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Q1 2019 MARKET RECAP

APR 2, 2019

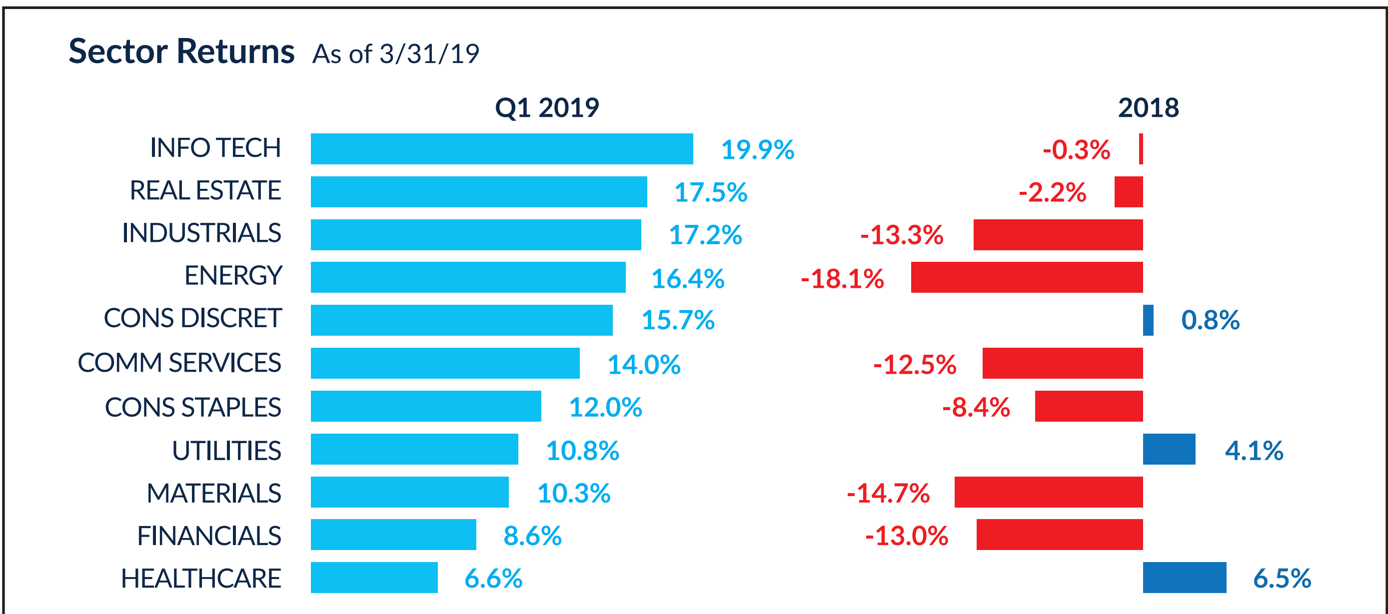
REDUCED VOLATILITY, WITH MIXED SIGNALS ON GROWTH

The first quarter of 2019 saw a welcome reduction in volatility for the most part, relative to the fourth quarter of 2018. January saw the equity markets get off to a strong start to the year, recovering much of the losses sustained in December. February continued with decent performance and March posted a gain as well. With the start we've seen to 2019, it seems as though it's the year of the mulligan relative to 2018. Historically, years that start out with a strong first quarter are followed by continued strength for the balance of the year in equity markets. The median return for the last 3 quarters of those years is a positive 10.7% with a median drawdown of -7.6%. The third year of the Presidential cycle is typically one of the strongest as well, so the outlook is positive when viewed through a historical lens.

However, concerns about slowing growth are growing louder and mixed data is making it hard to determine exactly what is going on in the economy. Q1 GDP forecasts are currently running below 1.5% but recent data suggests this slowdown may very well be temporary and that growth will rebound in the following quarters. However, it's important to remember that the last 7 quarters have averaged 2.9% real annualized GDP growth, which is significant. US Manufacturing PMI has weakened but is still expansionary. Industrial production remains at elevated levels. The labor market continues to be tight, with low unemployment and more job openings than unemployed persons. Wage growth and consumer confidence are strong. Productivity is increasing, and inflation is low. Overall, it appears the economy remains fundamentally sound as it continues later into the economic cycle.

RECESSION WATCH

Perhaps the biggest development in Q1 was the Federal Open Market Committee's dovish tone. In January, they announced their willingness to pause their rate hike program in response to weaker economic data. Then, in March, they basically took any chance of a rate hike in 2019 off the table, a big change from the 2 hikes they had forecasted in December. The FOMC also announced that it would stop its balance sheet reduction program in the fall. The most noticeable result of the announcement was the inversion of the 10 year – 3 month Treasury yield spread, which went negative for the first time since 2007, as the 10 year Treasury yield fell to its lowest levels since 2018. This inversion brought about discussion of when the next recession may occur, since historically, yield curve



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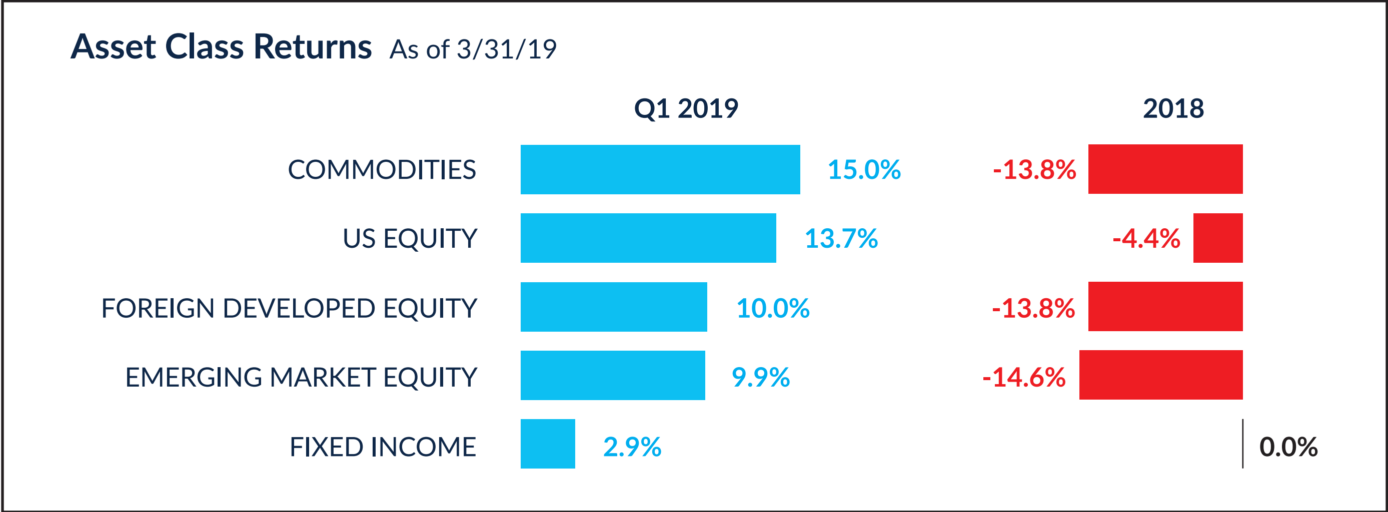

inversions have been one of the indicators for recessions. It is important to remember that inversions are not great recession predictors by themselves. Historically, the lead time between an inversion and a recession varies greatly, but for yield curve inversions that remain consistently negative (not moving back and forth above and below zero), the lead time until a recession is typically 55 weeks. During that time, though, markets have historically moved higher. As we said above, much of the data we look at on a regular basis does not indicate that a recession is imminent. For example, fiscal policy has a better track record of predicting a recession and with fiscal stimulus still occurring, a recession does not seem likely.

GLOBAL CONTEXT

Globally, the environment is a bit more uncertain. China's stimulus should start to positively impact the global economy in the second half of 2019 as it is the second largest economy in the world. This stimulus would also be beneficial to Europe, as it is highly levered to China. European GDP was lackluster in Q4 2018 and Italy dipped into a recession, but we do not see that spreading for the time being. Brexit continues to be a mess but we feel that it is a localized event, that markets have basically priced in the worst case scenario, and that any surprise is more likely to be to the upside.

As we move into 2019, we recognize that the global economic environment is becoming more uncertain. U.S. data remains mostly expansionary, and we feel that the first quarter GDP slowdown may reverse in subsequent quarters. Outside of the U.S., much hinges on China, a trade settlement with the U.S., and the efficacy of its stimulus. China has had the proverbial pedal to the metal for some time now and we anticipate seeing positive results which may provide a lift to the global economy later this year.

Sincerely,

Kim David Arthur
CEO and Portfolio Manager

Performance Data from the following indices: Commodities – S&P GSCI TR USD, US Equity – S&P 500 TR USD, Fixed Income – BBgBarc US Agg Bond TR USD, Foreign Developed Equity – MSCI EAFE NR USD, Emerging Market Equity – MSCI EM NR USD, Communication Services – S&P 500 Sec/Commun Services TR USD, Cons Discret – S&P 500 Sec/Cons Disc TR USD, Cons Staples – S&P 500 Sec/Cons Staples TR USD, Energy – S&P 500 Sec/Energy TR USD, Financials – S&P 500 Sec/Financials TR USD, Healthcare – S&P 500 Sec/Healthcare TR USD, Industrials – S&P 500 Sec/Industrials TR USD, Info Tech – S&P 500 Sec/Information Technology TR USD, Materials – S&P 500 Sec/Materials TR USD, Real Estate – S&P 500 Sec/Real Estate TR USD, Utilities – S&P 500 Sec/Utilities TR USD. Main Management, LLC ("Main Management", or the "firm") is an investment adviser registered under the Investment Advisers Act of 1940. The firm was founded in 2002 and provides investment management services primarily to high net worth, family groups, foundations/endowments, and serves as a sub-advisor to third-party investment advisors & broker-dealers. The information contained herein was prepared using sources that the firm believes are reliable, but the firm does not guarantee its accuracy. The information reflects subjective judgments, assumptions and the firm's opinion on the date made and may change without notice. The firm is not obligated to update this information. Nothing herein should be construed as investment advice or a recommendation to purchase or sell securities. The information is not intended as an offer to provide advisory services in any state or jurisdiction where such offer would not be permitted under applicable registration requirements. All equity investing entails risk of loss. The firm cannot assure any potential client that it will achieve the investment objectives discussed in these materials. In addition, potential clients should not assume that their returns, if any, will be comparable to returns that the firm earned in the past. The firm and its clients, affiliates and employees may, from time to time, have long or short positions in, and buy or sell, the securities or derivatives (including options) thereof, of the ETFs mentioned in these materials and may increase or decrease their positions. Upon request, Main Management will furnish additional information regarding the firm's policies for calculating and reporting returns. Past performance does not guarantee future results. Indices are unmanaged and do not take transaction costs or fees into consideration. It is not possible to invest directly in an Index. Performance figures assume reinvestment of dividends and capital gains.

601 California St., Suite 620 | San Francisco, CA 94108 | (415) 217-5800 | info@mainmgt.com | www.mainmgt.com