WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Monthly Market Comment

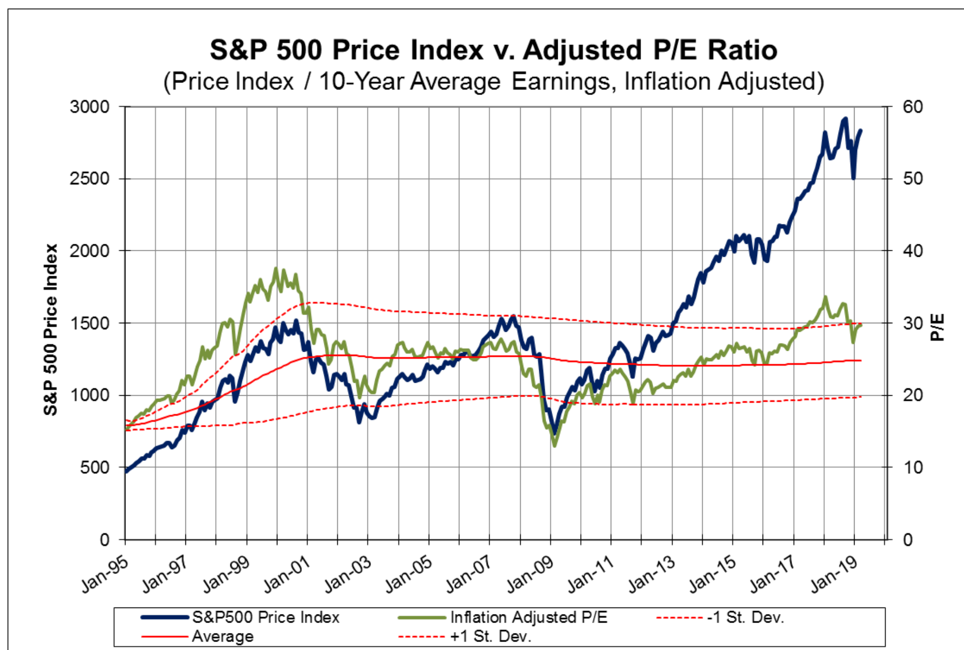
April 1, 2019

In March, U.S. financial markets continued to recover from their fourth-quarter drubbing. For the third month in a row, not a single major asset class produced a negative return. However, the rate of gain slowed substantially for stocks and commodities. Real estate and bond returns improved.

Stocks

After pulling back for a rest in the opening days of the month, stocks got a second wind from some preliminary signs that the economy's slowdown might be running its course, while the Federal Reserve confirmed its intention to forego any additional interest-rate hikes as it assesses how economic conditions will develop. There were also periodic snippets of good news around the U.S.-China trade dispute. The S&P 500 price index ended the month 1.8% higher than at the end of February and 7.3% higher than at the end of March 2018. Taking into account dividends, the total return on the S&P 500 was 1.9% in February and 9.5% over the last year.

Looking ahead, we are getting a bit more optimistic that the Fed's stand-down on further rate hikes may have come just in the nick of time. The interest-rate hikes to date have apparently helped bring inflation back down to target, and if rates now remain stable or nearly so, the underlying momentum in the economy could keep corporate earnings and stock prices on the upswing. That's especially true now that stock valuations have been brought back down to more reasonable levels. However, we still think it's possible that inflation could accelerate again and force further rate hikes, or that the inflation and rate hikes to date have already done their damage and economic growth, profits, and stocks could weaken from here. Just as important, slowing economic growth in China and Europe could be a problem, not so much because U.S. exports might fall, but because foreign production and sales are so important to large U.S. companies. There is also some risk that geopolitical tensions and trade disputes could worsen again.



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Technical indicators have become more decidedly more positive. For example, the S&P 500 index now stands above its 20-day simple moving average (SMA), which in turn stands above its 50-day SMA. Meanwhile, the 50-day SMA has finally moved above the 200-day SMA. We see that pattern as indicative of a strong, well-established uptrend. In addition, the share of S&P 500 stocks trading above their own 200-day SMA has moved up to almost 70%, which is the point where we would consider the uptrend to be "broad." Importantly, the Dow Jones Transportation Index has recently started leading the overall market again, which has historically been a good sign for stocks. The only major technical indicators that suggest some reason for caution are the key short-term momentum gauges (such as the "moving average convergence/divergence," or MACD). Those indicators suggest stocks have become somewhat over-bought and may therefore be susceptible to a pullback at some point. If the S&P 500 continues to rise from here, we now think its next significant resistance levels will come only at last September's record high of approximately 2,930. If stock prices instead start to fall again, we think the next significant support levels would be at approximately 2,726 and 2,632.

S&P 500 Stock Price Index + "MACD" Momentum Indicator

Source: BigCharts.com

Bonds

Even though stock investors started to get more optimistic during March, bond investors seemed to get less optimistic. Bond investors increased their buying of longer-maturity obligations, driving up their prices and pushing their yields down to the point where they were below shorter-term yields. That produced an "inversion" of the yield curve that momentarily unsettled stock investors late in the month. The yield on the benchmark 10-Year Treasury Note dropped to 2.414% at the end of March from 2.711% at the end of February. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was 1.6% in March and 3.9% over the last year.

We see only a limited chance that the Fed has stopped hiking interest rates too soon and might have to hike rates further in the coming months or quarters. More likely, we think the policymakers will be able to hold rates steady at their current level or, if the inflation and rate hikes to date have already damaged the economy, their next move would likely be to cut rates at some point. In other words, we now think the balance of risks for bonds is toward flat-to-falling interest rates for the foreseeable future. In that case, the current rich pricing for bonds would seem justified, and it would likely make sense to hold longer-maturity obligations as opposed to the shorter maturities that we were favoring in 2018. Likewise,

we think the moderating economy and reduced inflation pressures argue for abandoning inflation-protected securities and favoring conventional, non-adjusted obligations.

Real Estate and Commodities

For publicly-traded real estate investment trusts (REITs), the return of optimism coupled with the Fed's confirmation that interest rates are on hold amounted to a significant boost. At the end of March, the FTSE NAREIT Price Index stood a full 3.9% above its level at the end of February and 15.6% above its level at the end of March 2018. Reflecting their relatively high dividends, the total return on publicly-traded REITs was 4.4% in March and 20.5% over the last year. Looking ahead, we believe the continued economic expansion should keep REITs' operational dynamics healthy, while steady-to-falling bond yields will continue to help their price performance.

Physical commodities appreciated in value during March. The S&P GSCI Total Return Index rose 1.6% during the month, although it was still down 3.0% from the end of March 2018. The overall increase in March came mostly from stronger prices for crude oil and its refined products, as rising demand and restricted production overseas helped offset the impact of rising U.S. output. Several agriculture commodities also appreciated, including wheat, cotton, cocoa, and lean hogs. In contrast, industrial and precious metals weakened, as did several other agricultural goods. Looking forward, we still see a fairly high risk that the commodity rally will be limited if it turns out the Fed has already hiked interest rates too far or the U.S. economy starts to suffer more seriously from the slowdown in foreign economic growth and the current trade disputes.

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Lead Portfolio Manager

Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,834.40	1.8%	13.1%	7.3%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	279.79	0.2%	9.5%	-6.8%
REITs	FTSE NAREIT All-Equity Price Index	729.97	3.9%	16.1%	15.6%
Commodities	S&P GSCI Total Return Index	2,533.23	1.6%	15.0%	-3.0%
Bonds	S&P U.S. Aggregate Bond Index	198.53	1.6%	2.5%	3.9%