The significant recovery in equity markets during the first quarter of 2019 has certainly helped with putting the disastrous end of 2018 behind us. Based upon fundamentals, our Dow Jones Industrial Average (DJIA) targets of 26,000 for 2019 and 27,110 for 2020, remain unchanged at this time. Relative to this year's DJIA target, domestic equity markets appear to be "fairly-valued" as we approach the market highs of last year. If markets remain within an uneventful trading range, we believe income will be a significant contributor to total returns given there are three more quarters of stock dividends forthcoming.

During the first quarter, positive catalysts to market levels were provided by both the resolution of the U.S. Government shutdown as well as the surprise dovish announcement from the Fed regarding the path of interest rates. We believe any favorable official announcement concerning the trade negotiations with China may provide another reason for equity markets to further spike on a temporary basis. The post-euphoria hope is that the duration of the current U.S.-China trade war will not have a negative long-term effect on global economic growth.

Do not expect much time to breathe a sigh of relief before our attention is turned from China to the EU's lingering issues. Brexit remains an unknown factor, but it appears that U.S. markets are numb to any news coming from the British Parliament, good or bad. Concerns of a further slowdown in the region were recently supported by mixed reports from Germany, which added to market jitters. Of course, a fresh announcement from the U.S. proposing tariffs to be imposed on $11B of EU imports does not help with instilling confidence within the region's economic outlook.

The Fed's surprise announcement blindsided bond markets in a positive way. The yield on the 10-yr. note dropped to 2.36% before recovering to slightly higher levels. The Fed's dovish stance was consistent with our outlook involving lower GDP growth projections and anemic signs of inflation. Due to the U-turn in interest rates relative to last year, mortgage rates have dropped to recent lows, which has produced upticks within various aspects of the housing market. As a result, the doom & gloom over this sector while rates were rising in 2018 has been temporarily lifted. Even though a slowdown in the housing market contributes to a negative effect on GDP, we believe a pause in rising home prices has helped prevent a perceived real estate bubble from growing out of control.

Despite projected U.S. GDP growth of 2%+ for this year, talk of a recession remains at the forefront due to fears associated with the "dreaded" inverted yield curve. We believe in looking beyond the yield curve for our assessment of a possible recession in the future. Instead, we will continue to focus on variables such as: employment, wages, corporate fundamentals, projections, as well as the impact of trade wars and tariffs. Even though we are fundamentally driven, we recognize that behavioral finance can also play a critical part in Capital Market expectations. It is not out of the question that a recession occurs as a result of rational expectations. If it does, we believe it may occur by fulfilling the definition of a recession, but it may not be felt on a greater scale like we experienced during the Great Recession in 2008-09. One question we ask ourselves is, "Will the Fed lower rates based on real existing economic conditions or to avoid a stubborn inverted yield curve?"

As always, please do not hesitate to reach out to your consultant if you should have any questions or concerns.