SECURITY NATIONAL
WEALTH MANAGEMENT

# ECONOMIC & MARKET COMMENTARY SPRING 2019

Meteorologists have a difficult and underappreciated job. Weather patterns can change quickly so they constantly update forecasts. The recent flooding in the Midwest and severe storms in the South are examples of how quickly weather conditions can change. Yet, people often expect individuals in careers such as meteorology to have a special insight into the future.

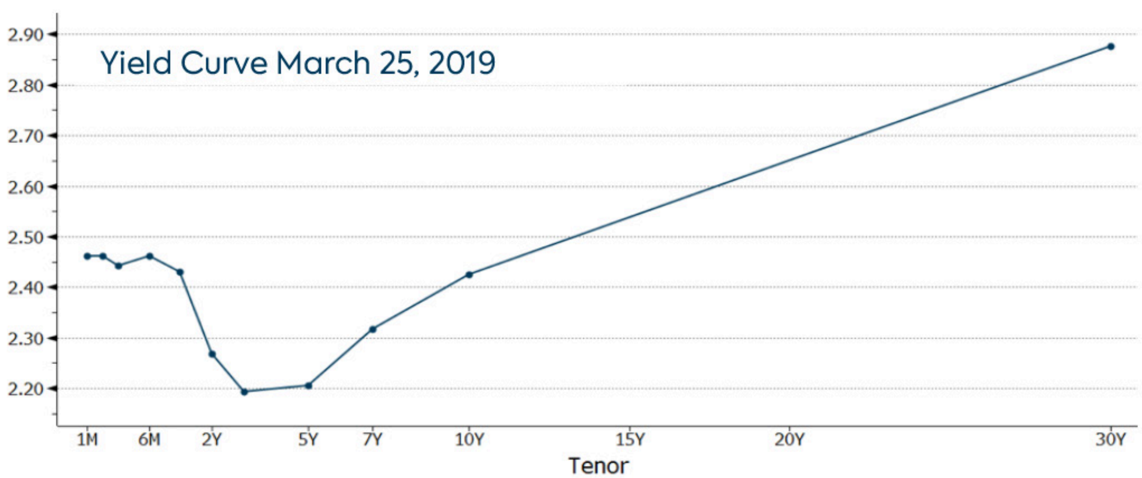
We understand no one is certain of the future. But "the most reliable way to forecast the future is to try to understand the present." (John Nasbitt). That is what meteorologists do. They use generalizations and past trends to predict future weather conditions. Like meteorologists, economists analyze past patterns and current market conditions to predict where the economy may head in the future.

## The Fed and the Fixed Income Markets

The Federal Reserve (Fed) made good on its promise to be patient by keeping rates steady at the March 2019 Federal Open Market Committee (FOMC) meeting. This was the first break in the pattern of hiking rates at every other meeting since December 2017. The Fed also announced the gradual end to its balance sheet reduction from May through September 2019.

This was a change of course from just a few months ago. At the December 2018 meeting, the FOMC projected three interest rate hikes by the end of 2020. The committee narrowed its prediction to only one rate hike in the next three years at the March 2019 meeting. In fact, eleven of the seventeen members projected no interest rate hikes in 2019. Why is this important? When interest rates rise, borrowing costs increase which discourages spending and future growth. If the Fed continued to raise rates, it would have placed additional pressure on an already slowing economy.

Yields on intermediate and longer US Treasuries fell in response to the Fed announcement. This caused more of the yield curve to invert with the yield on the ten-year note dropping below that of the three-month bill. An inverted yield curve happens when shorter dated bonds yield more than bonds with longer maturities. Many believe an inverted yield curve is an indicator of a recession. However, as of this writing, the yield curve has not fully inverted.



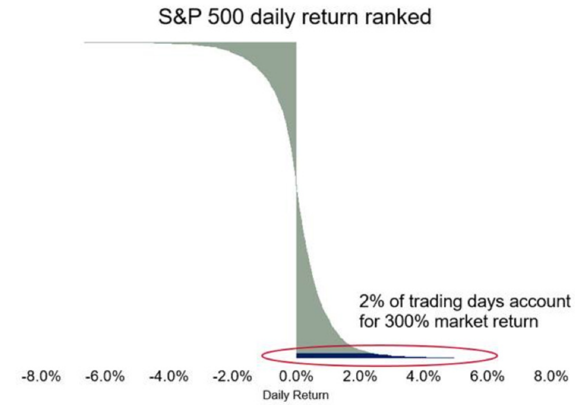

Source: Bloomberg Financial L.P.

Similar to a severe weather alert, a yield curve inversion is an early indicator, though it does not guarantee a recession will occur. Additionally, an inverted yield curve is not a good timing device. An economic cycle can continue to grow from several months to a couple of years on average after the yield curve inverts.

## Equity Markets Celebrate a Milestone

The current bull market is the longest running bull market since World War II. It added another milestone by celebrating its ten-year anniversary in March. The S&P 500 stock index closed at 676.53 on March 9, 2009 and rose to 2,743.07 a decade later – a 305 percent return.

The stock market can be volatile but overtime the positives days outweigh the negative. The current bull market split is 55 percent up days versus 45 percent down days. Most of the return came in only two percent of the 2,517 trading days. This shows the importance of staying fully invested. Being out of the market during this period would have resulted in a lost decade of returns.




Source: Bloomberg Financial L.P.

Can this record-breaking bull market run continue? The short answer is yes. Although global growth is slowing, several developments this year make that scenario more likely. The Fed made changes in monetary policy to stabilize economic growth. Investors are optimistic the US will reach an agreement on trade with China. Improving wage growth will encourage consumer spending.

| | 2009 | 2019 |
|---|---|---|
| Unemployment | 8.3% | 3.8% |
| YoY Inflation | 0.0% | 1.5% |
| S&P 500 Earnings Growth | -89% | 22% |
| S&P EPS | $7 | $134 |
| Real GDP Growth | -4.4% | 2.6% |
| US Housing Starts | 521 | 1,230 |

Source: Yale/Shiller, Bureau of Labor Statistics, Bureau of Economic Analysis, Bloomberg

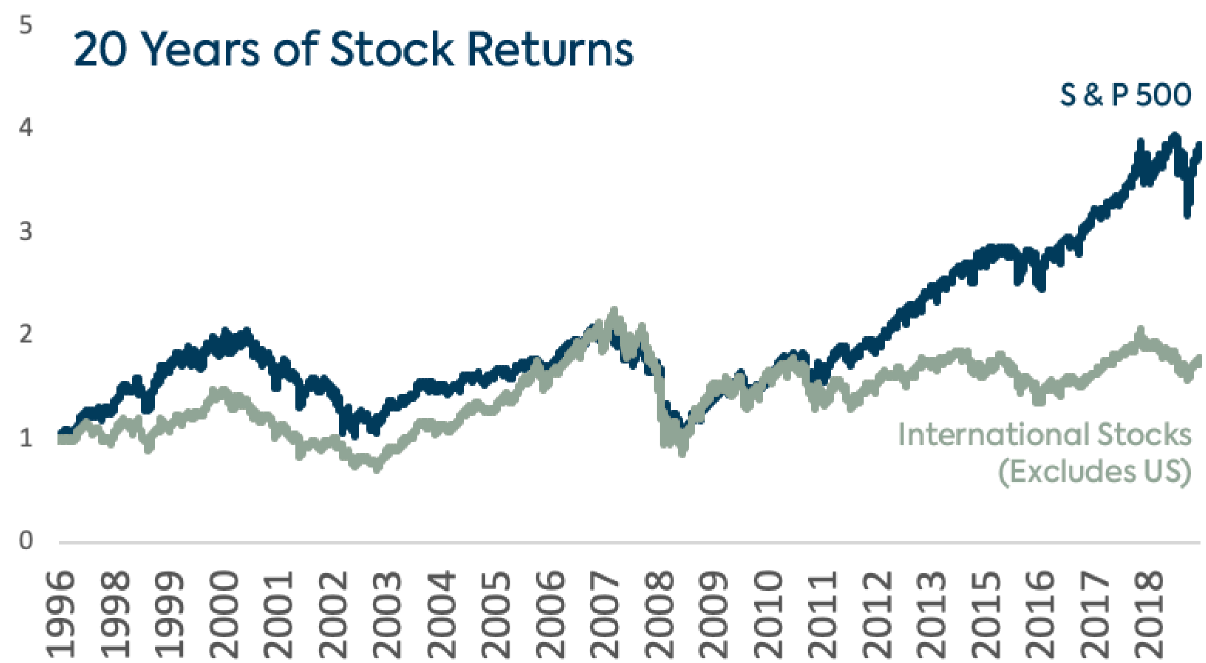
Conditions are vastly different from ten years ago. The US economy is much healthier. The unemployment rate decreased from 8.3 to 3.8 percent, earnings growth on stocks is positive and inflation is contained.

International markets have lagged US markets in the last decade and concerns of a global economic slowdown are valid. Europe is facing challenges coming from Brexit; manufacturing is slowing in Germany; and geopolitical uncertainty in France and Italy. The good news is current valuations tend to favor international companies. It is reasonable to expect international stocks to close the performance gap in the future. There is an old saying "markets climb a wall of worry."

## Looking Forward

Security National Bank's outlook for 2019 remains the same. The global economy is growing, but slowing. Labor markets remain strong, unemployment is low, and inflation is near the Fed's target. The shift in monetary policy and the gradual end to the Fed's balance sheet unwinding are supportive of growth. This increases the chances the economy can advance in the near term.

Portfolios under our management will remain fully invested. As noted in last quarter's commentary, the later stages of the economic cycle often produce above average returns. The 2018 fourth quarter market decline is a recent example of why it pays to not "panic out" of investments. Since hitting a low on Christmas Eve, equity markets have recovered most of the losses incurred during the previous quarter in the first three months of 2019. Our philosophy of developing a plan, staying diversified, and fully invested has proven over time to help investors weather the storm. We expect it will continue to do so.




Source: Morningstar Direct