Bell Bank Wealth Management

EQUITY & FIXED INCOME OUTLOOK APRIL 2019

Federal Reserve Monetary Policy

The Federal Reserve recently confirmed what we had expected. The Fed is taking a "wait and see" approach and further suggested there may not be any more rate increases this year. The Fed Fund rate currently remains at 2.5 percent. There is a chance that the next move will be lower rather than higher. Most developed foreign countries have much lower central bank rates than the United States does.

Inflation

The most recent year-over-year inflation rate of 1.5 percent was in line with our estimated range. The next data release is scheduled for April 10. We anticipate the April release showing a slight uptick – probably back to 1.6 percent, primarily due to the increase in oil and gas prices.

Economic Activity

The drumbeat of slowing U.S. growth is getting louder, but that should not come as a surprise to regular readers of this outlook. We anticipated that U.S. growth would be slowing on the heels of the same global trend in most major developed countries. There is a limit to how long the U.S. can remain the exception. Even though growth is slowing, we do not expect recession pressure for the remainder of 2019. Consumers remain in good shape in terms of employment, income and debt. The consistent stream of slow-growth media topics can have a negative effect on consumer behavior; we won't rule out consumers believing things are worse than they actually are.

We continue to expect housing to deliver some good news. Interest rates are moving still lower, making housing more attainable to interested buyers. Lower rates could also offer refinancing options for consumers who purchased a house over the last year at higher rates, or for those who missed the last round of lower rates a couple of years ago.

Fixed Income

Last month, we mentioned that the 10-year U.S. Treasury bond had a yield at 2.70 percent and the best real yield since early 2016. It appears the market made the same observation. Today, the 10-year is at 2.37 percent. The yield curve has also become inverted between 1-year and 10-year bonds. This means the 1-year Treasury bond has a higher yield than every other Treasury bond, all the way out to 10-year bonds. More specifically, the 1-year Treasury yield is 2.39 percent, while the 10-year Treasury yield is 2.37 percent. The trough of the yield curve is a 3-year Treasury with a yield of 2.14 percent.

What does all this mean? It might suggest investors are becoming more defensive in their allocations in anticipation of some market turmoil. It might suggest investors don't believe inflation will be a problem, and the yield offered by Treasury bonds remains attractive. It might mean investors from developed countries that currently have negative interest rates find our interest rates attractive. There is also the thesis that inverted yield curves suggest there may be a recession in the horizon. We feel this last is the least likely. After a decade of monetary stimulus, many historical correlations – including possibly the inverted yield curve –have become less reliable as indicators.

Stock Market

With the decline in interest rates, the equity market appears to be the preferred option for most investors. Remember, the equity market can get fickle quickly and is sensitive to changes in investor psychology and attitude. As we mentioned, negative news can convince people that things are slowing faster than they really are. This is where a change in behavior will tend to surface first in the form of declining prices. In the past few years, growth stocks had much better returns than value stocks. Year to date, the return gap between the two has narrowed noticeably. This suggests that investors continuing to pursue the stock market have rotated to a historically more conservative theme. It is too early to tell if the trend will become more pronounced.

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