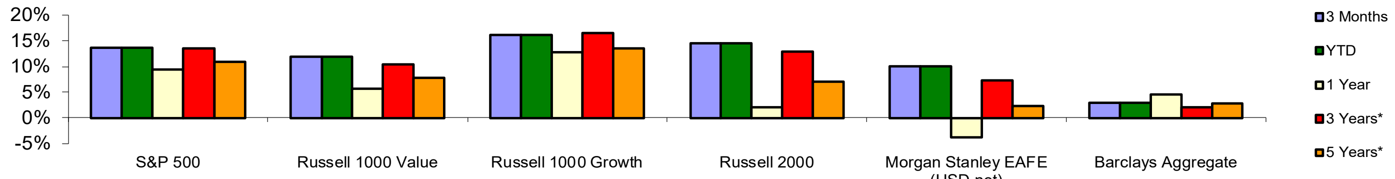
Timberline
Investment Management, LLC

MARKET OVERVIEW

03/31/19

Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	13.65%	13.65%	9.50%	13.51%	10.91%
Large Company Value	Russell 1000 Value	11.93%	11.93%	5.68%	10.45%	7.72%
Large Company Growth	Russell 1000 Growth	16.10%	16.10%	12.75%	16.53%	13.50%
Small Companies	Russell 2000	14.58%	14.58%	2.05%	12.92%	7.05%
International Stocks	Morgan Stanley EAFE (USD net)	9.98%	9.98%	-3.71%	7.27%	2.33%
General Bond Market	Barclays Aggregate	2.94%	2.94%	4.48%	2.03%	2.74%



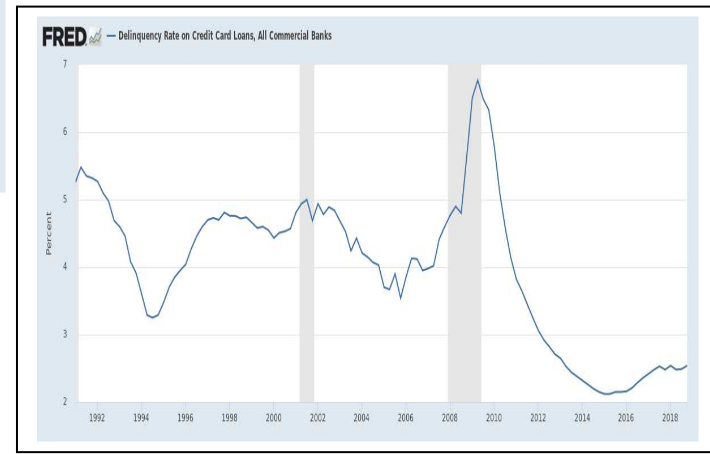
ECONOMIC OVERVIEW

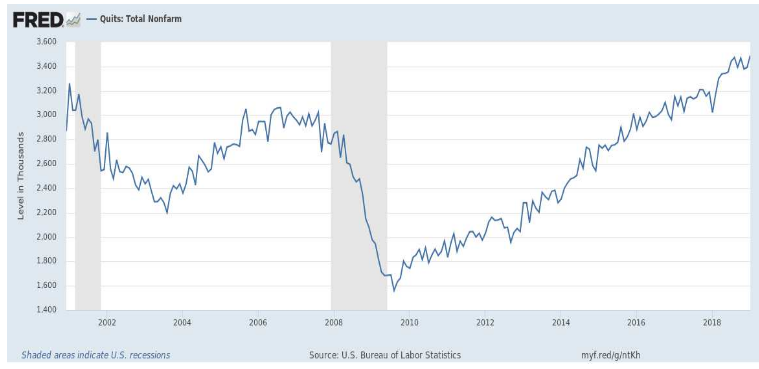
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.41%	2.69%	**-10.41%**	2.74%	**-12.04%**
Short-term Rates	Effective Fed Funds Rate	2.43%	2.40%	**1.25%**	1.67%	**45.51%**
Consumer Inflation	Consumer Price Index	253.113	252.76	**0.14%**	249.369	**1.50%**
Wage Growth	Average Hourly Earnings	27.70	27.53	**0.62%**	26.84	**3.20%**
Job Growth	Total Non-farm Payrolls	150,816	150,275	**0.36%**	148,279	**1.71%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.5	**0.00%**	34.5	**0.00%**
Economic Output	Gross Domestic Product	18,765	18,364	**2.19%**	17,784	**5.52%**

Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.

← **REAL MEDIAN HOUSEHOLD INCOME (30 years) –** Never been higher.

CREDIT CARD DELIQUENCIES (30 YEARS) – There is little indication of severe consumer financial issues based on delinquent credit card accounts. →





← **TOTAL NON-FARM JOB QUITS (18 YEARS)** – The grey bar indicates the time of the great recession and people did not want to leave their jobs. At this time, people appear pretty comfortable in moving on to other opportunities.

Data sources: Frank Russell, Ishares, St. Louis Federal Reserve. MSCI

If you are a fan of the college basketball playoffs, you are hearing the word “rebound” quite often. If you are a fan of the equity markets, “rebound” is being used quite often as well. This is clearly defined with the S&P 500 down -13.52% in 4q18 while up +13.65% in 1q19.

Like rebounds in basketball, market moves over the past 6 months can be associated with some bad shots in late 2018. This included the Federal Reserve that raised rates and communicated a policy of further rate increases. Also in the mix were trade issues with China, government shutdown, slowing conditions overseas, and broad predictions for a near-term recession. This fear element, I think, was magnified by algorithmic trading that issued a wave of selling in December. The turnaround occurred as the shutdown ended, domestic economic numbers remained firm, an appearance of progress with China, and the Fed suddenly reversing course by saying rates are fine and adding later that they would be fine for the rest of the year. Such signals probably had the same computers buying stocks that they sold not long before. All said, it is not a stretch to say that the past six months were rather strange. With that, I do not think this report should dwell too much on this odd mini-cycle but look at foreseeable factors applicable to the future.

As inferred in the previous paragraph, the Fed has been erratic, perhaps sloppy. It is a fair to ask if it makes sense to box themselves into a corner by saying rates are appropriate for the rest of the year. Time will tell but recent mistakes will probably have the Fed trying hard to stay out of the headlines, assume a more neutral factor in the economy, and probably keep rates where they are as stated. However, keeping short-term rates steady assumes economic conditions will not venture far from current tendencies. At this time, the domestic economy is looking firm while overseas conditions are looking softer. This outlook has some power to persist but if the U.S. and China come to reasonable trade terms, there should be an element of improvement in global economic confidence. There remains a high element of “if” in trade talks, but indications appear favorable and China is facing increasing motivations to get something done. The firm nature of the domestic economy and potential of trade settlement lead me to believe the domestic economic outlook remains solid and that continued calls for a recession sometime soon remain misguided. This even takes into consideration signals from the bond markets where long-term interest rates experienced meaningful declines. Over three months, such declines occurred domestically (the 10-year Treasury fell from 2.69% to 2.39%) while global rates plunged to negative levels within Japan and Germany. Negative rates in key economies indicate that central bank interventions remain active and are of a magnitude that clearly distort global rates. I also believe this diminishes the value of interpreting yield curve inversions (where long-term rates are lower than short-term rates) as precursors of a recession.

Not addressed in the previous paragraph was the chance of another government shutdown. Given current political conditions, I think one or more are highly likely and that they will probably be considered serious at the time but they will also be brief and soon forgotten once settled. Regarding inflation, it is helpful that the Fed acknowledges a moderate outlook. It does look strange that inflation has not kicked higher given strength in employment conditions. However, housing, higher education, and health-care costs already appear to be at high levels which means some parts of the inflation story may resist meaningful increases even if employment remains strong. I also find it helpful that the Fed now accepts that a neutral short-term rate can be close to inflation rather than at a historic level near 3% as bantered around in 2018.

Given solid employment, business investment, and inflation conditions, my long-term outlook for equities remains optimistic. The recent mini-cycle adds credibility to a long-term perspective that looks beyond near-term noise to long-term potential and a belief that trade issues will ultimately be settled. Regarding fixed income, I think long-term rates are at unattractive levels and that risk management with bonds is best met with shorter maturity profiles at this time.

As always, thank you very much for your interest and business with Timberline. It is a pleasure and privilege.

Gregg Giboney, CFA
President & Portfolio Manager
Investment Advisor Representative