the U.S. and China don't reach a trade deal within three months, Moody's Analytics Chief Economist Mark Zandi said on CNBC on April 2nd. ***(Source: CNBC 4/2/ 2019)***

For many, the word recession sounds scary and we defined what a recession is in the following box. Recessions can be mild, moderate or severe. The fact that the business cycle is receding does not necessarily mean it will reduce to dangerous levels. However, investors still need to prepare.

Even though recessions can be short-term events, there can be longer term consequences from a period of economic downturn. For example, higher unemployment can mean that those people concerned or effected might be forced to delay or stop saving for buying a home, pursuing educational opportunities, or taking vacations. Businesses also can be affected by recessions, because as consumers reduce or cut their spending, small business profits start to decline and large companies may put off investing in new ventures or expansion.

Recessions can affect large companies by reducing their revenues and earnings which in return could cause their stock prices to go down. While recessions are a normal part of the business cycle, there is no perfect way to predict how and when a recession will occur or how long it will last. Whether we are headed for a slowdown or a recession, one thing that can be helpful to investors is to talk with their advisors about their investment timeframes and risk tolerances to make sure they are aligned with their investments.

Conclusion: What should an investor consider?

With the recent rise in financial markets, the slowdown in global growth, and Federal Reserve Chair Jerome Powell now stressing a much more patient approach to monetary policy, investors need to once again proceed with caution. Completely avoiding market risk may not be appropriate for most investors because today's traditional fixed rates might not help you achieve your desired goals. Most investors are still attempting to build a plan that includes risk awareness. Often, this can lead to safer but lower returns. Traditionally, bonds have been a nice hedge against market risk, but with interest rates still low, investors must continue to be extremely cautious. With rates still historically low, fixed rates may not be the best solution for investors that want returns. Looking at your entire picture can be a helpful exercise in determining your strategy.

We focus on your personal objectives and strategy.

During confusing times, it is always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly. We try to understand your personal commitments, so we can categorize your investments into near- term, short- term and longer- term.

Recession is defined as a period of economic decline that is generally identified by **two quarters of successive drop** in the Gross Domestic Product (GDP).

Although a recession does not describe an equity market movement, it can affect equity markets because many times during recessions unemployment rises, consumer purchasing falls, and business revenues decline.

Since 1854, there have been 33 recessions (5 since 1980), the most recent from December 2007 to June 2009, and only one depression (The Great Depression of 1929).

History has shown a recession could last for a period of months, whereas the effects of the Great Depression lasted years.

Source: The Balance

Make sure you understand your risk/reward level.

Many investors use a risk/reward ratio to compare the expected returns of an investment with the amount of risk they must undertake to earn these returns. In economics, you operate with the assumption that the greater the risk an investor takes, the greater the reward they will receive, if and only if the investment makes money. On the other hand, if an investor only takes a small risk, they are more likely to earn a small reward. **If you have concerns about your portfolio, then call us or bring them up at our next meeting.**

CAUTION in 2019

is still the principal notion for investors.

Discuss any concerns with us.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. **If you would like to revisit your specific holdings or risk tolerance, please call our office or bring it up at our next scheduled meeting.**

We pride ourselves in offering:

- ✓ consistent and strong communication,
- ✓ a schedule of regular client meetings, and
- ✓ continuing education for every member of our team on the issues that affect our clients.

A skilled financial advisor can help make your journey easier.

Our goal is to understand your needs and then try to create a plan to address those needs. We continually monitor your portfolio. While we cannot control financial markets or interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with you. Our primary objective is to take the emotions out of investing. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you with your financial matters.

HELP US GROW!

This year, one of our goals is to offer our services to several other people just like you!

Many of our best relationships have come from introductions from our clients.

Do you know someone who could benefit from our services?

We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Invite someone to come in for a complimentary financial checkup.

Please call Connie at (310) 325-7550 and we would be happy to assist you!

Securities, insurance products, and investment advisory services offered through FSC Securities Corporation and its affiliates, member FINRA and SIPC, and a registered investment advisor. Certain insurance products are offered by Connie Horstkotte, CA insurance license 0C98031 as a licensed agent independent of FSC Securities Corporation

Note: The views stated in this letter are not necessarily the opinion of FSC Securities Corporation and its affiliates and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. This material contains forward looking statements and projections. There are no guarantees these results will be achieved. All indices referenced are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. Stock market. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. Past performance is no guarantee of future results. Due to volatility within the markets mentioned, opinions are subject to change without notice. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Diversification and asset allocation do not ensure a profit or protect against a loss. Holding investments for the long term does not insure a profitable outcome. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Sources: thebalance.com; am.jpmoorgan.com; cnbc.com; Barron's; focus-economics.com; Bloomberg; marketwatch.com Contents provided by: Academy of Preferred Financial Advisors, Inc. ©