TL Financial Group
QUARTERLY ECONOMIC UPDATE

April 2019 A review of Q1

Quote of the Quarter

"The secret of joy in work is contained in one word – excellence. To know how to do something well is to enjoy it."
PEARL BUCK

Important Dates:

Good Friday, April 19, 2019
Office closed

Easter Sunday, April 21, 2019

Mothers Day, May 12, 2019

Memorial Day, May 27, 2019
Office Closed

A Family Meeting:
Executor/Estate Planning
June 10, 2019
6:00 pm
Wayne County Community College Downriver

Fathers Day, June 16, 2019
Independence Day, July 4, 2019
Office Closed

Ladies Event
July 17, 2019
More details to come

Shred Day & "Stuff a Backpack Drive"
August 14th, 15th, 16th

Register Online:
Did you know that you can now register online for our upcoming workshops and events? Located under the Events Tab @ www.tlfgroup.net
Check back often for updates

Current Email Address
Do we have a current email address on file? We will begin sending out email notifications with our upcoming events. Call the office if you need to update yours.

Strong March caps great start to the year

For the third month in a row, all three major U.S. equity markets were positive for the month. The Nasdaq Composite led the way with a return of 2.70 percent, and the S&P 500 grew by 1.94 percent. Meanwhile, the Dow Jones Industrial Average (DJIA) came in with a gain of 0.17 percent, held back by Boeing. The three indices finished the quarter in the same order, with gains of 16.81 percent for the Nasdaq, 13.65 percent for the S&P 500, and 11.81 percent for the DJIA.

Despite this strong performance, market fundamentals worsened during the first quarter. According to FactSet, the estimate for first-quarter earnings growth for the S&P 500 stood at 2.9 percent at the end of 2018. As of quarter's end, this estimated earnings growth had fallen to a loss of 3.9 percent. This weakening of company fundamentals was widespread. In fact, all 11 sectors showed declines in estimates over the course of the quarter.

Fundamentals drive performance over the long term. But over the short term, weakening fundamentals do not necessarily mean that markets will suffer losses. In fact, over the past 20 quarters, this marks the 15th time that market values have increased while earnings estimates have declined. Further, analysts still expect positive earnings growth for the next three quarters and for the year. This growth should continue to support markets.

From a technical perspective, the news was good. All three major U.S. indices spent much of January and parts of February below their respective 200-day moving averages. Still, they ended the quarter above this important technical level. The S&P 500 and Nasdaq fell below their trend lines briefly in March before rebounding into month's end.

International markets also had a strong month and quarter. The MSCI EAFE Index, which covers developed economies, gained 0.63 percent for the month and 9.98 percent for the quarter. The MSCI Emerging Markets Index was up by 0.86 percent for March and 9.97 percent for the quarter. Technicals here were also positive at quarter-end. Both indices finished the period above their respective trend lines.

Even fixed income markets had a steady start to 2019. The Bloomberg Barclays U.S. Aggregate Bond Index gained 1.92 percent for the month and 2.94 percent for the quarter. Here, yields declined, pushing capital values up. The 10-year U.S. Treasury yield started the quarter at 2.66 percent and finished the period at 2.41 percent.

High-yield bonds, which are typically less influenced by rate movements, also had a positive start to the year. The Bloomberg Barclays U.S. Corporate High Yield Index gained 0.94 percent in March and 7.26 percent for the quarter. The asset class benefited from lower rates and lower-risk spreads, which dropped during the quarter after a large increase at year-end.

Economic growth slows—but continues

The decline in bond yields was due to a slowdown in growth across the economy. Only 20,000 new jobs were added in February, for example, against expectations for 180,000. This low figure may have been payback for a stronger-than-expected January. Or it may be a sign that job growth is slowing. As you can see in Figure 1, employment growth grew at an increasing rate to end 2018 before falling in 2019.

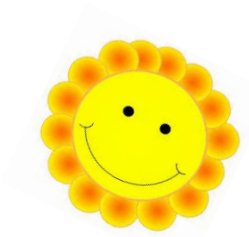
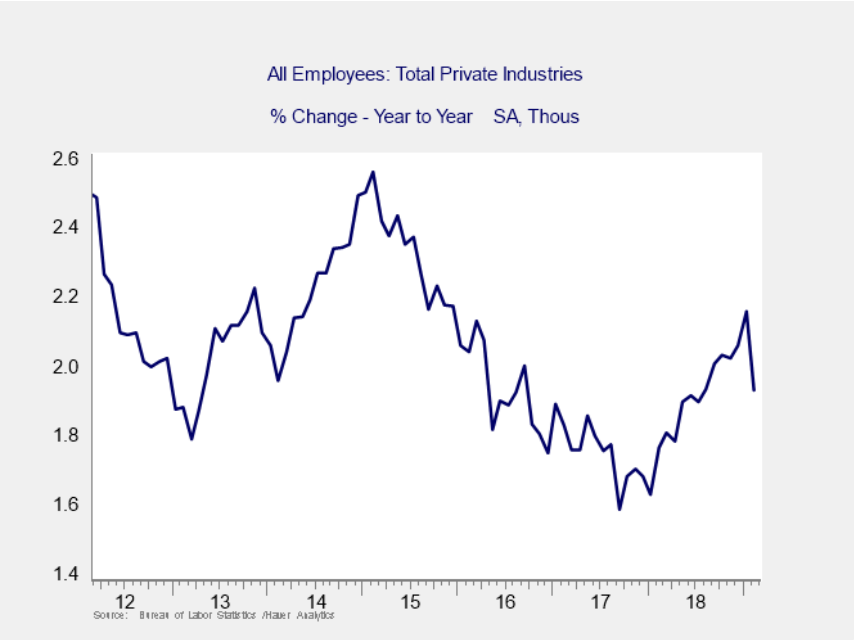


Figure 1. Employment Growth, 2012–2019



Similarly, consumer confidence reversed its recent bounce to trend lower. This decline might also be a sign that the economy is weakening. A strong jobs market is one of the major drivers of consumer confidence. As such, recent weakness here may be a worrying signal.

With weak job growth and a slide in confidence, it was no surprise that consumer spending growth also pulled back. January's personal spending report showed modest growth of 0.1 percent. But this result was less than the expected 0.3 percent and not enough to offset a decline of 0.6 percent in December. Of course, the government shutdown to start the year has delayed some data. Still, the major measures of consumer spending also disappointed in the first quarter. Retail sales in February fell by 0.2 percent, against expectations for a modest increase.

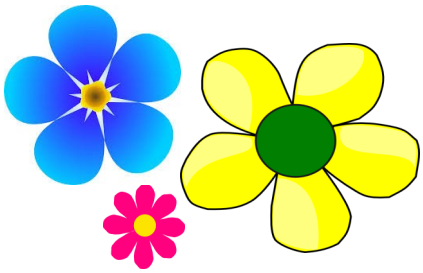
While consumer confidence had mixed results during the quarter, business confidence showed improvements. The Institute for Supply Management Manufacturing and Nonmanufacturing indices, which measure producer sentiment, showed rebounds following declines in December and January.

Business investment showed growth to start the year. Durable goods orders increased by 0.3 percent in January. This increase followed 1.2-percent growth in December and 1-percent growth in November. Businesses confidence appears to have rebounded from the year-end turbulence. Spending also continues to grow, although below the levels of 2018.

Fed responds to slowdown

At its December meeting, the Federal Reserve (Fed) indicated that two rate hikes in 2019 were likely. But in response to weaker data, the Fed has since made a large turnabout in policy. At its March meeting, the Fed suggested that no further rate hikes are expected this year. Plus, it said it will end its balance sheet runoff activities in 2019. These moves left policy more stimulative than had been anticipated. Market participants have taken this updated guidance to heart. In fact, some have even projected a rate cut in the fourth quarter.

Of course, slower growth is still growth. Although the data is weak, there is reason to hope for a rebound in the second quarter. Some of this weakness may have been seasonal. First quarters have been weak over the past several years, only to rebound. So, the next couple of months will be important.



The risks are subsiding

Although the economic risks remain, they may be receding. To start, we avoided a second government shutdown. This likely played a part in the rebound in business confidence. Further, housing market concerns, although still present, have diminished somewhat. Lower mortgage rates made buying a house more affordable, leading to increases in new and existing home sales. Existing home sales were especially encouraging, with 11.8-percent month-over-month growth in February.

International risks have also receded for the time being—although they could reemerge. The ongoing Brexit negotiations appear to be deadlocked. The United Kingdom is not providing much clarity as it works toward avoiding a no-deal exit from the European Union. On the bright side, the United Kingdom and the European Union extended the deadline for a no-deal Brexit from March 29 to April 12. So, there is still time for a potential trade deal. A slowdown in Chinese growth also has the potential to affect markets. But, once again, this is more of a medium- to long-term concern than a pressing risk.

A new risk on the radar is the inversion of the yield curve, which occurred at month-end. After the Fed announced an easing of monetary policy, yields on long-term government debt were driven down. This move left longer-term interest rates lower than shorter-term ones. When this happens, it is known as a yield curve inversion and typically signals a higher risk of recession. Although this inversion garnered a lot of headlines, the risk is more for 2020—not 2019. It needs to be watched but not worried about just yet.

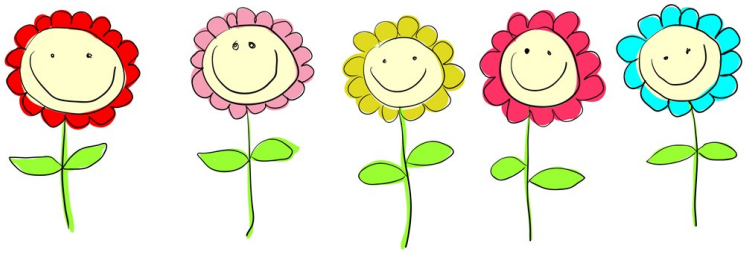
Strong quarter starts year off right

As we have discussed, risks remain both at home and abroad. But U.S. markets showed their resilience in the first quarter. Economic growth appears to have slowed, but slow growth is still growth. Earnings growth in the first quarter was disappointing. Here, there may be room for upside, given analysts' positive estimates for the rest of the year.

Conditions are not bad and may well improve as confidence and spending have room to catch up to 2018 levels. Further, lowered interest rates are generally supportive of faster growth. We can see this in the increases in home sales when mortgage rates declined in February.

The real takeaway from the drop at the end of 2018 and the rebound to start this year is that volatility can happen quickly. The past six months highlight the importance of creating well-diversified portfolios that can withstand short-term volatility.

HELP US BLOOM IN 2019!



Do you know someone that could benefit from our services?

We welcome referrals from you! Referrals are appreciated and they are the greatest compliment to receive!

We would be honored if you would:

- Add a name to our mailing list
- Bring a friend to a workshop that may benefit from our services
- Have them come in for a complimentary initial consultation
- Check out our website or Facebook page www.tlfgroup.net

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All information according to Bloomberg, unless stated otherwise.

Disclosure: *Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free*

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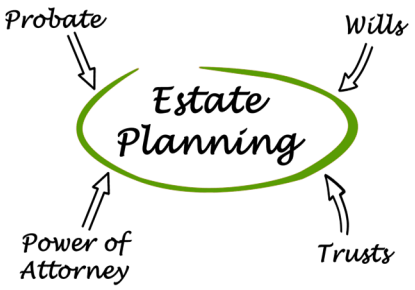
Summer Client Workshops and Events!

You're Invited to a Family Meeting:
Estate and Executor Workshop

Please join us for an educational workshop to help your executor better understand the plans you have in place. Topics to include; Asset protection, Estate taxes, Wills and Trusts, and much more .



June 10, 2019 at 6:00 pm

Wayne County Community College
Downriver Campus 21000 Northline Rd.

Please reserve your spot by June 5, 2019
Online at www.tlfgroup.net or (734) 250-8041

Please note that this is a family workshop to help your executor/trustee to better understand the plans that you have in place and the legacy that you wish to leave behind.

I look forward to seeing you and your loved ones.

Please only attend with your executor.

Shredding Time & Stuff a Backpack!

Bring in old documents and receipts to the secure barrels for shredding. Also, at this time we will be having our Backpack and School Supply Drive going on. Please bring in school supplies and backpacks for donation. Last year we were able to donate 100 backpacks stuffed with school supplies to Southgate school district.

Shredding & School Supply drop off dates:

August 14, 2019	August 15, 2019	August 16, 2019
Wednesday	Thursday	Friday
9:00 am — 4:00 pm	9:00 am — 4:00 pm	9:00 am — 4:00 pm

*Please limit shredding to 3 boxes per household.

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