Hughes Investment Advisory Service

April 4, 2019

Dear Clients and Investors,

The calendar says that spring has arrived but here in New England it still feels like winter this morning with the temperatures in the low 30's! I'm sure that we are all looking forward to warm weather and real spring like conditions!

On December 23rd I wrote an interim market update advising clients to keep the 20% "correction" that we had in Q4 2018 in perspective and that I considered it a buying opportunity. To re-cap – I suggested that the three fears driving the market lower were: Recession, Trade War and the Gov't shutdown. At that time I explained why I believed that all 3 fears were unfounded. In 3 short months all of these fears have resolved themselves or appear near resolution. Recession fears are fading, the Trade War with China appears to be near a positive resolution and the Gov't shutdown was just politics as usual and had no real impact on the economy or our investments. In the mean time the market has recovered from last quarters steep drop. In Q1 the S&P 500 was up 13%, the biggest quarterly gain in nearly a decade and we seem poised to set a new all-time high on the S&P 500 pending a positive outcome to the China trade talks.

Much of this year's rally so far has been fueled by relief that Central Banks became willing to back off their 2018 rate-increase campaign. This followed cooling growth numbers from China, Eurozone and the US. My expectation heading into 2019 was for a single rate increase from the Fed and I will stick with that prediction as we enter the 2nd quarter.

The US economy continues to be a bright spot around the world. Still, indications that inflation remains muted have pushed the Federal Reserve to pause its rate-increase campaign. The President and his top officials are actually calling for the Fed to go further and lower the benchmark federal funds rate by 50 basis points to help protect the US economy from the possibility of recession. I do not believe that the Fed will be lowering rates any time soon but this new environment of moderate growth, a neutral Fed policy, a rebound in consumer confidence and White House pressure on the Fed has set up the economy to maintain a Goldilocks economic outlook for stock investors in the near term. Q1 GDP will probably be soft but recent economic indicators lead me to believe that 2nd Q GDP growth will re-bound smartly.

As we move into the 2nd quarter I believe strongly that a positive resolution to the China/US trade standoff is even more likely. The Federal Reserve will be dovish and on hold until at least the summer and the economy is growing moderately with low inflation and a solid job market. Despite low unemployment and an apparent tight labor market I am not concerned that wages will rise to a point where they will be an inflation problem for the economy or the Fed, remember that the ratio of employed people to the entire population – is currently at about 60% - in past economic expansions, that measure has gone as high as 64%, meaning that there remains more runway for Americans to re-enter the workforce and keep filling open jobs. So despite a near record low unemployment rate of 3.8% we still have ample runway to create more jobs in this economy.

434 Housatonic Ave. Stratford, Ct 06615 203-209-4797
Hughes Investment Advisory Service

Revised final Q4 GDP growth was 2.2% and resulted in an overall growth rate of 2.9% for the 2018. Current estimates for Q1 GDP growth are at 2.1% The inverted yield curve has returned to slightly positive. Slowing GDP growth is hardly unexpected given the trade tensions with China and I do not see much change in the medium term outlook. As such, I am still perplexed by the recent plunge in interest rates. The Index of Consumer Sentiment rose to 98.4 this month up from the three-year low of 91.2 it logged in January after the market slump in Q4. This is an early indication that the economy's first quarter soft patch was, in fact, a patch, and that the second quarter will look a whole lot better. Everyone seems to forget that since the great recession in 2008 the first quarter of each year seems to be surprising on the down side with regularity! I have yet to read any economic theory on why this seems to be the new norm but this has been the case over the last decade.

In July 2019 the US will have enjoyed the longest sustained economic recovery since the 1850's I believe it's possible for this recovery to continue for several more years. The main reason for this optimism rests in my belief that the US economy and financial system are not showing any obvious imbalances like we saw in 2000 (Internet Bubble) or 2008 (Housing Bubble) which might tip the economy into a recession as the housing market 's collapse did a decade ago. I would suggest that our banking system is more solid than it has ever been in modern history in fact.

At this time I continue to favor large-cap, dividend paying, international corporations with strong balance sheets and Asian markets in general. Emerging markets overall appear undervalued and represent value at this time. Risk/reward continues to favor equities over fixed income. Select MLP's and specialized bond funds continue to look good as income producers. T-Bills are also attractive for short-term assets.

Sincerely,
J. Britt Hughes
Registered Investment Advisor
Britthughes2@icloud.com www.hiasllc.com

434 Housatonic Ave. Stratford, Ct 06615 203-209-4797