



The Concord Advisory Group, Ltd.

March 2019 Market Highlights

“Interest Rate Head Fake”

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www.concordadvisory.com

700 Alexander Park | Suite 203 | Princeton, NJ 08540

Phone: (609) 987-9000

Concord Advisory Group: March 2019 Market Highlights

Commentary: “Interest Rate Head Fake”

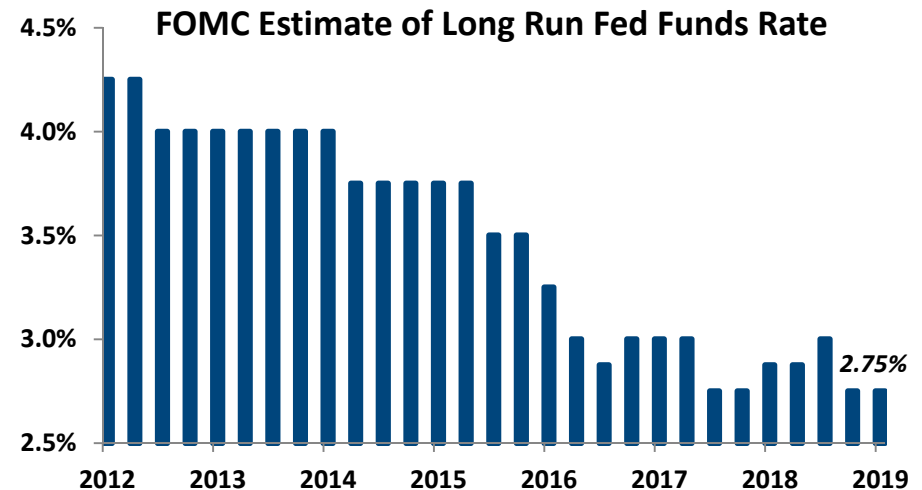


From January through October 2018, it appeared that the 35-plus-year fixed income bull market was finally over. For most of 2018, interest rates increased, and the Federal Reserve signaled its intention to raise interest rates multiple times in 2019 and to continue contracting its balance sheet. As we sit today, everything has reversed. Interest rates are falling, and the 10-year Treasury is yielding about the same as the 3-month T-Bill. The Fed announced its balance sheet runoff will end in September, and futures market prices imply a 72% probability that the Fed cuts rates late in 2019. Interest rates around the world have also dropped, highlighted by \$10 trillion in bonds trading at negative yields. In summary, the rate increases in 2018 look to have been a “head fake,” and the bond bull market remains intact.

The accompanying chart shows the Federal Reserve Open Market Committee’s estimate of the neutral Fed Funds Rate, the long-run rate that is neither accommodative nor restrictive. The trend is clear; the neutral rate of interest is falling. The FOMC members, who estimate the neutral rate, tend to move incrementally, meaning that they are reluctant to make large adjustments to their forecasts. Given this anchoring bias, it is probable that the actual neutral rate of interest is below the current 2.75% that the FOMC estimates.

Across markets and investor types, many unfortunate investment decisions were made because of the “rates can’t stay this low” mantra. However, rates can stay at the present low levels and should fall if the economy slows. The upside of low rates, as we saw this quarter, is that they are supportive of stock market valuations and encourage economic growth.

The downside of the structurally lower rate environment is that monetary policy will be less effective in the next recession. In the next recession, the European and Japanese central banks will need to find creative ways to stimulate their economies, because risk-free rates are already negative. In the U.S., the Fed has room to adjust rates down and to expand its balance sheet, but not as much as it had before the 2008 recession, when the Fed Funds Rate was over 5%.

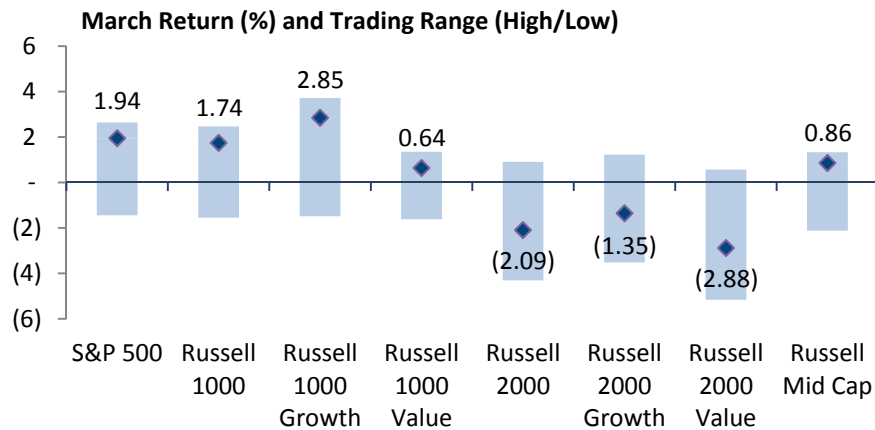


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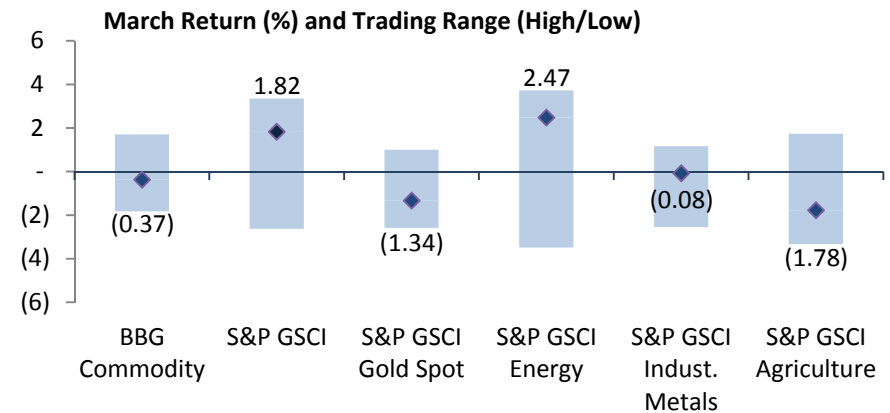
Monthly Charts



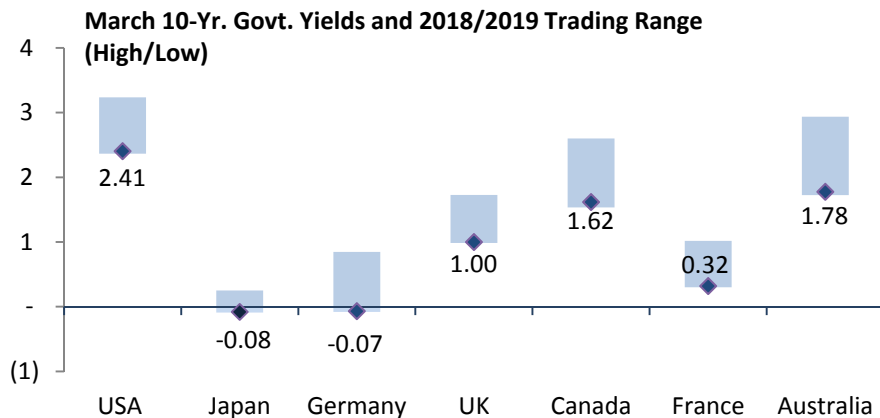
U.S. Equities: U.S. equity returns were mixed with growth outperforming value and large caps outperforming small caps. The flattening and partial yield curve inversion hurt financials.



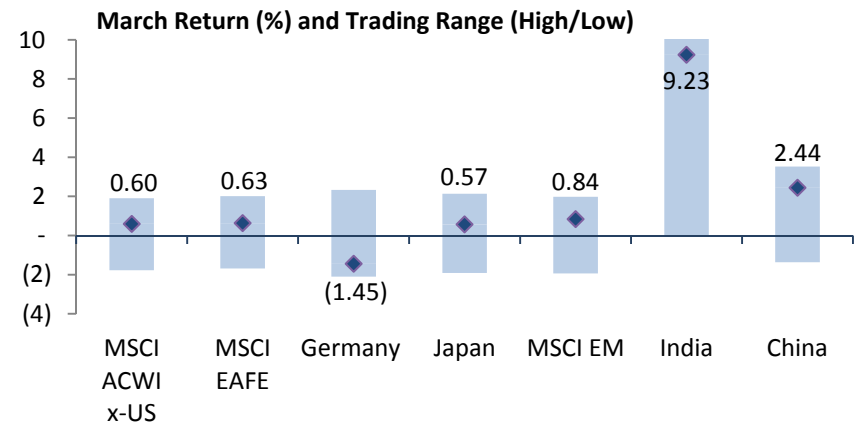
Commodities: Commodities returns were mixed, with shrinking oil supply driving gains in the energy sector, and a combination of trade tension and expectations for a strong harvest pressuring agriculture.



Fixed Income: Long-term interest rates fell around the globe. The U.S. yield curve flattened and partially inverted, fueling gains in long-term bonds. The lower duration of high yield bonds held back results.



International Equities: A stronger U.S. dollar and fears of cooling European economies caused non-U.S. developed and emerging to lag domestic stocks. India's central bank turned dovish, boosting equities.

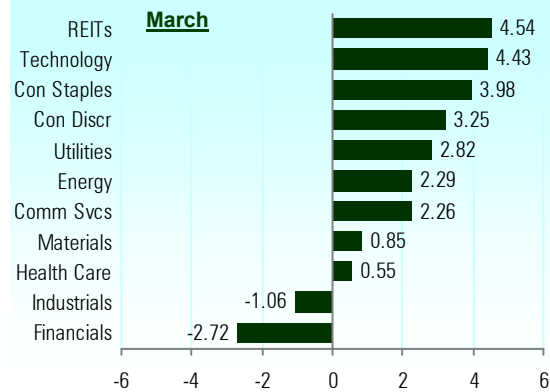


Concord Advisory Group: March 2019 Market Performance

Equity Markets	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
S&P 500	1.94%	13.64%	13.64%	9.49%	13.51%	10.91%
Russell 1000	1.74%	14.00%	14.00%	9.30%	13.52%	10.63%
Russell 1000 Growth	2.85%	16.11%	16.11%	12.75%	16.53%	13.50%
Russell 1000 Value	0.64%	11.94%	11.94%	5.68%	10.45%	7.72%
Russell MidCap	0.86%	16.55%	16.55%	6.48%	11.82%	8.81%
Russell 2000	-2.09%	14.59%	14.59%	2.05%	12.92%	7.05%
Russell 2000 Growth	-1.35%	17.15%	17.15%	3.87%	14.88%	8.41%
Russell 2000 Value	-2.88%	11.94%	11.94%	0.18%	10.86%	5.60%
MSCI ACWI	1.26%	12.18%	12.18%	2.61%	10.67%	6.45%
MSCI World	1.31%	12.48%	12.48%	4.02%	10.68%	6.78%
MSCI ACWI Ex-US	0.60%	10.32%	10.32%	-4.22%	8.09%	2.57%
MSCI EAFE	0.63%	9.98%	9.98%	-3.71%	7.27%	2.33%
MSCI EM	0.84%	9.92%	9.92%	-7.41%	10.68%	3.68%
Bloomberg Commodity	-0.18%	6.32%	6.32%	-5.26%	2.22%	-8.92%

Fixed Income Markets	Past Month	Past 3 Months	YTD	1 Yr	3 Yrs	5 Yrs
Barclays Capital Aggregate	1.92%	2.94%	2.94%	4.48%	2.03%	2.74%
Barclays Capital Global Aggregate	1.25%	2.19%	2.19%	-0.39%	1.49%	1.04%
Barclays Capital Intermediate Aggregate	1.39%	2.28%	2.28%	4.32%	1.71%	2.31%
Barclays Capital Universal	1.81%	3.33%	3.33%	4.53%	2.65%	2.99%
Barclays Capital Government	1.89%	2.10%	2.10%	4.21%	1.08%	2.15%
Barclays Capital Credit	2.44%	4.88%	4.88%	4.90%	3.48%	3.60%
Barclays Capital Municipal	1.58%	2.90%	2.90%	5.40%	2.71%	3.74%
Barclays Capital High Yield	0.94%	7.25%	7.25%	5.93%	8.56%	4.68%
Barclays Capital Mortgage	1.46%	2.17%	2.17%	4.42%	1.77%	2.65%
Barclays Capital 1-3 Yr Gov/Credit	0.66%	1.21%	1.21%	3.04%	1.32%	1.23%
FTSE 3-Month Treasury Bill	0.21%	0.60%	0.60%	2.12%	1.17%	0.72%
FTSE World Govt Bond	1.27%	1.75%	1.75%	-1.56%	0.96%	0.59%
Barclays Capital U.S. TIPS	1.84%	3.20%	3.20%	2.72%	1.70%	1.94%
BofAML Invest Grade Convertible	0.80%	6.91%	6.91%	5.65%	14.67%	11.52%

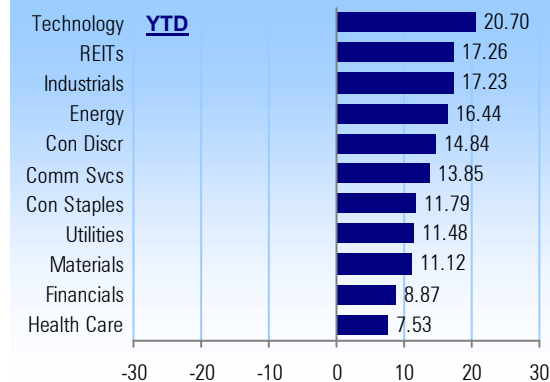
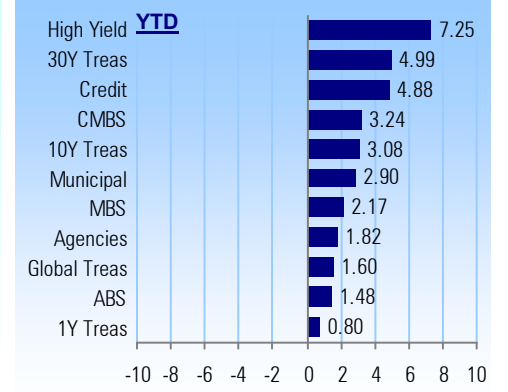
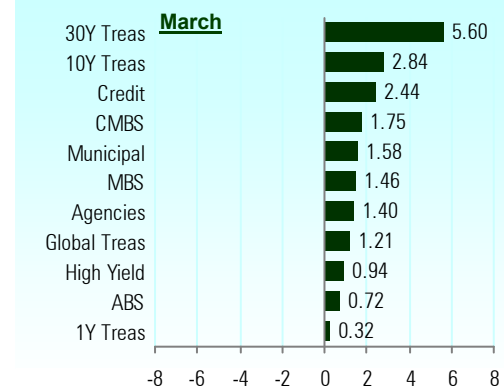
Equity Sector Returns (%)



Equity Style Returns (%)



Fixed Income Sector Returns (%)



Treasury Yield Curve

