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That was a Relief!

Global Markets and Regions

	1st QTR	2019 YTD
US	13.90%	13.90%
Developed Europe	11.40%	11.40%
Asia	9.50%	9.50%
Emerging Markets	9.88%	9.88%

US Markets

	1st QTR	2019 YTD
Dow 30	11.25%	11.25%
Large Cap Cos.	13.60%	13.60%
Mid. Cap Cos.	14.00%	14.00%
Small Cap Cos.	11.20%	11.20%
Bonds	2.93%	2.93%

Markets have rebounded very robustly in the first quarter of this year. We've had one of the best quarters of market performance in years. December's swoon has quickly turned into a Spring boom as almost all of the price declines from last year have been recovered; most, but not all. We've essentially returned to the valuation levels of January 2018. It has been over a year of "Up, Down, Up". What happened? Is the market telling us we have smooth- sailing ahead, or have we just avoided or postponed some bad developments?

One of the good developments is that we don't have a recession. The economy is not contracting. On the other hand, the economy is not booming either. The economic data as reported has both good and bad data. The employment data is particularly good, with low unemployment and solid wage growth. This is generally well received, as it is indicative of good conditions for the American worker. This makes for a healthy consumer supporting demand throughout the economy, especially from retail and housing. Gross Domestic Product (GDP) growth is positive and inflation is under control. On the other hand, overall growth is only around 2%. It's enough that we feel the positive effects of that expansion, but not enough to feed the negative effects, such as inflation.

Global growth is quite a bit less than robust. Europe has been either in recession or on the verge of recession for most of the last few years. The European Union (EU) has been in a perpetual existential crisis as the United Kingdom works through their withdrawal from the EU and the other member countries continue to struggle with excessive debt and slow to no growth. The EU is changing into something other than what it has been. They are not handling the transition smoothly.

At the same, the US has been reworking trade relations with all of our global trading partners including Canada and Mexico. The US is also resetting trade relations with China. Remember the "Tariff War"? There are good reasons for the reset, but the effect has been to dramatically slow the Chinese economy. This has diminished another source of global demand and global growth. China is the second largest economy in the world and the EU is the third. Their less than ideal economic growth conditions are a significant headwind.

Through all of this the US has not gone into recession. The Federal Reserve (Fed) could single handedly bring on a recession with serious errors in monetary policy. They have been gradually raising interest rates with the objective of maintaining good conditions for the currently healthy economy and at the same time trying to restore a "normal" pre-Financial Crisis monetary apparatus for future use. This may be too much to accomplish simultaneously. At the end of last year, the market thought the Fed could tip the US into recession. They have rather vocally backed off from those policies for now. The threat of an overly aggressive Fed has been deferred for now.

Our politicians appear determined to accomplish what the Fed almost did by mistake. Their investigation into the workings of the Trump administration has not produced the outcome many of them have wished for. I don't think the economy would have responded well if they had. Maybe they will take the opportunity to focus on more pressing needs. It would be nice. Their fecklessness has been a source of market instability.

We are about to enter earnings season. If analysts forecasts are accurate, we are about to enter an "earnings recession" where reported earnings will actually decrease. This is hardly unexpected given the global reset that has been going on for the last year or so. It is about to be reflected in lower reported earnings for at least a quarter or so. If we can get through that and not tip into recession, maybe we can avoid a repeat of last fall.