NORTH STAR
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MARKET UPDATE

QUARTER 1, 2019

The U.S. economy continues to benefit from low inflation, healthy consumer spending and improving wage growth. Despite this, the bond market reflects a conservative outlook towards the future with the flattening of the yield curve, suggesting that investors believe the Fed will lower interest rates rather than increasing them in the near-term. The general concern with a flattening of the yield curve, or inversion, is a recession. On the other hand, global equity markets are telling a different story. Global equity markets produced good results for investors, increasing 12.18% for the quarter, suggesting that the probability of a recession in the near-term is low.

For the quarter, large company stocks (S&P 500) increased 13.65% while small company stocks (Russell 2000) increased 14.58%. The strongest performing sectors within the S&P 500 index were technology and industrials, which increased 19.9% and 17.2% respectively. Financials and telecom were the weakest performing sectors, gaining 8.6% an 6.6% each over the quarter[iii] .

Foreign stock markets, in aggregate, also increased in the 1st quarter with moderate strengthening of the U.S. dollar. A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter the MSCI EAFE Index (in U.S. dollars) increased 9.98% while the MSCI EAFE Index (in local currency) increased 10.59%[iii].

The demand for intermediate and long-term Treasuries increased during the quarter, pushing yields lower with higher bond prices (bond yields move inversely to bond prices). Overseas, Germany recently sold 10-year debt with a negative yield, the first time since the autumn of 2016. Investors who purchased those bonds, if held to maturity, are guaranteed to sustain a loss, reflecting the fears they have of a slowdown in major economies.[iv] For the quarter, the Barclays U.S. Aggregate bond index (a blended composite) increased 2.94%.

On March 20, the Federal Reserve's Open Market Committee left the rate for the federal funds rate at 2.25 to 2.5%. Last December the median projection for 2019 interest rate increases by the Federal Reserve was two, with one more to follow in 2020.[v]

In an official statement following the meeting, the Fed noted that there was a slowdown in economic growth, consumer spending and business investment in the first quarter. Instead of potential interest rate increases in 2019, federal-fund futures are predicting that there is a reasonable possibility that the Fed lowers interest rates by the end of the year. [vi]

Taking the long view, we continue to believe that globally diversified stock and bond portfolios and disciplined investment strategies can continue to provide opportunities for those investors looking for growth.

I welcome your input and as always, should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please contact me at your earliest convenience.

Written by North Star Resource Group.

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 3/31/2019[iii]						
INDEX	1ST Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	13.65%	13.65%	9.50%	13.51%	10.91%	15.92%
Russell 2000	14.58%	14.58%	2.05%	12.92%	7.05%	15.36%
MSCI EAFE (U.S. dollars)	9.98%	9.98%	-3.71%	7.27%	2.33%	8.96%
Barclays US Aggregate Bond	2.94%	2.94%	4.48%	2.03%	2.74%	3.77%
BENCHMARK COMPOSITES	1ST Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	12.86%	12.86%	3.97%	11.89%	7.74%	14.17%
Growth	10.81%	10.81%	4.11%	9.92%	6.79%	12.19%
Conservative Growth	8.73%	8.73%	4.52%	7.93%	5.94%	10.12%
Income and Growth	6.71%	6.71%	4.48%	5.90%	4.86%	7.96%
Income	4.88%	4.88%	5.03%	4.11%	4.11%	6.03%

Source: Morningstar Direct

You cannot invest directly in an index. Indices do not have expenses, which would reduce returns. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. Investments that focus in one sector may involve a greater degree of risk and volatility than an investment with greater diversification. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. Investments in fixed income securities are subject to interest rate risk and, as such, the net asset value of bond and real estate funds will fall as interest rates rise. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond.
This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested.
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[i] Wall Street Journal, "Yield Gap Isn't a Recession Guarantee," James Mackintosh, March 25, 2019

[ii] MSCI

[iii] Morningstar Direct

[iv] Financial Times, "German sells Bunds at negative yield for first time since 2016," March 27, 2019

[v] First Trust, "The Fed Emphasizes Patience," March 3, 2019

[vi] Wall Street Journal, "Treasurys Continue To March Higher," March 26, 2019