

April 2019

Here are selected year to date return numbers through the end of March.

**Stock Indexes**

	<b>(As of 03/31/19)*</b>
Dow Jones Industrials	11.20%
S&P 500 Index	13.10%
NASDAQ Composite	16.50%
Dow Jones World Index (ex. U.S.)	9.50%

	<b>(As of 03/31/19)*</b>
Russell 2000	14.58%
Russell 1000 Value Index	11.93%
Russell 1000 Growth Index	16.10%

**Bond Index**

	<b>(As of 03/31/19)*</b>
Barclays Cap. Aggregate Bond Composite Index	2.94%

**Mutual Funds**

	<b>(As of 03/31/19)*</b>
Lipper Large-Cap Growth Index	16.19%
Lipper Large-Cap Value Index	11.46%
Lipper Small-Cap Growth Index	18.36%

(Source: The Wall Street Journal, Russell Investments & Barclays websites)

\*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

## FINANCIAL AND INVESTMENT PLANNING

As you may recall, I receive lots of interesting data at the end of every calendar quarter. Well at least I find it interesting.

What follows are some of the items I believe readers might also find interesting.

After a good first quarter for U.S. equities, here are current and longer term S&P 500 valuation measures.

<b>Valuation measure</b>	<b>Description</b>	<b>Latest</b>	<b>25-year average</b>	<b>Standard Deviation Over-/under Valued</b>
Price to Earnings Ratio	Forward Price to Earnings Ratio	16.4x	16.2x	0.1
CAPE	Shiller's Price to Earnings Ratio	29.9	26.9	0.5
Div. Yield	Dividend yield	2.1%	1.9%	-0.3
P/B	Price to book	3.1	2.9	0.2
P/CF*	Price to cash flow	12.2	10.7	0.8

Source: FactSet, FRB, Robert Shiller, Standard & Poor's Thomson Reuters, J.P. Morgan Asset Management.

Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since April 1994, and FactSet for March 31, 2019. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10 years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to Cash flow is price divided by NTM cash flow. Std. dev. over-under -valued is calculated using the average and standard deviation over 25 years for each measure. \*P/CF is a 20-year average due to cash flow data availability.

*Guide to the Market – U.S.* Data are as of March 31, 2019.

All segments of the U.S. stock market posted positive returns in the first quarter. The trend of growth stocks outperforming their value counterparts continued across market capitalizations.

### 1Q 2019

	<b>Value</b>	<b>Blend</b>	<b>Growth</b>
<b>Large</b>	11.9%	13.6%	16.1%
<b>Mid</b>	14.4%	16.5%	19.6%
<b>Small</b>	11.9%	14.6%	17.1%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management.

All calculations are cumulative total return, including dividends reinvested for the stated period. Total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns.

*Guide to the Markets – U.S.* Data are as of March 31, 2019.

I think it is also interesting to see how various industry groups performed during the first 3 months of 2019.

### Quarter to Date

Materials	+10.3%	Real Estate	+17.5%
Financials	+8.6%	Communication Services	+14.0%
Industrial	+17.2%	Health Care	+6.6%
Consumer Discretionary	+15.7%	Consumer Staples	+12.0%
Energy	+16.4%	Utilities	+10.8%
Technology	+19.9%	S&P 500 Index	+13.6%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, not annualized, including dividends for the stated period.

Guide to the Markets – U.S. Data are as of March 31, 2019

I am regularly asked about federal spending. Also, as people are announcing their candidacies for president and putting forth policy proposals, I believe it is helpful to understand our current federal budget.

### The 2019 federal budget

CBO Baseline forecast, USD trillions

Total government spending		Source of financing	
Other	\$482bn (11%)	Borrowing	\$897bn (20%)
Net interest	\$383bn (9%)	Other	\$280bn (6%)
Non-defense discretionary	\$670bn (15%)	Social Insurance	\$1,233bn (28%)
Social Security	\$1,039 bn (24%)	Corporate tax	\$245bn (6%)
Medicare & Medicaid	\$1,174bn (27)	Income tax	\$1,756bn (40%)

Source: CBO, J.P. Morgan asset Management; Bea, Treasury Department.

2019 Federal Budget is based on the Congressional Budget office (CBO) January 2019 Baseline Budget Forecast. CBO Baseline is based on the Congressional Budget Office (CBO) January 2019 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement.

Guide to the Markets – U. S. Data are as of Mach 31, 2019.

Note that non-defense discretionary spending is only 15% of the total. I believe this budget reality is useful to know, when political candidates talk about either reducing spending or increasing benefits. Let me hasten to add that I am making a nonpartisan economic comment.

While those of us who have been around a while and remember 10% plus mortgages and 10% plus deposit rates, and may therefore see today's 10 year Treasury yield of around 2.5% as low, when compared to elsewhere the current level looks different.

When you take the comparable 10 year yields of each of our major trading partners – Australia, Canada, Europe, Japan, Sweden, Switzerland and the U.K. and compare those to our comparable U. S. Treasury note, our debt is priced to yield 2.3% more. Source: Guide to the Markets as of March 31, 2019.

In my view, this is an important reason why we can continue to borrow so much money. Our Treasury debt looks attractive when compared to alternatives.

Finally, foreign equity markets posted strong returns in the first quarter in local currency and U.S. dollar terms.

<b>Selected Countries</b>	<b>2019 YTD Local</b>	<b>2019 YTD USD</b>
United Kingdom	9.4	11.9
France	12.8	10.8
Germany	8.9	7.0
Japan	7.8	6.8
China	17.9	17.7
India	6.3	7.2
Brazil	8.7	8.2
Russia	7.1	

Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

All return values are MSCI Gross Index (official) data. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – U.S.* Data are as of March 31, 2019.

Thanks for taking the time to read this month's letter.

Warm regards,



Carl W. Stuart  
Financial Advisor

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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Dow Jones Global ex-U.S. Total Stock Market Index includes equity securities with readily available prices that trade globally, excluding the U.S. The index is a subset of the Dow Jones Global Total Stock Market Index.
- The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
- Lipper Large Cap Growth Fund Index. An unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Large-Cap classification. Lipper Small Cap Growth Fund Index – an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. Lipper Large

Cap Value Fund-Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's USDE large-cap floor. Large-cap value funds typically have below-average characteristics compared to the S&P 500 Index.

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