MARBLE TRAIL ADVISORS

Financial Planning & Wealth Management

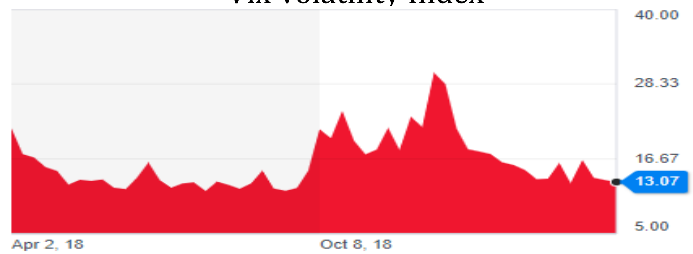
Market Update

1st Quarter 2019

Global Stock Market Highlights

- Global stock markets bounced back as the Fed reversed previous guidance on future interest rate increases. The rally brought lower volatility, inducing investors to regain their appetite for risk.
- The S&P 500 gained 14%, continuing to outpace most foreign markets by a wide margin.
- China proved an exception, as stocks surged 21% in Q1, but they merely regaining what was lost in 2018.
- The U.S. remains the only large market to post significant year-over-year gains.

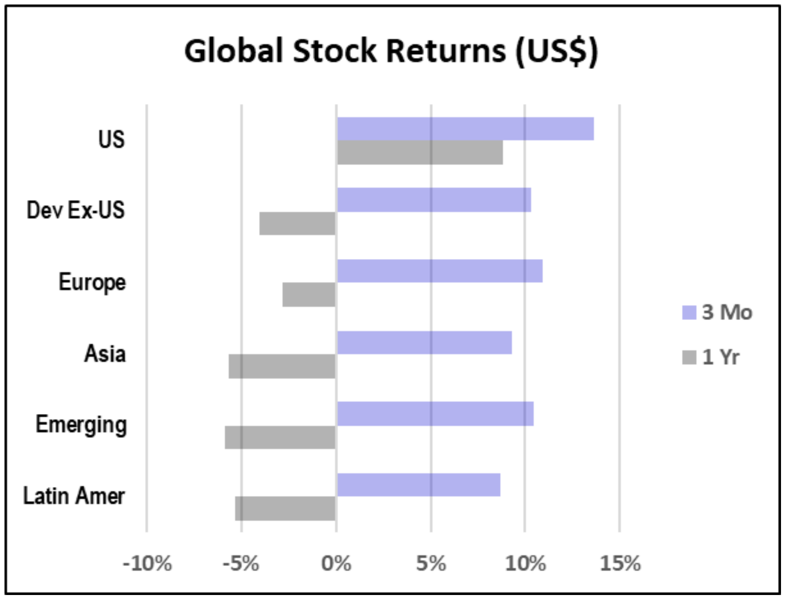
Vix Volatility Index



Source: Yahoo Finance

P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	19.5	20.8	19.1
Russell 2000 (Small)	17.8	19.9	19.6
Europe	14.8	17.6	17.0
Emerging Markets	13.0	15.8	11.8

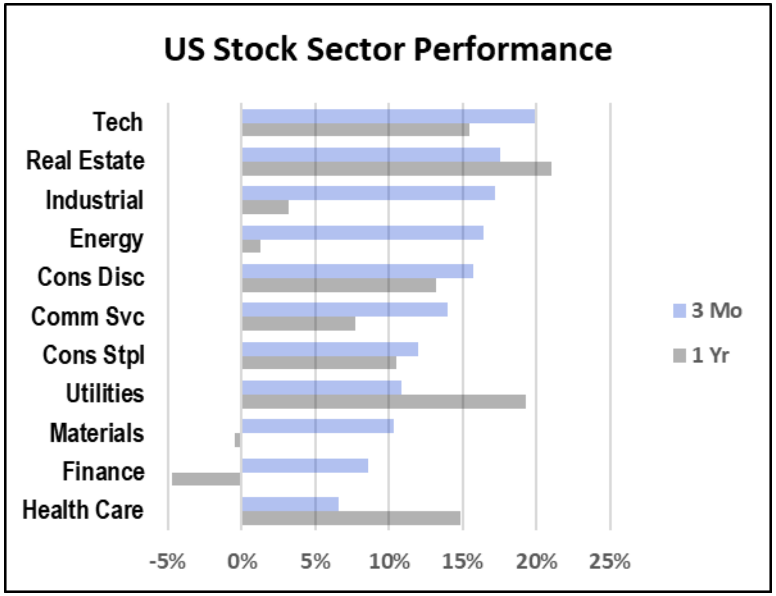
Source: Morningstar



Source: S&P Dow Jones

Stock Sector Highlights

- All 11 sectors of the S&P index advanced in Q1.
- Technology companies again led the way, although the realignment of sector indexes last year (moving Google, Facebook & Twitter to Communications Services) has the group looking very different from previous years and dominated by Microsoft and Apple, with each representing over 17% of the index. The next largest component is Visa at 5%, which strikes us as a bit counterintuitive.
- Health Care was the worst performing sector, as Biogen's halting of trials for Alzheimer's drugs wiped $18 billion off its market cap and weighed broadly on other drug companies.
- After another lackluster quarter, Financials remain the cheapest sector, as investors have concluded that an inverted yield curve can't be good for banks that borrow short-term money and lend it long-term. In such an environment, the strong are likely to dominate the weak, presenting potential investment opportunities.



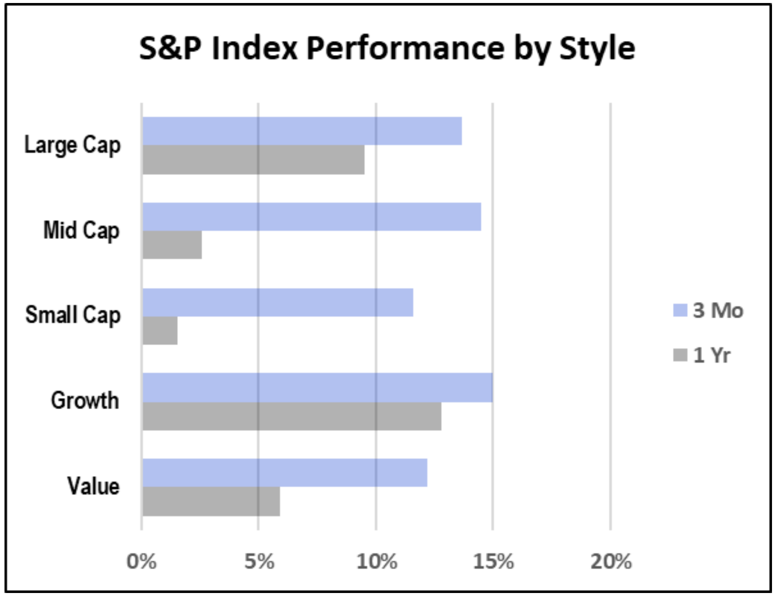
Source: S&P Dow Jones

	P/E Ratios			Yields	
Sector	**Current**	**1 Yr Ago**	**3 Years Ago**	**Current**	**3 Years Ago**
Consumer Discretionary	22.7	19.8	21.2	1.2%	1.5%
Consumer Staples	19.7	20.5	23.5	2.8%	2.4%
Energy	15.2	17.2	20.9	3.1%	3.2%
Financials	14.2	15.4	13.9	2.0%	2.2%
Health Care	25.1	26.2	22.6	1.5%	1.6%
Industrials	18.6	20.8	18.0	2.0%	2.1%
Technology	19.9	23.6	19.2	1.4%	1.8%
Utilities	19.8	17.8	20.2	3.1%	3.2%
S&P 500	*19.5*	*20.8*	*19.1*	*1.9%*	*2.3%*

Source: Morningstar

Stock Market Performance by Style

- Mid-cap companies, the worst performing segment in 2018, rallied in Q1 to edge out large caps. After a promising start to the quarter, the small cap rally fizzled late, leaving it trailing the other segments by a couple of points in the quarter. The year-over-year performance discrepancy between large and small/mid caps remains a yawning 8 points.
- A similar disparity persists between growth and value as the latter enjoyed another quarter of outperformance.
- With most leading money managers hunting in the lower-left hand portion of the style box, it has not been a great run for active management in general and big name hedge funds in particular. That said, all trends reverse eventually and piling into what's recently been hot is a good route to future underperformance.



Source: S&P Dow Jones

Style Box Valuation (P/E)

	Value	Blend	Growth
Large	16.4	19.3	23.6
Mid	16.0	20.3	27.0
Small	15.5	18.4	24.4

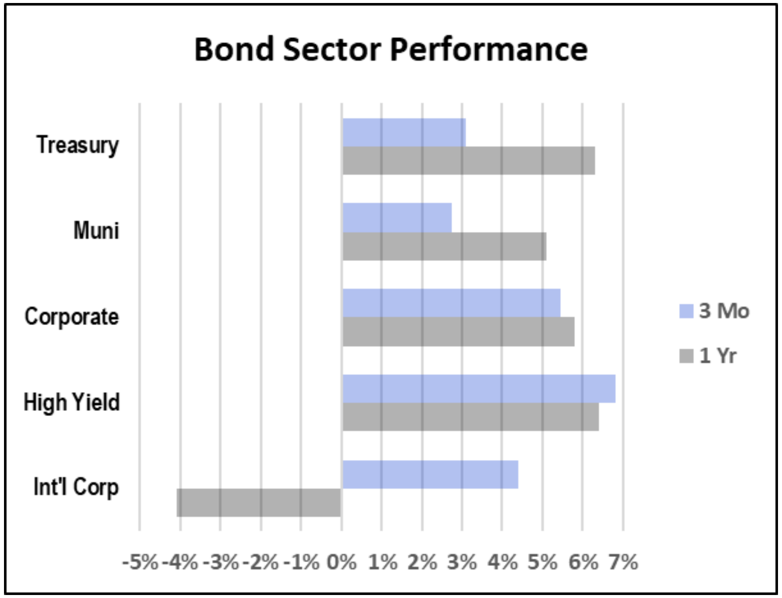
Source: Morningstar, Vanguard

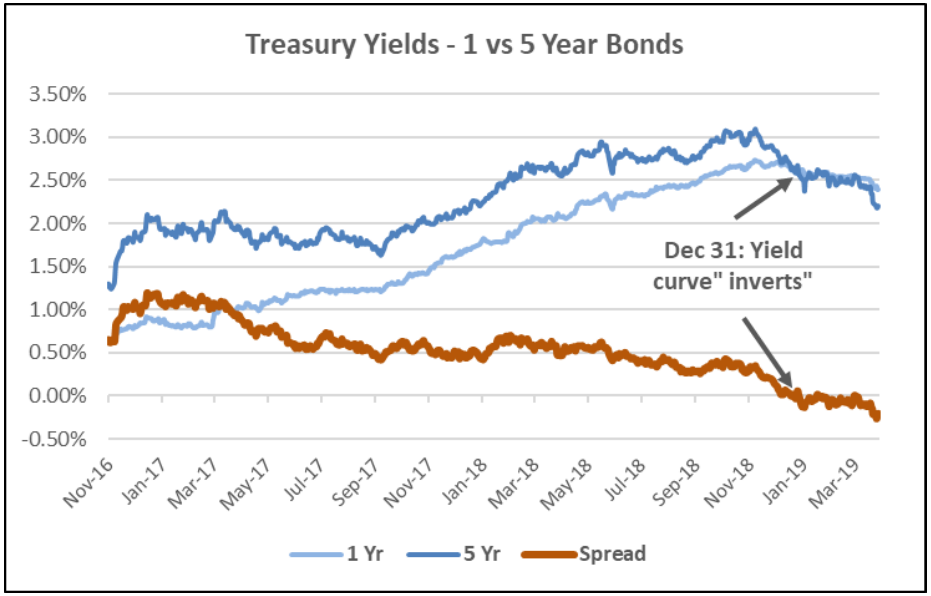
P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	19.5	20.8	19.1
Russell 2000 (Small)	17.8	19.9	19.6
Large Growth	23.6	26.8	21.5
Large Value	16.4	18.5	16.5
Small Growth	24.4	28.1	22.9
Small Value	15.5	15.0	15.7

Source: Morningstar

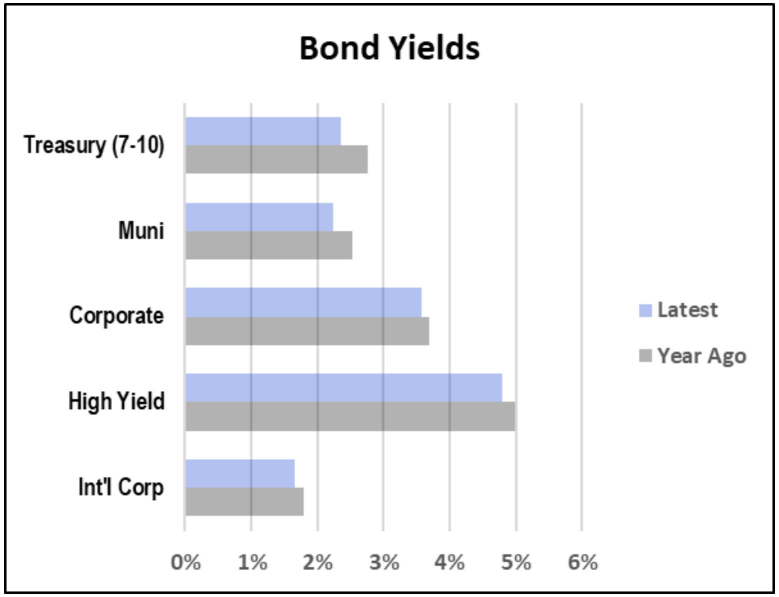
Bond Market Highlights

- Lower long-term interest rates led a broad rally in bond prices, with investors favoring the riskier issues that they shunned a quarter ago.
- For the first time in many quarters, yields are now generally lower than a year ago, which is when they were just starting to get appealing.
- For some time, we had been highlighting the narrowing of the yield curve and it finally inverted in December. While 10-year yields have recently rebounded enough to exceed short-term yields, those of 5-year notes have not and remain inverted. For some economic forecasters, this suggests a recession that starts within a couple of years.





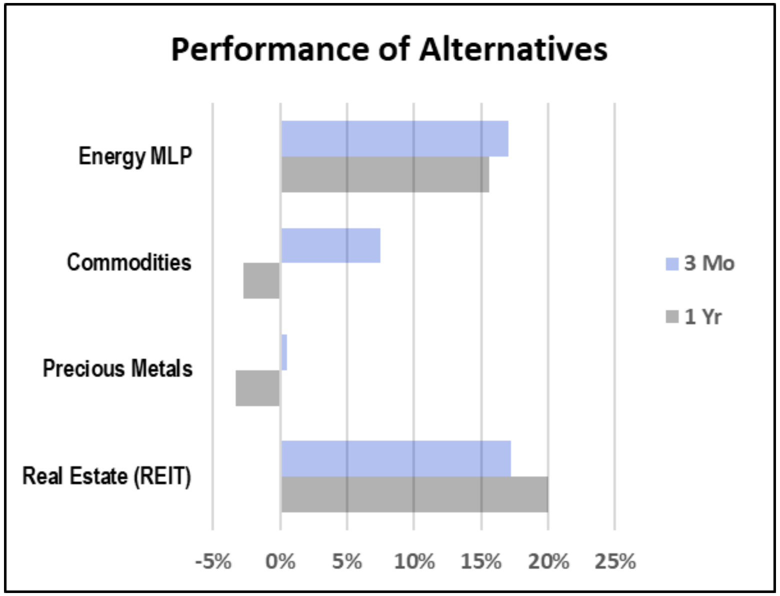
Source: St. Louis Fed



Source: S&P Dow Jones

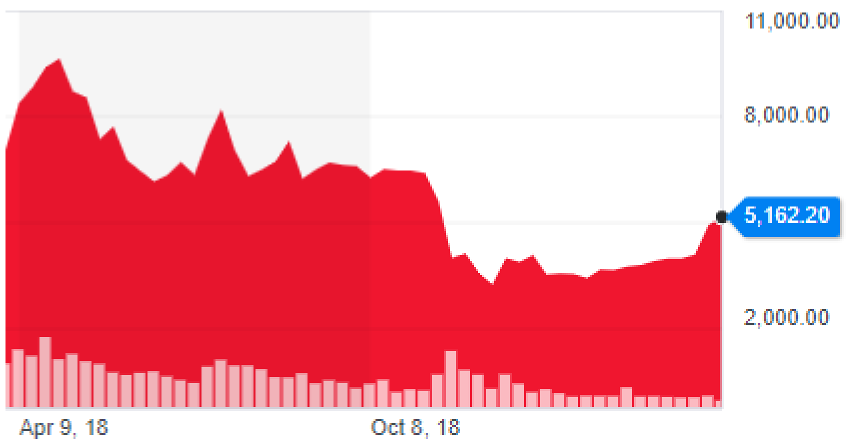
Alternative Investments

- REITs were the star of the quarter as falling interest rates and more favorable tax treatment pushed up demand for these investments.
- Gold and other precious metals have languished amid a more subdued inflationary outlook.
- Declining production from Venezuela and Mexico and a renewed production deal between OPEC and Russia helped oil prices surge 33% in the quarter to $60 / barrel.
- Bitcoin finally showed some life, rising 25% late in the quarter. Volumes – and interest – are still low and prices are nearly 75% off the all-time high of 2017. Legitimacy as both a currency and an investment remains elusive.



Source: S&P Dow Jones, Morningstar

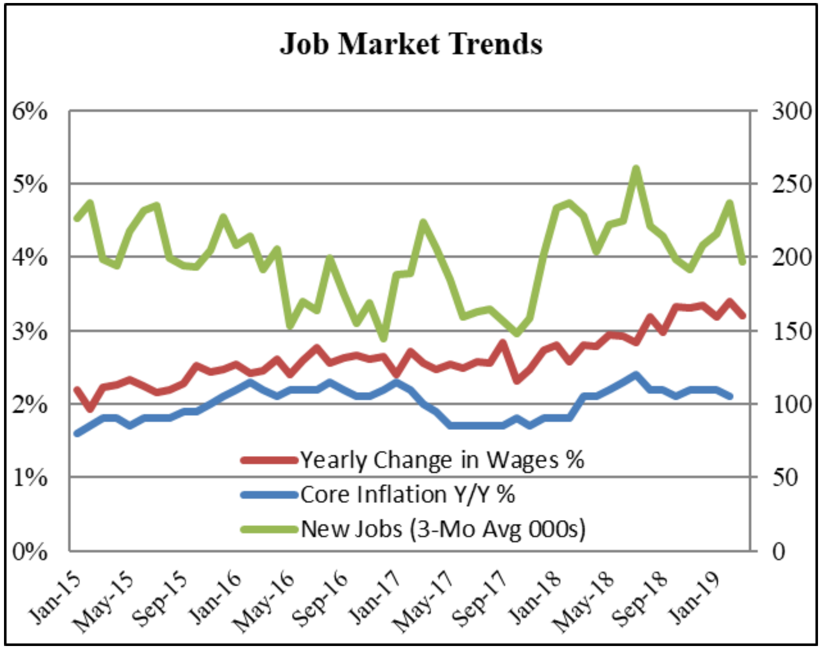
Bitcoin

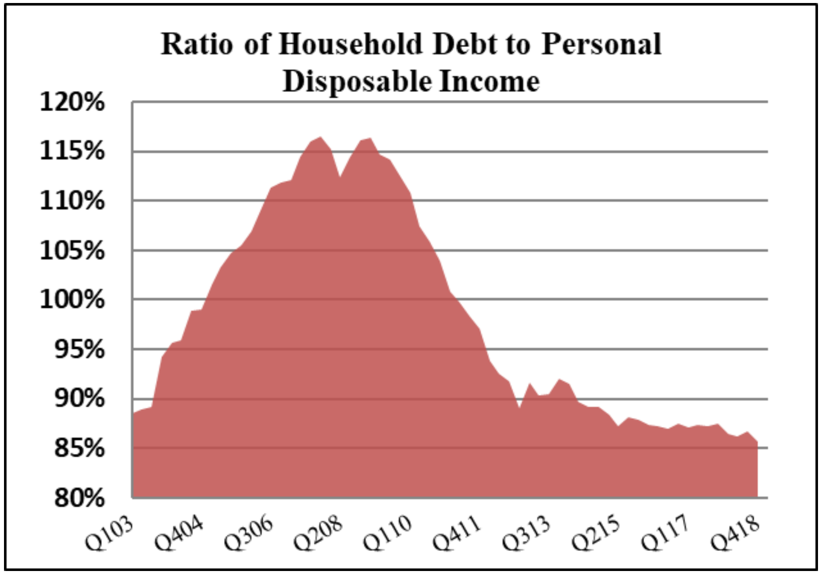


Source: Yahoo Finance

Economy

- Economic growth slowed again to 2.2% in Q4 2018, bringing growth for the full year down to 3.0%. That's at the lower end of the range of what was promised when tax cuts were enacted, but considerably higher than the 2.2% growth rate that economists are forecasting for 2019.
- One reason that GDP has disappointed is that consumers have not binged on their increased take-home pay. This is evident in tepid retail sales figures, moderating inflation, and slowing growth in consumer debt.
- The job market cooled slightly but remains strong. The economy continues to produce almost 200,000 private sector jobs per month, keeping the unemployment rate at 3.8%. Annual wage growth steadied at 3.2%, while core inflation remained at just over 2%.
- We still consider an external shock to the system a more imminent threat to the nine-year expansion than a gradual build-up of excess.
- Elsewhere, growth in Europe is slowing, even in Germany, which has been hit by a slowdown in exports to China and new emissions regulations that have slowed production at automakers. Finally, we still have no idea what lies ahead for Brexit, but momentum seems to be building toward a solution that keeps the U.K. in a customs union with the EU, which would be a favorable outcome for financial markets.





Sources: ADP, US Depts. of Labor and Commerce, & the New York Fed

Our Macro View

Region	Current Conditions	Long-term Outlook	Investment Implications
USA	Moderating growth; labor market at or near full employment; early signs of excesses that typically precede recession, all clouded by trade policy.	Base: Trump backs down on trade war as effects become unpopular, leading to modest resurgence in business investment; rising debt and resurgent inflation lead to next recession (1-3 years). Downside: Trade war triggers stagflation – higher inflation & lower growth; corporate profits suffer. Upside: Trade war averted; increased investment leads to extended rise in growth & productivity.	Stocks again fully valued to marginally overvalued, but so is every other asset class. A slightly defensive posture remains warranted.
Europe	Very slow growth; populist challenges throughout Euro zone; Brexit deal could still go in any direction.	Base: Irreconcilable differences lead to slow dissolution of the EU in its current form. Downside: Nationalist sentiment hastens the process beyond the point of prudence. Upside: Germany takes more enlightened view toward providing fiscal stimulus.	Market consensus not entirely in line with our base case. Brexit and Euro zone now equally in focus. Slightly lower than normal weightings with modest currency hedges.
Japan	Marginal gains in growth and inflation are fading; trade weighing on outlook; massive public debt.	Base/Downside: More of same until debt burden breaks view of Yen as safe haven asset, at which point inflation returns by way of devaluation. Upside: Nation implements structural reforms and immigration policy to inject dynamism.	Retreat of US & European central banks put them more in line with Japan, easing pressure on the Yen.
China	Tariffs clearly hurting industry; in response the State is allowing its currency to devalue and is relaxing credit, adding to already high public & private debt levels.	Base: Slowing of economy creates domestic issues absorbing central government resources, pressuring stocks and the currency. Conflict with US simmers without boiling over. Downside: Either government missteps or a trade war lead to rising unemployment & unrest; foreign investment moves to other emerging markets. Upside: Consumer economy grows fast enough to outweigh other problems.	Strong Q1 rally erases obvious bargains and near-term risk now more balanced between upside and downside. Selectivity remains key; avoid state-owned enterprises, heavy industry; favor consumer and healthy smaller companies.

Our Fundamental View

Fundamental	Medium- to Long-term Outlook	Investment Implications
Stock Market Valuation	Many assets remain expensive relative to historical averages, which suggests that investment returns for everything from stocks to bonds and real estate will be below long-term averages. Tax cuts justify some of the appreciation since Nov 2016, but companies will have to deliver earnings growth from operations in 2019, and that is not the forecast for many companies.	Achieving 5-7% annual returns over the next 5-10 years will require embracing stock market volatility to the extent afforded by your risk tolerance and portfolio withdrawal rate. Diversification will remain key to generating decent returns while managing risk.
Interest Rates	Recently, a worsening economic outlook has caused interest rates to fall, but U.S. government debt is rising quickly at the same time that central banks are purchasing fewer bonds. Wage growth and rising oil prices restrict Fed's ability to cut rates without spurring inflation. As long as job market stays strong, there is likely to be upward pressure on rates.	Continue to employ reasonable hedges against rising rates, including laddered bond portfolios, floating rate notes and cash. With short-term rates high relative to long-term, focus on the near-end of the yield curve and cash equivalents for now.