

In our fourth quarter letter, we advised clients to remain invested in the market despite the temptation to sell and go to cash. Since that time, the S&P 500 recouped much of the fourth quarter sell-off and closed the first quarter of 2019 2% below the all-time high that was reached around the end of the third quarter. The quarter proved excellent for domestic and global risk assets as the S&P 500 and the MSCI World ex-US indices were up 13.6% and 10.6%, respectively.

Despite the market's strong recovery from the prior quarter, we remain wary of corporate and global economic fundamentals. We are not of the view that a recession is imminent, but we err on the side of caution given decelerating U.S. and global economic growth, a pause in the interest rate cycle by the Federal Reserve, trade tensions and indications that the 2020 U.S. Presidential election may be a messy affair. In light of these risk factors, we believe the equity market may require a greater risk premium over the risk-free rate to entice investors to remain active. Given the current level of corporate valuations and projected earnings growth, market momentum will likely need to pause prior to any continued resurgence. Consequently, we are positioning client portfolios for the perceived higher levels of market volatility through a combination of changes including a rotation to low-volatility equities, hedged strategies and increased fixed income exposure.

### Benchmark Returns through March 31, 2019

	QTD	YTD	1 Year	2 Years	3 Years	5 Years	10 Years
<b>S&amp;P 500</b>	13.6%	13.6%	9.5%	11.7%	13.5%	10.9%	15.9%
<b>Russell 2000</b>	14.6%	14.6%	2.0%	6.8%	12.9%	7.1%	15.4%
<b>MSCI World Ex. US Index</b>	10.6%	10.6%	-2.6%	5.6%	7.8%	2.7%	9.4%
<b>MSCI Emerging Markets</b>	10.0%	10.0%	-7.1%	7.9%	11.1%	4.1%	9.3%
<b>Bloomberg Barclays U.S. Aggregate</b>	2.9%	2.9%	4.5%	2.8%	2.0%	2.7%	3.8%
<b>Bloomberg Barclays Municipal Bond</b>	2.9%	2.9%	5.4%	4.0%	2.7%	3.7%	4.7%
<b>Bloomberg Barclays U.S. High Yield</b>	7.3%	7.3%	5.9%	4.9%	8.6%	4.7%	11.3%
<b>FTSE Nareit All REITs</b>	16.7%	16.7%	19.9%	9.0%	8.1%	9.9%	18.3%

Source: Bloomberg \*Periods greater than one year are annualized

### The Big Picture [\(click here for full article\)](#)

U.S. real gross domestic product increased 2.2% in the fourth quarter of 2018, providing for a one-year growth rate of 2.9%. Most forecasters surveyed by the Philadelphia Federal Reserve forecast real GDP growth of 2.4% in 2019, which is below the 2.7% estimate at the start of the year. Corporate earnings are anticipated to increase about 3.7% (down from 7.4% at December 31, 2018) this year versus the 20% growth achieved in 2018. One of the drivers of last year's growth that is absent this year is the tax benefits from the Tax Cuts and Jobs Act passed in December 2017 that provided a one-time boost to earnings. The absence of a similar catalyst this year creates the perception of growth challenges. However, slowing growth is more than a math problem—higher wages combined with modest revenue growth are anticipated to dampen earnings. One particular aspect of this year's earnings projection is that most of the growth is anticipated to occur in the fourth quarter of 2019. Given that so much is determined by the outcome of that quarter, we believe market volatility will increase around headline events such as China trade discussions, various economic releases and (surprise!) increasing political rhetoric leading into the 2020 Presidential Elections.

A notable change in the economic outlook was implied by the Federal Reserve. Chairman Powell recently announced that the Fed was unlikely to raise the Fed Funds Overnight Lending Rate during 2019 and perhaps only modestly raise it in 2020. This is what has been referred to as “Powell’s Pivot,” shifting from a more “hawkish” stance on rates to one considered more “dovish.” Market participants cheered the news with a burst of buying activity, but we took a more solemn approach. Historically, the Fed has raised rates to prevent the economy from “overheating” and preventing inflation from getting too far above the Fed’s 2% implied target. The reluctance of the Fed to raise rates suggests to us that the economy is more delicate than preferred by the Fed. Rather than cheer, we believe reassessing risk assets is a more appropriate action.

International markets rebounded with U.S. markets in the first quarter. Developed markets were up about 10.6% driven by a perception of low valuations and a sense that the fourth quarter sell-off overstated the potential economic deceleration in 2019. The U.S. dollar declined relative to other currencies, which provided a minor tailwind for non-U.S. assets. Brexit will remain on the minds of many as the U.K. Parliament struggles for consensus.

Emerging markets swung back and were up 10.0% after a challenging 2018. Valuations in EM, particularly in Asia, remain low from a historical perspective. Similar to non-U.S. developed currencies, EM currencies benefited from a lower U.S. dollar and this dynamic is expected to continue during 2019. Economic growth in EM countries continues to easily exceed that of developed markets, albeit expectations have been reduced.

## Summary of Allocation Recommendations

Asset Class	Recommendation	Comment	Asset Class Summary Link
<b>U.S. Large Cap</b>	Neutral/Underweight	Earnings growth rates decline in 2019; Valuation rebound to premium level again; look to value-style, hedged or reduced allocation	<a href="#">U.S. Large Cap Review</a>
<b>U.S. Small &amp; Mid Cap</b>	Neutral/Underweight	Earning projections have declined materially since start of 2019; debt at smaller cap companies remains high; focus on midcap sector over small cap	<a href="#">U.S. Small Cap Review</a>
<b>Non-U.S. Developed</b>	Neutral/Underweight	European economic growth remains subdued amid IMF downgrade; trade issues with China have impact on developed economies	<a href="#">International Equity Review</a>
<b>Emerging Markets</b>	Neutral/Underweight	U.S./China trade deal still pending; valuations remain favorable but corporate earnings growth uncertain; local currency should be a tailwind to asset class	<a href="#">International Equity Review</a>
<b>Fixed Income</b>	Overweight	Flat yield curve with inversions occurring; use allocation to improve safety through high grade bonds and laddered strategy	<a href="#">Fixed Income Market Review</a>
<b>Tactical</b>	Neutral	Robotics and cybersecurity	<a href="#">Tactical Investments Review</a>
<b>Alternative</b>	Hedge Funds & Private Equity	For appropriate allocations; liquid hedge strategies in ETF format; private credit funds and private equity	<a href="#">Contact your Wealth Advisor</a>

## The Outlook

We continue to recommend a neutral/underweight allocation to U.S. Large Cap Equities. While economic fundamentals remain intact, valuations have recovered from their December 2018 lows and declining 2019 earnings growth expectations present challenges. This year's projected earnings growth relies heavily on Q4 2019 and thus we believe volatility may increase when headline events cast doubt on the achievement of those earnings outlooks. Consequently, we believe value-style investing combined with hedged strategies or allocation reductions are appropriate. In doing so we remain tax-aware.

We are recommending a neutral/underweight allocation to U.S. SMID Cap Equities. Within the asset class we continue to favor midcap equities over small cap equities. Midcaps have the best earnings outlook for 2019, while small caps have witnessed earnings growth projections reduced by over 66%. Consistent with a gravitation to higher quality, we believe midcaps are the more favorable allocation.

Within the non-U.S. developed markets we recommend a neutral/underweight. Heightened political developments and a recently reduced outlook by the International Monetary Fund are key drivers in our underweight thesis. With double digit performance already year to date, material upside in developed markets may be limited. Year-to-date performance is nearly double that of the estimated earnings growth for developed markets in 2019, with the likely possibility that earnings estimates continue to trend down. For market indices to hold at current levels, valuations would need to increase. Within the allocation we are recommending the inclusion of low-volatility strategies to temper downside relative to the broad developed markets indices.

We recommend a neutral/underweight allocation to emerging markets. Similar to developed markets, EM rebounded in the first quarter and valuations remain favorable in the asset class. Our outlook is influenced by the ongoing trade discussions and less robust (albeit positive) economic growth across EM countries. We are recommending exposure to EM through dividend and ESG-strategies that provide an overlay filter for higher standards of corporate governance and operating procedures.

Fixed income remains as an overweight allocation. Despite the fact that yields remain low (and are likely to remain so for the foreseeable future), fixed income should provide a ballast to investment portfolios and we believe this is an important factor in the near-term. Due to the flatness of the U.S. Treasury Yield Curve, from which non-risk-free fixed income assets are priced, investors can capture nearly all the income of longer-term bonds through shorter duration exposure. Where appropriate we are recommending shorter duration laddered strategies held in separately managed accounts and short-duration funds, both of which provide better risk management control with reasonably defined outcomes.

Our Tactical recommendations continue to include investments in robotics and cybersecurity. These investments have performed very well year-to-date and we have not altered our longer-term view.

## Tax and Financial Planning News

While tax season for 2018 has just ended, it is a good time to think about strategizing for the 2019 tax year. With equity markets heading into their eleventh year of a bull run, it is prudent to assess ways to save on taxes when rebalancing portfolios. There is often a hesitation to sell an investment that has accumulated significant gains. Buying the S&P 500 Index in March 2009 and continuing to hold it until now will have resulted in the value quadrupling. Selling the investment would realize significant appreciation, resulting in a meaningful increase in your taxes next April. Fortunately, there are options to consider that may offer you some tax savings.

Donating appreciated stock (which has been held for over a year) to a donor advised fund or another public charity can eliminate capital gains and provide you with a tax deduction for the fair market value (FMV) if you itemize deductions. Donating the stock provides a greater tax benefit than if you sell the stock, pay the tax and donate the net proceeds. With the recent increase to the standard deduction (\$12,200 per single filer; \$24,400 if married filing jointly in 2019) we previously suggested “bunching” tax deductions into one year in order to exceed the standard deduction. By making a 2019 gift of appreciated stock large enough to represent 2-3 years of contributions to your favorite charity(ies) you may exceed the standard deduction and receive a tax benefit from the donation.

Another useful tool is annual exclusion gifts. If you are in the practice of making annual exclusion gifts to family, consider gifting appreciated stock instead of cash. There is a high likelihood that the recipient is in a lower tax bracket than you, maybe even in the 0% tax bracket for capital gains (income below \$39,375 for single filers).

Finally, if your tax bracket has reduced substantially compared to last year, you may be eligible for a lower capital gains rate. That means selling appreciated stock could potentially yield a lower tax bill than if you had sold it last year when you had greater income. This could be something to consider if the change is temporary and you expect your tax bracket to increase substantially again next year. Be sure to first consult with your tax advisor to properly calculate and coordinate any of these options. If you would like to review your specific situation, contact your Wealth Advisor today.

## Firm News

Please join us in congratulating Lauren Gooding and Alicia Wall for earning their respective designations of Certified Trust and Financial Advisor (CTFA) and Certified Financial Planner (CFP®).

We are happy to celebrate the work anniversaries of Richard Freeman and Adam Sabban, who have been with Round Table Wealth for 15 years and 5 years, respectively.

**Respectfully submitted,  
Round Table Wealth Management**