Weekly Market Commentary

March 25, 2019

We Were Inverted

As the Maverick character in Top Gun famously explained how he was able to get his fighter jet so close to a rival Soviet fighter jet, "We were inverted", so now is the U.S. Treasury yield curve at the 3-month / 10-year maturities. The figurative Cold War on U.S. – China trade and within the U.S. government have contributed to a slowdown and our "economic NATO" allies in Europe are seeing weakness as well. If peace is declared in trade and politics, then improvement to global GDP should follow at least in China and the U.S. Europe may still see lagging growth.

Oil stayed supported last week with lower inventories and lower rig counts. Crude oil is up 30% year-to-date. As mentioned in last week's commentary, this has also increased gasoline prices year-to-date.

The Fed kept interest rates steady at the Federal Open Market Committee meeting last week. The Fed continued its data dependent, patient stance. This is good because the last time the yield curve inverted prior to the 2008 recession, the Fed continued to increase short-term rates even after the inversion. This may be a key factor in better managing interest rates versus economic growth this time around.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	-0.8%	11.7%	International Stocks (MSCI ex-US)	-1.4%	9.2%
Dow Jones Industrial Average	-1.3%	9.3%	Aggregate Bond Index	0.9%	2.0%
NASDAQ 100	0.3%	15.7%	U.S. Dollar Index	0.1%	0.4%
Russell 2000 (Small Cap Index)	-3.1%	11.7%	WTI Crude Oil	0.9%	30.0%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Yield Curve Inversion

On Friday, the yield on 3-month treasury bills was higher than the yield on 10-year treasury bonds. Normally, the longer the maturity of a bond, the higher the interest rate, as money is being committed for a longer period of time. This lack of liquidity should be worth more to the investor, so the borrower (in this case the government) should pay more.

Historically, a yield curve inversion can indicate that a recession is on the way. The short-term rates are being driven by Federal Reserve policy indicating a current healthy economy. The long-term rates are set by a market view of the economy in the future. While a recession could eventually develop, it doesn't happen immediately and historically has been one or two years in the future from the time of the yield curve inversion.

See our Weekly commentary from February 11th on What is a Yield Curve?

See our Quarterly Commentary from January explaining the difference between Economic Deceleration, Recession, and Depression.

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

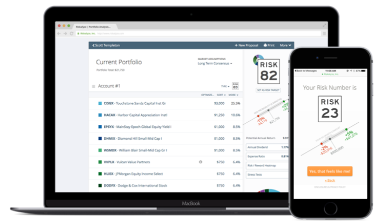
These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

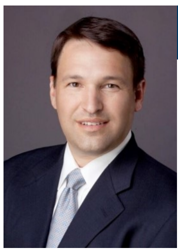
One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Contact us about our complimentary risk analysis questionnaire.





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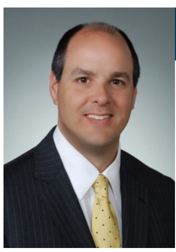
Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.

Jeffrey Wright, CFA / Managing Director / jwright@novapointcapital.com

Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).

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