Northport Investment Management, LLC
A Registered Investment Adviser

Market Commentary – 1st Quarter 2019

U.S. stocks rebounded nicely in Q1 2019, primarily fueled by the Federal Reserve's policy reversal, when it shelved its plans to continue hiking interest rates, and by optimism over a U.S.-China trade deal. Stocks were due for a bounce after the fourth-quarter rout left them deeply over sold. Firming oil prices, better-than-expected fourth-quarter earnings, and China taking steps to stimulate its slower growth economy, also helped stocks. For the quarter, the Dow gained 11.2%, its biggest gain since the first quarter of 2013. The S&P 500 rose 13.1 % (13.7% with dividends), its largest first quarter advance since the first quarter of 1998, and its best quarterly performance since 2009. The tech-heavy NASDAQ Composite did best, appreciating 16.5%, its best quarter in seven years. All eleven S&P 500 Sectors ended higher for the quarter, the first time since 2014. Technology (+19.4%), Industrials (+16.6%) and Real Estate (+16.6) were the best sectors. The worst were Healthcare (+6.1%) and Financials (+7.9%). The Mid-Cap, Small-Cap, International, and Emerging Market categories all performed well in the quarter, gaining between 9% - 14%.

Bonds, whose prices move in the opposite direction of yields, had a solid first quarter. With the Fed now on hold, bond yields fell. The yield on the benchmark ten-year Treasury note fell from 2.69% to 2.42% during the quarter. The Federal Reserve's dovish turn at its March meeting surprised us. Policy makers indicated that they expected no rate increases this year, after previously signaling that they had expected two rate hikes. If this about-face was done to counteract weakness in the economy, it's not a good sign. We'd rather see the Fed raising interest rates, on a path to normalcy, because they feel that the strong U.S. economy can handle it. Another potentially troubling sign during Q1was the inversion of the Treasury yield curve. During the quarter, the three-month Treasury bill yield surpassed the ten-year Treasury note yield. We will be more concerned if/when the two-year Treasury yield surpasses the ten-year Treasury yield. This has been a more accurate recession predictor.

We think that we've likely seen the low in interest rates for the near term. It would take a serious deterioration of economic conditions to go much lower. We are not expecting such weakness in the near future. Our hope is for stability from the Federal Reserve policy makers. Going forward, the Fed should wait and see how the data looks before taking any further action on interest rates. It is hoped that their dovish stance will help foster growth for the balance of 2019.

- Radnor Station Bldg. #1, Suite 304, 290 King of Prussia Road, Radnor, PA 19087, 610-293-0110 –

We felt positive going into 2019. Solid economic fundamentals did not portend an imminent recession for the U.S. economy. We expected a stock market rebound. It happened. The U.S. stock market was priced at crisis levels in December, now it appears to be relatively fairly priced. Where do we go from here? Will global economic weakness derail our economic success? Will a China-U.S. trade outcome make, or break, us? The upward catalyst for the market is earnings. Are we going to see materially better earnings? We just don't know at this point. Analysts widely expect first-quarter earnings per share growth to be negative year-over-year for S&P 500 companies, but revenues are expected to be positive. Will these "experts" be correct? The U.S. economy is downshifting from 3% growth to 2% growth, as the initial lift from corporate and individual tax cuts fade. We're going to slow down, it's just a question of how slow the pace of growth will be.

There are reasons to be positive as we enter the second quarter. The job market continues to remain strong. The U.S. economy is still growing. Seasonal factors tend to improve as the year progresses. Fiscal and monetary policies are supportive and inflation is absent. The longer the Fed stays on hold, the more a recession is pushed out. Expansion at a moderate pace can last for a relatively long time.

Our expectation is that we are going to be in a lower return, slower corporate-profit growth environment from here and, as a result, stock prices are likely to moderate. Moderate does not mean negative. It's unlikely that the market will make similar progress in the remaining three quarters. We expect limited progress to year end, with corrections along the way. We are not worried about a bear market.

Given the slowdown and existing global pressures (Brexit, deteriorating European economies, decelerating growth in China, trade wars), it's prudent to be cautious. Our custodian's taxable, non-sweep, money market fund presently has a current yield of 2.3%. This is an attractive vehicle in which to maintain some liquidity for capitalizing on opportunities as these uncertainties play out.

Northport Investment Management, LLC marked its ten-year anniversary this past quarter. Many Northport relationships now have a ten-year performance track record. It is gratifying to see such positive equity returns over the last decade. It allowed many of us to achieve financial security. Yes, there was volatility along the way. Volatility goes with the territory when it comes to the stock market. In the end, our collective long-term success confirms the adage that "investing is a marathon, not a sprint". There is no question that patient, serious, equity investing is a proven way to financial success over time.

John M. Grib, CFA, CFP®