April Market Note

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This has to be one of the most hated bull markets in history. Investors have been predicting its demise since the initial rally off the lows in 2009 only to be proven wrong again and again. Not to say it's been an uninterrupted rise off the lows of the financial crisis. There have been a number of instances where the markets have paused or in one case came to the brink of a bear market before stabilizing and moving higher, but how much longer can this continue?

After a brutal 4th quarter, the markets have rebounded erasing the majority of the losses inflicted on investors. To say that volatility has increased would be a misnomer. In 2017 the markets were highly correlated to the upside. In 2018 the markets were highly correlated to the downside. To date, the markets have once more reversed course with most major asset classes rallying. You have to forgive investors if they seem a bit confused by the constant course reversals.

The adage is bull markets don't die of old age, but we would suggest they at least become a bit fragile. This bull market has been built on the back of accommodative monetary policy and if we needed a reminder it came in the 4th quarter of last year when the Federal Reserve reversed course and went from "auto pilot", reducing the balance sheet and increasing rates in a methodical fashion to "patience" or stated more simply, "*we're going to hold off and see what happens next*". To investors this meant monetary policy would go from being restrictive to supportive of risk assets and therefore provided the impetus for markets to rally back to within shouting distance of all-time highs.

But what about now?

Monetary policy is still accommodative both domestically and globally. Economic growth remains positive, the employment picture is healthy, and corporate earnings continue to increase. There is hope that the trade dispute between the U.S. and China will reach a resolution, geopolitical risks are at least known if not solved, and inflation for the most part remains contained. Based on those data points the current environment would appear to be supportive of asset prices.

However, this isn't the entire picture. When we begin to look out further into the future, it becomes a bit less clear that markets can continue moving higher without at least an interruption.

Monetary policy we believe will remain accommodative and if needed, central banks will expand balance sheets and cut rates to stimulate growth and by extension support the capital markets. There is a limit to monetary policy's effectiveness, but there are still a few levers that can be pulled. The impact will be less dramatic than

at the beginning of the financial crisis, but it will provide some measure of support to the economy and the capital markets. There is a price to pay for excessive debt and artificially low interest rates, but the attitude appears to be as long as it's not on my watch I'll let someone else worry about it. Not a strategy we would recommend, but one investors can ignore for now.

As we mentioned the economy continues to expand and as measured by GDP and the employment picture, is positive. The issue is more in the rate of economic growth, which has declined quarter over quarter. Recently the yield curve inverted a harbinger of a possible recession, not necessarily imminent, but something to be aware of.

Corporate earnings though may be a more immediate threat to current prices. Corporate profits have enjoyed strong results over the past several years and as a consequence, equity prices have risen as have valuations. However, we are anticipating a reduction in the rate of earnings growth in the coming quarter and given valuations above the historical average, stock prices could be vulnerable to at a minimum, a pull-back from their highs.

The result?

A consolidation of recent gains with corporate profits providing the excuse is plausible, but given the underlying strength of the economy, probably not the end of the bull market, just a pause. Going into earnings season could be an appropriate time to review your allocation of assets and maintain a prudent position as to risk. If the markets do retrace some of the recent moves, investors may want to consider selectively adding risk during a pullback.

Looking out further, we do see structural risks to the economy and the capital markets in the form of excessive debt, aggressive monetary policy, and dysfunctional policy both domestically and globally. All bull markets have a season, but they don't end based on the calendar, they end based on deteriorating fundamentals. Something to be mindful of and plan for but realize that we may still have further to go.

We would encourage you to consider your current allocation of assets in light of where we may be in the cycle, not only your invested assets, but real estate, business interests etc. They are all part of the whole and all need to work together to provide a balanced approach to protecting and growing your wealth. For our clients this is something that we strive for each day. For those we have not had the privilege to work with, it may be something to consider.

As always, we look forward to continuing the conversation with you personally.

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