Bell Bank
Wealth Management

EQUITY & FIXED INCOME OUTLOOK MARCH 2019

Federal Reserve Monetary Policy

With the next Federal Reserve meeting scheduled for March 20, we anticipate the Fed to continue its "wait and see" approach to future Fed Fund rate hikes. The Fed Fund rate currently sits at 2.5 percent.

Inflation

The most recent year-over-year inflation rate was reported at 1.6 percent, with the next data release scheduled for March 12. Look for inflation to remain in the range of 1.5 to 1.6 percent for the March report.

Economic Activity

The unemployment rate drifted a notch higher, rising from 3.9 percent to 4 percent. On the surface, this may look like a small setback – but that's not the case when it's combined with labor force participation rate data, which increased 0.1 percent to 63.2 percent this month, up from 63.1 percent last month. Labor force participation is up a full 0.5 percent since the end of September, when it was at 62.7 percent. This increase tells us that people previously on the sidelines of the job market are re-entering the workforce due to strong hiring prospects.

Housing is sensitive to interest rates, but it has been slow to respond to lower interest rates that are actually 50 basis points below early November 2018 levels. The 10-year U.S. Treasury bond yield is currently at 2.75 percent, but new home construction remains lackluster.

Auto sales are slowing. New car sales over the first two months of 2019 were down 2.6 percent compared to the same time period last year. Meanwhile, subprime auto loan delinquencies are rising. Both of these indicators are inconsistent with current consumer confidence reports, which are near record highs.

Fixed Income

At around 2.70 percent, the 10-year U.S. Treasury bond yield doesn't get investors excited about owning those securities. Closer observation shows this bond has a real yield – the interest rate of the bond minus the inflation rate – of around 1.1 percent. With the decline in the inflation rate, this bond has the best real yield since the beginning of 2016. Even on the short end of the Treasury curve, investors receive a positive real yield. This provides investors a comfortable place to wait out uncertainty or market turbulence for any uninvested cash positions.

Stock Market

The equity market appears to be wrestling with an identity dilemma. In the final quarter of 2018, the S&P 500 went from a high of 2925 in early October to a low of 2351 in late December. The definition of a correction is a 20-percent decline from the high. This particular selloff was 19.6 percent. Since its low in late December, the S&P 500 rallied back to 2800, an increase of 19 percent. Nobody can tell what the future holds.

What's the point of this recap? Simply this: If the selloff in the final quarter of 2018 gave you sleepless nights, because your allocation to equity was too high for your personal investment profile, now might be a good time to revisit your overall allocation.

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