Langdon Shaw Associates, Inc.

9951 Crosspoint Blvd. | Suite 100
Indianapolis, IN 46256
Phone: (317) 842-7272
www.langdonshaw.com

Q1 2019 – Market Overview Newsletter

Economic Update

The first quarter of 2019 started off with a bang for both U.S. and international markets. Following a harsh fourth quarter 2018, U.S. stock markets rebounded sharply to start 2019 with the S&P 500 posting its best quarter since 2009 and the best first quarter in 21 years. International markets also had a tough 2018 but have rallied to start the year, largely due to a change in sentiment.

Looking ahead, the economic expansion continues to decelerate around the globe, but remains positive. With the effects of the tax-cuts starting to fade, growth in the U.S. was more subdued. The on-going Brexit mess, European fragmentation and bogged down trade talks with China have also contributed to global economic slowdown.

Slowing global economic activity as well as stabilizing unemployment and lower inflation expectations are all reasons the Federal Reserve may not raise rates this year after all. The announcement by the Fed came as a surprise to markets and slashed interest rate projections for 2019 from two hikes down to zero. For a time after the announcement by the Fed, there was a partial inversion of the treasury yield curve. Historically, economists have viewed yield curve inversion as an indicator that a recession may be near. Many economists today, including the Fed, have concluded that an inverted curve is not what it used to be and was never a sole relevant financial indicator.

The U.S. is now in the tenth year of the current economic expansion with slower yet continued growth. The length of an expansion is not an indicator of a recession and while the current expansion has been one of the longest, it has also been one of the slowest. Typically, there are warning signs leading up to a recession and currently there is no evidence of such signs. While growth may be slowing the expansion could continue for some time.

Timing the markets has never been an investment strategy we would recommend. We strive to incorporate appropriately balanced portfolios that our clients are comfortable sticking with through market cycles. While we do believe investors should consider the impact a recessionary pullback could have on their portfolios, we think the slowing but still growing global economy, the pause in tightening by the Fed, low inflation, a strong labor market and reasonable market valuations leave markets in a position to grind higher in the quarter ahead. Time, of course, will tell.

-LS

Did you know?

IRA contribution limits were increased in 2019 from $5,500 to $6,000 ($6,500 to $7,000 if age 50 or older.) Participant contribution limits in 401k / 403b / 457 retirement plans were increased from $18,500 to $19,000 ($24,500 to $25,000 if age 50 or older.)

On the flip side, for those who are required to take distributions from their retirement accounts but don't need the income, IRA distributions can be made directly to a qualified charitable organization. When done this way, the donor does not pay the income tax and will also receive a tax deduction on the gifted amount. This is not new for 2019, but is a lesser known strategy.

For more market details, see the "IM&R Q1 2019 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries

---

DISCLOSURE INFORMATION
The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. Morgan Stanley Capital International **(MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.

An **inverted yield curve** is an interest rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality.