Market Summary - March 18, 2019

For the week ending March 15

This summary is provided by BMT Wealth Management.

Equity Market Overview: The Rally Continues

Equity markets finished out the week on a positive note with the S&P 500 Index closing at its highest level since October of last year. The stock market has rallied approximately 20% off the lows reached in December 2018. The S&P 500 Index is now just -4% below the all-time highs attained last September.

S&P 500 Index Price Level
(March 31, 2009 – February 28, 2019)

Source: FactSet, Inc.

Stock prices have continued to rise despite lackluster economic data, which we've highlighted in previous market summaries. Last week provided additional evidence that economic growth is slowing relative to last year. U.S. Retail Sales were revised lower in December, New Home Sales were down -6.9% in January, and Industrial Production rose just +0.1% from the prior month. At this time, the stock market seems to be forecasting an economic soft-landing and is not portending a recession. A combination of benign inflation readings (inflation expectations have been falling), the Fed taking a pause with its interest rate hiking campaign, and better than expected corporate profit growth have caused a positive change in investor sentiment over the last couple of months.

Equities across various market capitalization buckets (i.e., large, mid, and small) and geographies posted solid gains, typically greater than +2%, last week. However, large-cap tech stocks were the positive outlier, rising nearly +5% for the week. The technology sector has appreciated over +18% thus far this year, and the performance pattern of tech stocks is reminiscent of 2017.

Fixed Income Market Overview: Bond and Stock Markets Don't Agree

U.S. Treasury yields continue to march lower, which has surprised many investors, including us. The 2-year and 10-year U.S. Treasury yields ended the week at +2.44% and +2.59%, respectively.

Investor preference for riskier assets has not been unique to the equity markets. High-yield bonds, as measured by the Bloomberg Barclays High-Yield Corporate Bond Index, have risen roughly +6.6% on a total return basis, for the year-to-date period ending March 15. Quite simply, the farther out one has ventured on the risk spectrum, the greater the return has been for fixed income investors for the first two and one-half months of 2019.

The bond market does not share the stock market's optimism about the prospect for economic growth going forward. On most occasions, interest rates fall as investors seek safety in Treasury bonds and exit riskier assets (stocks, commodities, etc.). However, there are times when stock and bond prices move in unison. The table below shows the peaks and troughs of interest rate cycles over the last 20 years. It also provides the returns of stocks and bonds over those periods. Generally speaking, equities have lagged bonds when interest rates have fallen, and vice versa as interest rates rose, as noted in the table below:

Interest Rate Cycles
(January 21, 2000 through March 15, 2019)

Time Period	1/21/2000-6/13/2003	6/14/2003-6/13/2007	6/14/2007-7/24/2012	7/25/2012-9/5/2013
Starting Interest Rate (10-yr Treas.)	6.79%	3.18%	5.23%	1.40%
Ending Interest Rate (10-yr Treas.)	3.13%	5.30%	1.39%	3.00%
	Return (Annualized)			
BBgBarc US Agg Bond TR USD	10.77	2.49	7.15	-3.20
S&P 500 TR USD	-9.29	13.33	-0.26	23.73
Time Period	9/6/2013-7/8/2016	7/9/2016-11/8/2018	11/9/2018-3/15/2019	
Starting Interest Rate (10-yr Treas.)	2.94%	1.43%	3.19%	
Ending Interest Rate (10-yr Treas.)	1.36%	3.23%	2.59%	
	Return (Annualized)			
BBgBarc US Agg Bond TR USD	5.14	-1.06	4.43	
S&P 500 TR USD	11.62	14.80	1.36	

Source: FactSet, Inc., Morningstar, Inc.

Looking Ahead

The upcoming week will bring a fresh round of economic reports that investors will get to digest, including Factory Orders, Initial Jobless Claims, and Existing Homes Sales. However, the upcoming Federal Open Market Committee (FOMC) on Wednesday will likely garner the most attention. Investors will be anxiously awaiting the Fed's comments about the economy and thoughts regarding the implementation of future monetary policy.

The equity markets have rallied at least in part due to the Fed's reluctance to raise interest rates. A lot of optimism has been arguably priced into stocks. A more hawkish tone by the Fed would not be welcomed by financial markets.

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