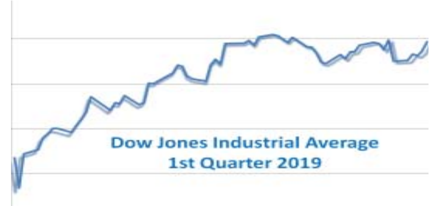
FORWARD

Investment Advisors

Forward Focus

April 2019



Quarterly Market Review

Inside this issue:

After a rough 4th quarter, stock markets around the world posted solid gains in the 1st quarter. The S&P 500 recorded its best quarterly gain since 2009. Renewed optimism about a trade deal with China, attractive stock prices, an end to the government shutdown, increased merger and acquisition activity, and a loosening of monetary policy by global central banks helped markets climb back to near all-time highs.

In the Treasury market, the 10-year Treasury yield ended at 2.41%, down from 2.68% at the beginning of the year. This decline caused an inverted yield curve as the 10-year Treasury fell below the 3-month T-bill.

International markets posted strong results despite slowing global growth, recessions in both Italy and Turkey, ongoing trade talks, and failed Brexit negotiations. The MSCI World EAFE index (which measures international developed markets) and the MSCI Emerging Market Index both gained roughly 10% for the quarter.

All eleven sectors posted positive returns in the first quarter. The best performing sectors were Technology (+19.9%) and Real Estate (+17.5%). While still positive, the worst performing sectors were Financials (+8.6%) and Healthcare (+6.6%). In a continuation of a long-term trend, growth stocks outperformed value stocks.

Here is a summary list of events that occurred during the quarter: Partial U.S. Government shutdown • 116th Congress sworn in • President Trump gives his first primetime address • Brexit deal defeated in Parliament • Covington Catholic high school backlash • Total lunar eclipse • New York abortion bill passes • Longest Government Shutdown in history ends • State of the Union Address • Polar Vortex • Italy enters into recession • "Yellow Vest" protests enter 4th month in Paris • Payless ShoeSource closes all 2,100 stores • President Trump declares National Emergency at Southern Border • Ford to stop selling trucks in South America • Jussie Smollett hate crime hoax • U.S. President Trump and North Korean leader Kim Jong-Un hold Hanoi Summit • Alabama tornadoes kill dozens • Ethiopian Airline crash kills 157 • Boeing grounds all 737 Max 8 airplanes • Turkey enters recession • College admission scam • President Trump issues first veto • Tragic New Zealand mosque shootings • Bomb-cyclone floods 1 million acres of U.S. farmland in 9 states • Indonesia flash floods kill 73 • Mozambique tropical cyclone Idai kills hundreds • Walt Disney completes 21st Century Fox acquisition • two-year Mueller investigation ends • Uber buys Careem (Dubai) for $3.1 billion • Fed leaves rates unchanged • Global growth slowing • Fed announces end to balance sheet runoff program in September • 10-Year Treasury at 2.41% • Ride hailing firm Lyft has Initial Public Offering • Negative bond yields return in Germany • S&P 500 posts best quarter since 2009 • Dow gains 11% during the quarter • Oil ends at $60.14/bbl • All 11 sectors positive year-to-date • 30-year fixed-rate mortgage at 4.06% • Unemployment rate at 3.8% • U.S Dollar strengthens to $97.09 • Volatility index declines to 13.7 • S&P 500 Forward P/E ratio at 16.4 •

First Quarter 2019

Dow Jones Industrial Average 11.2% ● S&P 500 13.1% ● MSCI EAFE (International) 10.0%

Russell 2000 (Small Cap) 14.2% ● MSCI EMI (Emerging) 9.9% ● Barclays Capital Aggregate Bond 2.9%

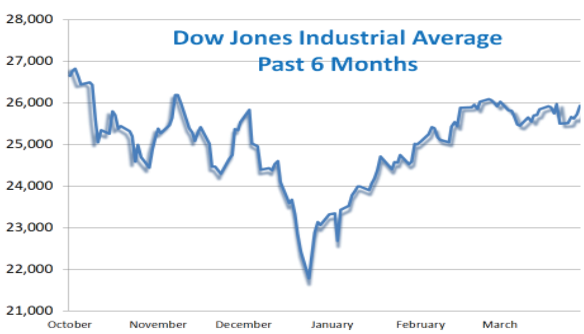
After the Encore: When the Music Stops

If you've ever gone to a concert, you know that the band always says goodnight and walks off the stage without playing their signature tune. Sitting in darkness the crowd chants until, after a few minutes, the band jogs back onstage to thunderous applause to play that cherished tune that you've been waiting all night to hear. After that final glorious note is played, audience members demand nothing more and the auditorium lights come up.

That 'bonus performance' is called an Encore and, to the best of my knowledge, has never been demanded after an elementary school piano recital.

While the Encore is the most anticipated part of the performance, it is immediately followed by a game of 'Where did I park the car?', followed by waiting in said car for two plus hours listening to the ringing in your ears as you futilely try to get out of the parking lot. In other words, the greatness of the performace is quickly followed by a difficult time that no one enjoys.

Stock market tops react in much the same way. All-time highs ("Encores") are typically followed by declines that no one enjoys. We had a taste of what that would feel like in the 4th quarter of 2018 when the market suddenly dropped nearly 20% after hitting an all-time high in September. Since that time, markets have rebounded sharply (almost 20%) and we are again sitting near record highs in all major U.S. stock market indexes. (See chart below)



Forward does not see a recession on the horizon, however, we want to start preparing for the finale. Here is why. We are currently in the 2nd longest economic expansion in U.S. history. Expansions usually last 48 months and we are already in month 118. Over the past decade the Dow Jones Industrial Average has gone from 6,443 to 26,218, a gain of 19,775 points! During that time, various sectors, such as Technology and Consumer Discretionary, have increased by 600% to 700%. The yield curve recently inverted. The unemployment rate is at 3.8%, near a 60-year low. Interest rates are low. P/E ratios are indicating that U.S. stocks are fully priced. So, if earnings do not improve in the second half of this year, we may be near the encore performance.

Before you panic, let me remind you again that **Forward** still does not see a recession on the horizon. We are simply stating that it is time to start preparing for increased volatility, greater pullbacks and more muted U.S. returns. That requires a few adjustments. Many will be structural. For example: We will be proactively selling investments such as high yield bonds and reducing exposure to clearly overvalued areas of the market. We will also be buying areas that are undervalued and show longer-term promise, such as international and emerging market stocks.

However, the biggest adjustment will need to take place in our minds. Primarily: Expectations. Investors have gotten used to solid gains, no losses and the notion that all investments go up or down in tandem. No more. Those traits were due to global monetary policy, improving economic fundamentals, and historically low rates. Now that we are later in the economic cycle, that playbook will likely change. Over the next 10 years, returns on U.S. stocks will likely be muted relative to the returns of the past 10 years, international stocks will likely outperform U.S. stocks, and stock selection will be more important than simply 'owning the entire market'.

There are still many reasons for markets to go higher from where we are today. The Fed is likely on hold for the majority of this year, consumer confidence is high, stock markets aren't significantly overvalued, corporate earnings growth should improve during the 2nd half of the year, Chinese stimulus is working, Brexit deadlines are approaching, U.S./China Trade talks are progressing, and interest rates remain low.