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Stocks continued to soar in April and several indices reached new highs. Large stocks in the S&P 500 Index climbed 4.1% in April bringing their year-to-date gain to an astonishing 18.3%. This has been the best start to the year for the S&P 500 Index since 1987. Small cap stocks in the Russell 2000 Index were up 3.4% for the month and 18.5% for the year so far. International stocks in the MSCI EAFE also made gains and were up 2.9% for the month and 13.3% for 2019. Emerging markets stocks rose 2.1% in April bringing their year-to-date gain up to 12.3%. Bonds yields stayed mostly the same so the Barclay's U.S. Aggregate Bond Index return remained at 3.0% year-to-date.

Concerns about the impact of the government shutdown on first quarter GDP growth were unfounded. Initial estimates for GDP growth during the period show that the economy grew at 3.2% making this the best first quarter since 2015. Consumer confidence was strong in April which may indicate that second quarter GDP growth will also be strong. Unemployment is still at a 50-year low at 3.8% and inflation remains under the Fed's target rate, too, further pointing to a healthy economy.

Corporate earnings were buoyed last year by tax reform resulting in earnings growth of 23% in 2018 for the S&P 500. The strength from last year will make it difficult for 2019 to look as good. So far, of the companies that have reported first quarter earnings, about 78% have beaten their earnings estimates and 61% have beaten their revenue estimates – this is a little above average. Even so, earnings are only up 0.1% on 3.8% higher revenues compared to first quarter last year but they had been expected to decline -0.8%. For the full year, earnings are projected to grow 2.0%.
The global outlook is mixed. Global growth has been slowing There continues to be political turmoil in France and Italy, manufacturing weakness in Germany, and Brexit is not going smoothly. On the positive side, the US and China seem to be on a favorable path regarding their trade negotiations. However, they are still divided on many issues so any trade agreement may really be more of a cease fire according to JPMorgan. An agreement would still likely result in easing investors' minds plus may boost other international trade that has been suffering as a result of the tensions.

The Federal Reserve has left interest rates unchanged and has reiterated that they will remain patient which left investors reassured that they do not need to fear a rate hike pushing the economy into a recession. The Fed Funds rate is currently in a range of 2.25% to 2.5% where the Fed indicated it would stay through 2021 during its March meeting. The yield on the 10-year Treasury bond is also at 2.5% resulting in a flat, but not inverted, yield curve.

Stocks have been on an upward trajectory for the past ten years and it would not be uncommon to enter a consolidation period or for volatility to increase. Stock allocations may have unintentionally increased as the rally progressed and now – while stocks are at or near their highs - would be a good time to lock in some of those gains and trim back stock allocations to levels in line with risk tolerance. Investors have an attractive opportunity to reduce their risk level to be more conservative and in line with their risk tolerance. This would also be a good time to sell securities in your account to raise cash that will be needed during the year. If you have special needs for cash coming up, please let us know so we can plan accordingly. If you have any questions about your account, do not hesitate to contact us.

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