LASSUS WHERLEY
A Subsidiary of Peapack-Gladstone Bank
...a View from the Top
Issue 71, April 30, 2019

The Roller Coaster is Back!

Here's our current View from the Top. We provide our thoughts on recent happenings in the financial markets for the first quarter 2019.

Happy end of the first quarter of 2019. It was a definite improvement over the fourth quarter of 2018. The extreme roller coaster motion of the markets continues both in the US and in international financial markets.

The past 6 months in the stock market have been challenging. In the fourth quarter we saw a sell off of US equities, resulting in a loss of almost 14% for the S&P 500. As of March 31st we had not quite made up for those losses but we were well on the way, with just over a 13% positive return YTD for the S&P 500 ending March 31st. And so far April seems to be continuing that trend. Many clients have asked, "What happened at the end of last year and what has changed since then?" In this edition of the View from the Top (VFT) we explore two of the biggest drivers of volatility in late 2018 and the subsequent rebound in this most recent quarter.

Trade Tensions "Improving"

One of the biggest drivers of uncertainty over the past year has been the effect of trade tensions between the US and China. As we have discussed in our past two editions of the VFT, big changes in trade policy between the US and China could have a significant impact on companies in both countries, which will ultimately flow through to investors. Although most economists have agreed that the US economy is positioned much more defensively against tariffs than China, neither country actually benefits from these conflicts.

Since the end of 2018, negotiations

have continued between the two countries and countless articles have been published about theoretical trade deals being right around the corner, with little tangible progress being made. This news seems to be good enough for investors since the S&P 500 and Shanghai Composite have both had double digit YTD returns as of March

31st. I read an article this week that discussed remarks made at a seminar in Beijing a few days ago. According to Amanda Lee of the *South China Morning Post* reporting on this academic seminar, China and the United States must convince each other that they are both serious about satisfying their respective demands, to reach a deal to end the trade war. "China needs to reassure the US of its willingness and ability to push through necessary market reforms," said Nicholas Lardy, senior researcher at the Peterson Institute of International Economics in Washington.

"China needs to reassure the US of its willingness and ability to push through necessary market reforms," said Nicholas Lardy, senior researcher at the Peterson Institute of International Economics in Washington.

The best case scenario we can expect out of these negotiations would be a mutually beneficial deal involving stricter regulations on intellectual property rights in China. Historically, Chinese companies have had a track record of "borrowing" intellectual property from American companies, producing a nearly identical product under a Chinese brand name and then undercutting the original price of the company that actually invested in the research and development. An increase in regulation in this area along with lifting the drag of tariff uncertainty would not only benefit the US but every country doing business with China, and would likely push up global equities across the board. It is important to remember however, although trade talks seem to be improving, there is no real way of knowing how or when they will be resolved. While President Trump has said that a trade deal is close, only time will tell whether that is fact or wishful thinking.

So the risk remains very high that headlines will continue to have the ability to move the financial markets.

The Federal Reserve Pausing Rate Hikes

At the end of 2018, Jerome Powel, the chair of the Federal Reserve Bank (Fed) faced significant pushback from investors, companies, & politicians including the President for initiating a 4th rate hike for the year. While the arguments being made by these groups were valid, it is important to remember the goals and tools available to the Fed. The Fed's main goal is to promote stable economic growth in the economy while containing inflation at a manageable level. One of the Fed's most powerful tools in doing so is changing the federal funds target rate, which influences the cost of borrowing for both businesses and consumers. When the economy is slowing, interest rates are reduced to increase investment and when the economy is growing, interest rates are increased to slow inflation.

In 2008, the Federal Reserve lowered interest rates to 0% in order to spark investment, promote growth, and push the country out of recession. Many economists fear howev-

er, that because interest rates have yet to recover to their pre-financial crisis highs, the Fed will not be able to counteract the next recession as effectively using this tool. This concern prompted the Fed to slowly raise interest rates towards the higher rates seen before 2008. But by the end of 2018, many investors feared that the Fed had become too aggressive in their policy and might actually push interest rates too high, too quickly and stall growth in the economy.

Since then, the Fed has sharply revised their view on the optimal target interest rate given the current economic environment.

Since then, the Fed has sharply revised their view on the optimal target interest rate given the current economic environment. At the end of January, the fed revised its statement on interest rates indicating that "the Committee will be patient" in determining appropriate interest rate changes going forward. This is a much more accommodative policy than the prior month. This reduced the stress that investors were feeling and has certainly contributed to the recovery over the past 3 months.

So what does it mean?

Although the threat of prolonged trade tensions and increasing interest rates are still present in the current economic environment, the threat to the US economy has been reduced since the end of 2018. Although the actual content and progress being made between China and the US is not public, improving signs from negotiators and the President have reduced the levels of uncertainty investors felt in December. Over the past three months, the Fed has completely changed its stance on monetary policy and has made it clear they are cognizant of the ever changing landscape of the US economy. They understand their first responsibility is promoting a stable economic environment, and that threatening the current growth of the economy in preparation for the next economic decline may not be the most beneficial path. Together, these two reductions in uncertainty have pushed markets higher and should continue to do so, if and when they are ultimately resolved.

The Mueller Report

In the meantime, the financial markets will continue the current day-to-day volatility based on headlines. And speaking of headlines, the release of the Mueller Report has certainly created a lot of headlines, most of which are not positive for the President. It will be interesting to see how Congress handles the report and whether or not there will be impeachment hearings. If there are hearings the open question is how the financial markets will react or even if they will react.

And, as has been true over the last few years, we will continue to review and rebalance as needed to keep portfolios in line with their strategic

target asset allocations and maintain cash levels as needed. Our crystal ball still remains a little hazy but we know diversification works and we know periodic rebalancing is a good strategy in uncertain financial markets.

Lassus Wherley News

In case you missed it, we have a new article on the CNBC website in a new section titled ***Investing In You***. The title for the article is "***A Roth 401(k) offers tax advantages. Here's how it works.***"

Here's a direct link to the article: https://www.cnbc.com/2019/04/22/a-roth-401k-offers-tax-advantages-heres-how-it-works.html

Please keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term. You know our mantra. We are long-term investors!!!!

Let us know if your cash needs have changed or there is something else we can help with.

And remember to practice that deep breathing when the world starts to get to you.

Enjoy the welcome sunshine!

Diahann

Investment Committee:

Diahann W. Lassus, CFP®, CPA/PFS, Chair

Dawn Brown, CFP®
Senior Financial Advisor

Jodi A. Cirignano, CFP®, CPA
Senior Financial Advisor

David Colby
Investment Analyst

Patricia A. Daquila, CPA, CFP®
Senior Financial Advisor

Cynthia Fusillo, CPA
Senior Tax Advisor

Lisa McKnight, CFP®
Senior Financial Advisor

Betty S. Thomas, ChFC®, CFP®
Senior Financial Advisor

Laurie Wolfe, CPA, CFP®
Senior Financial Advisor

Compliance Disclosure