Market Update

April 15, 2019

TRUUWATER™ FINANCIAL

The market has done well so far in 2019—even better than expected—and while our outlook remains bullish, we do see reasons to be cautious moving forward.

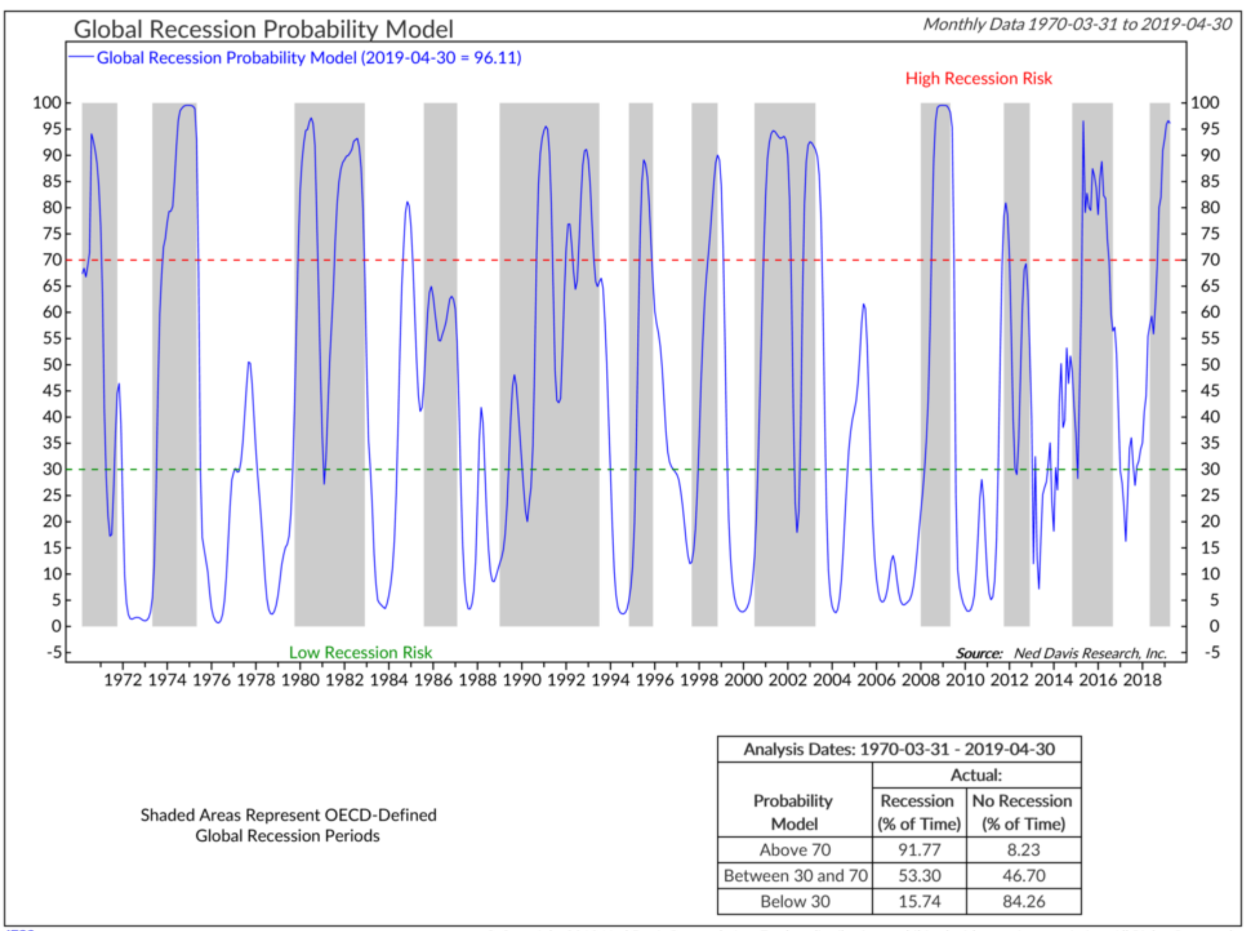
To create the clearest picture of where we might find ourselves in the coming months, and to position portfolios accordingly, we have blended research from Goldman Sachs, Ned Davis Research (NDR), and Louise Yamada Advisors.

Research can be fundamental or technical in nature. Fundamental research includes the analysis of financial statements, sectors, industry, and macro-economic factors that could affect the business/industry. Technical analysis looks at the price movement of a security or index and uses this data to predict future price movements. Goldman Sachs provides us with primarily fundamental research, Louise Yamada Advisors provides technical research, and Ned Davis provides a blend of the two.

Currently, the aggregate data from these firms paints a mixed picture. Q1 was the best start for the S&P 500 in the past 21 years with a rally of over 15%. In this type of environment, Treasury yields tend to be positively correlated with equity prices (bonds sell off and yields rise), but in Q1 we saw the opposite; stocks rose and the global aggregate bond yield is now lower than when the equity rally started. Is the bond market predicting less robust economic growth?

Bullish, Yet Cautious Outlook

As I mentioned in our Q4 newsletter, NDR believes the secular bull market that began in 2009 will most likely stay intact, provided that the U.S. does not go into recession. The recession scenario in the U.S. is still a very low probability this year, but the rest of the world is experiencing a slowdown. The NDR Global Recession Probability Model (4/15/2019) now indicates a 96% probability of global recession, so it would be premature to call an end to the global decline at this point.



In addition, trailing and forward earnings growth, earnings revisions, and earnings beat rates are weakening globally. Louise Yamada recently commented that monthly momentum sell indicators are in place for all the major indexes except utilities, which is now a buy. In addition, she mentioned in her March newsletter that “technical indicators are less than stellar. Given the mix of indicators and the still evident monthly momentum sell signals, we cannot dismiss the possibility that the equity market may be in a longer-term topping process over the year ahead.” So it certainly doesn’t appear that we are out of the woods quite yet, but only time will tell.

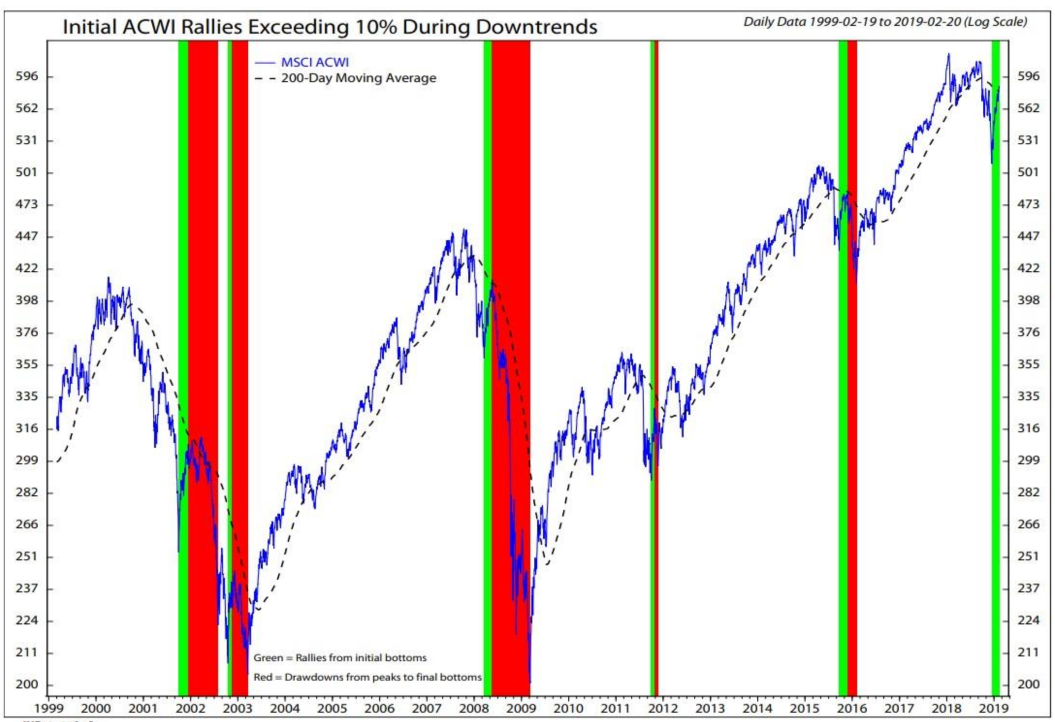
There are periods in the market cycle to be more aggressive, and other occasions that deserve more caution. In reviewing the historical performance track record of the S&P 500, there have been 14 instances where the S&P 500 was up more than 10% in Q1. The median return for the remainder of those 14 years was 7%, and the market finished the year positive 85% of the time.

S&P 500 INDEX PERFORMANCE AFTER +10% IN Q1		
Year	% Change Q1	% Change Q2-Q4
1930	17.2	(39.0)
1936	11.1	15.2
1943	18.5	0.8
1961	12.0	10.0
1967	12.3	7.0
1975	21.6	8.2
1976	14.0	4.6
1986	13.1	1.4
1987	20.5	(15.3)
1991	13.6	11.2
1998	13.5	11.6
2012	12.0	1.3
2013	10.0	17.8
2019	13.1	N/A
Median	**13.5**	**7**
All Periods Median	2.1	6.2
% Positive	100	85
Median statistics exclude 2019. Source: S&P Dow Jones Indices.		
Ned Davis Research, Inc.		*T_BF19_02.1*

So, although risks are present, history tells us we should finish the year positive. In addition, the third year of the presidential cycle is typically favorable to capital markets as the administration in power does what they can to positively influence the economy prior to election.

Slightly Underweight Equities

In summary, portfolios at Truuwater are positioned for a continued bull market. However, we took advantage of a very strong January and February, and in March we reduced equity exposure slightly. Given what was mentioned above, and the fact that the market hasn’t attempted a retest of the December 24th low, we feel that now is an appropriate time to trim risk exposure. In addition, NDR has identified five rallies most similar to the current rally, showing that after an initial double-digit rally from the lows, the market tested the lows in each case and dropped to lower lows in four of the five cases.



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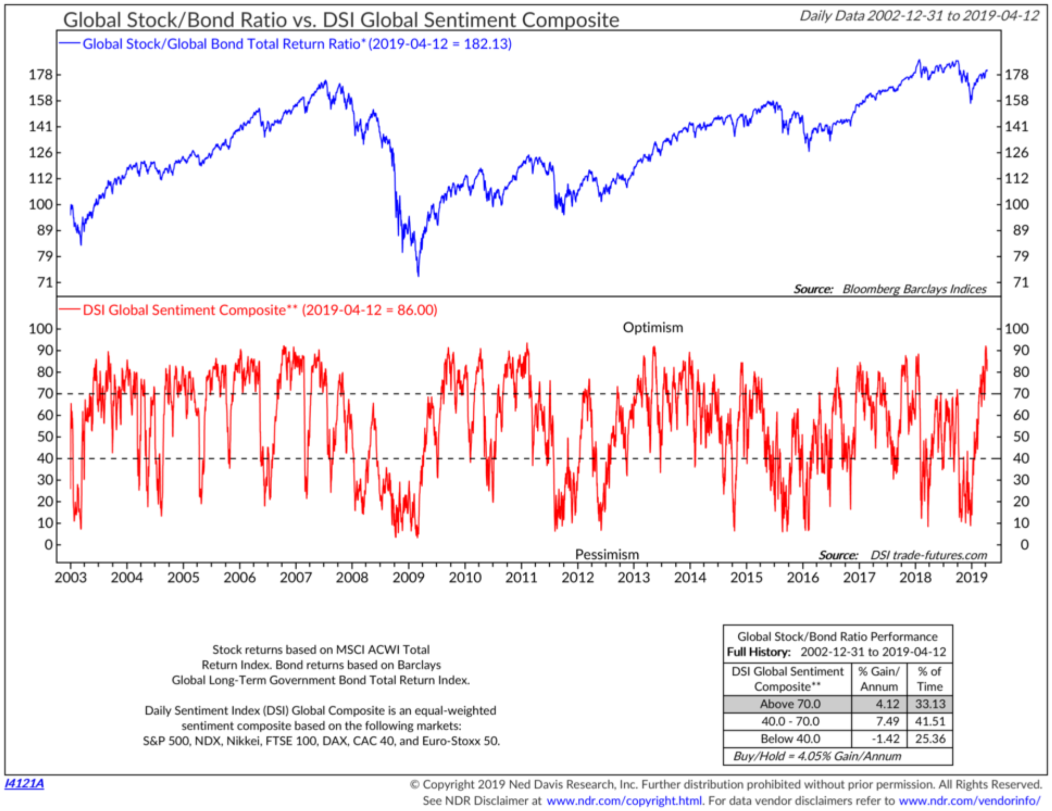
Also concerning is global sentiment. NDR's DSI Global Sentiment Composite is now at its highest level since 2002, suggesting that investors may be excessively optimistic. Historically, the market has not rewarded this level of optimism.



Global Stock/Bond Ratio Performance
Full History: 2002-12-31 to 2019-04-12

DSI Global Sentiment Composite**	% Gain/ Annum	% of Time
Above 70.0	4.12	33.13
40.0 - 70.0	7.49	41.51
Below 40.0	-1.42	25.36
Buy/Hold = 4.05% Gain/Annum		

NDR's year-end target for the S&P 500 is 2950; as of this writing the S&P 500 is at 2900. But as we referenced in January, we could see continued volatility during the first half of the year before the market finally bottoms. Thus far, the market has been calm; the ACWI (All Country World Index) hasn't even experienced a 3% pull-back in 2019, which is extremely rare.