The first quarter of 2019 delivered quite a turnaround after the dramatic market move lower late last year. Worries relating to global economic growth stemming from the U.S./China trade war, along with concerns about a hawkish (since turned dovish) Fed. Part of the market recovery this quarter has come from increasing encouragement that the U.S. and China can reach an agreement to normalize trade relations. Billions of dollars of goods flowing around the globe are at stake. Optimism prevailed this morning after Treasury Secretary Steven Mnuchin tweeted that talks in Beijing had been "constructive." The other major leg of support has been the Fed's newly adopted dovish stance, helping boost the S&P 500 to a year to date return of more than thirteen percent through Friday's close. One reason the central bank has provided for holding off on more rate hikes has been muted inflation data. Embedded in the statement are implied statements of a slowing global economy / decelerating rates.

The latest inflation data shows the core personal consumption expenditures price index, which strips out volatile food and energy prices - and is the Fed's preferred measure of inflation, increased 0.1% month-over-month in January. That's a lower reading than consensus expectation of 0.2% and continues to reinforce what the Fed has been saying about muted inflation.

Bond yields are moving lower in major markets all around the world as fears of a global economic slowdown have many investors scurrying for low yield government debt. Both Germany and Japan's 10-year bond yields are below zero, marking the first time German yields have turned negative since October 2016. The pool of negative-yielding bonds around the globe now stands at an astounding $9.32 trillion.

The yield on the 10-year Treasury has fallen to a one year low on a dovish Federal Reserve. On March 19th, the 10-year Treasury was yielding 2.43 percent, compared to 2.46 percent for the 3-month Treasury—a small but meaningful spread of negative 3 basis points. As of this writing, the inverted yield curve has reverted to slightly higher long term yields. A flurry of analysis followed the inversion. The most telling I believe is the global influence on our treasury markets, which has been in high demand by yield hungry investors buying what looks relatively superior to their own domestic yields, often negative or nearly so. This has been a *new and powerful factor* in our yield curve. Historically, a yield curve inversion indicates that investors are anticipating a rate cut in the near future, which itself is a sign that economic growth is slowing. The past seven recessions were preceded by an inversion. There are more often than not strong rallies between the time of inversion and the onset of a recession. Recessions are not recognized until backward looking data is generated, while associated downward market moves typically occur in the months leading up to the initiation.

Trade talks with China resumed yesterday as Mnuchin and U.S. Trade Representative Robert Lighthizer were in Beijing to work out the differences between the world's two largest economies. Reuters reported that China has made unprecedented proposals on issues including forced technology transfer but that there wasn't a definite timetable for a solution. Another round of negotiations is scheduled for next week in Washington with Vice Premier Liu He.

President Trump has already extended a deadline that could have seen the U.S. increase tariffs on Chinese goods. How much longer the talks will drag on is a major contributing factor in equity prices. Investor fatigue about the trade issue has set in, limiting gains, along with concerns on slowing growth around the world. Persistent worries about the economy have capped much of the upside for the moment.

Even as the Fed has adopted a dovish stance and European central bankers have also stood pat on interest rates, keeping relatively easy money flowing to companies, monetary policy makers on both sides of the Atlantic Ocean have also reduced their economic forecasts. In line with the sobering assessments, the U.S. government on Thursday said the economy expanded less than previously thought in the final quarter of last year, with its third estimate of Q4 GDP showing an annualized rate of increase of 2.2% compared with a previous reading of 2.6%. The general consensus was expecting a reading of 2.5%. While weakening, the fundamentals are in place for continued domestic growth.

An administrative / compliance note: On March 22nd, 2109 a revision within the Ramsdell Capital "Client Brochure – ADV part 2a" was updated extensively to reflect the addition of Charles Schwab & Co. as an alternate broker-dealer/ custodian. The updated version can be found under the tab "Form ADV Part 2" via www.ramsdellcapital.com. You may alternatively request a PDF be emailed, or paper document via USPS. Thank you.