

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW FIRST QUARTER 2019

What Happened:

On the heels of a rough 4th quarter that saw the S&P 500 index fall to near-bear market territory, 2019 is off to a terrific start. Stocks gained over 13% in the first quarter which is the best quarterly showing since 1998. What's more, the market is on the verge of returning to the record highs reached in September 2018. There seems to be growing confidence that the U.S. will reach a trade deal with China and that the Federal Reserve will suspend interest rate increases for the time-being.

The market also benefited from the prevailing viewpoint on Wall Street that the recent slowdown in GDP and the decline in corporate earnings will be short-lived. In fact, most projections show significant improvement in economic and earnings growth as the year progresses. Low inflation and interest rates are also contributing to a positive backdrop for stocks.

First Quarter 2019 Performance:

S&P 500 Index (large stocks)	13.7%
Russell 2000 Index (small stocks)	14.6%
MSCI EAFE Index (international stocks)	10.0%
Barclays U.S. Aggregate Bond Index (bonds)	2.9%

Prognosis:

This market has shown remarkable strength and resilience. Still, some investors remain skeptical—distrustful of the economy, the administration, or a myriad of other issues. Their mood toward the market is neutral at best as evidenced by the large amount of investable money sitting on the sidelines. This lack of enthusiasm is a good thing in that it lends support to the continuance of the bull market. In fact, it isn't until investors become overwhelmingly euphoric that we should be concerned that the bull will soon be replaced by the bear. In other words, it appears that stocks have more room to run.

History is also on our side. Since WWII, there have been 28 years in which market gains were positive in both January and February (2019 is the 29th such year). In each of those 28 years, annual returns were positive with an average return of 24%. With that happy thought, we wish all of you a wonderful spring season.

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