First Quarter Recap:

The first quarter was an unusually strong period for equities. It also marked a striking reversal from the end of 2018. After posting their worst December since 1931, U.S. stocks surged to their best January since 1987, followed by further gains in February and March. Once again, the markets surprised the consensus and demonstrated the folly of trying to predict short-term performance. Investors who bailed out of stocks during the year-end selloff experienced severe whiplash as the market rallied.

U.S. Markets:

U.S. stocks opened 2019 by scoring their best quarter since the financial crisis. Larger-cap U.S. stocks gained 13.6%, placing the S&P 500 Index's performance in the top decile of quarterly market returns since 1950. Small and Mid-cap stocks also enjoyed a significant rebound after a rocky Fourth Quarter.

Foreign Markets:

Not to be left behind, foreign equities, which were by far the most battered coming out of 2018, generated double-digit returns: emerging-market stocks rose 11.8%, while developed international stocks gained 10.6% and European equities gained 10.9%.

Asset Class	1Q	1 Year	5 Years (Ann.)
U.S. Large-Cap	13.61%	9.34%	10.76%
U.S. Large Growth	15.95%	12.52%	13.31%
U.S. Large Value	11.82%	5.54%	7.53%
U.S. Small Blend	14.65%	2.09%	7.10%
Developed Int'l Stocks	10.64%	-4.73%	2.76%
Emerging-Markets Stocks	11.77%	-7.09%	3.64%
REITs	17.25%	19.85%	8.65%
Investment-Grade Bonds	2.92%	4.36%	2.56%
Municipal Bonds	2.90%	5.38%	3.30%
High-Yield Bonds	7.40%	5.94%	4.70%
Global Bonds	1.74%	-1.57%	0.59%

Source: Morningstar Direct as of 3/31/2019

Fixed Income Markets:

Fixed-income markets were also positive. High-yield bonds earned 7.4% in the first quarter, floating-rate loans were up 4%, and the core investment-grade bond index returned 2.9%. Global bonds produced positive returns for the quarter as well. The 10-year Treasury yield fell to 2.39% during March, its lowest level since December 2017, after peaking at 3.24% late last year.

In late December and throughout January, the Fed became much more dovish. After hiking interest rates four times in 2018, including at their mid-December meeting, and indicating further tightening would occur in 2019, Fed officials suddenly reversed themselves. They emphasized they would be "patient" and pause any further rate increases. In early January, Fed chair Jerome Powell said the Fed could also slow down or stop shrinking its balance sheet of bonds purchased during quantitative easing. This came just two weeks after saying the Fed's balance sheet reduction program (quantitative tightening) was "on autopilot." The U-turn in Fed policy was music to the ears of the financial markets, which had become concerned about ongoing policy tightening in the face of slowing economic growth in the United States and abroad.

Market & Economic Update:

There were other positives for the markets as well: The federal government shutdown, which had started to weigh on sentiment, ended in late January. Signals from the U.S.-China trade talks turned more positive, although far from anything definitive. The likelihood of a "hard Brexit" also seemed to wane, but again, far from anything definitive.

The obvious question after experiencing such a rebound is, what's next? It's easy to be enamored with the U.S. equity market, especially when the Fed is playing its cards face up. However, the reality is the market rebound was due more to improving investor sentiment and risk appetite—caused largely by the shift in Fed monetary policy—than any meaningful improvements in underlying economic or business fundamentals.

The U.S. economy is in better shape than most, but even here growth expectations have been coming down. At its Federal Open Market Committee (FOMC) meeting on March 20, the Fed downgraded its median GDP growth estimate to just 2.1% for 2019 and 1.9% for 2020, citing the effects of economic slowdowns in China and Europe, fading stimulus from the 2017 Trump tax cuts, and ongoing uncertainty around Brexit and trade policy.

Long Term Focus

From our vantage point, looking out over our longer-term investment horizon, seemingly little has changed after the roller coaster ride of the last six months. The first quarter of 2019 was certainly a nice respite from the losses of 2018, but we remain prepared for renewed market choppiness as the economic cycle gets longer in the tooth.

Our goal at Cahaba Wealth is to help our clients navigate the difficult financial decisions they face on a day to day basis. While we remain focused on the long-term, and have faith and confidence in more than one hundred years of market history to guide our decisions, we also realize that each our clients' finances are very personal, and represent hopes, dreams, experiences, and so much more. We know that downturns and upswings can take an emotional toll on even the most experienced investors, so we will continue to fall back on the strength of our financial plans and long-term mindset.

The best way to navigate through difficult markets is to have balance in your portfolio, know your time horizon or needing assets, and be disciplined about rebalancing. We are continuously monitoring our clients' accounts to ensure the allocation allows for all of these factors. We will continue to talk with clients about their tolerance for risk, and update portfolios accordingly.

We will continue to take the road less traveled in today's overhyped news cycle, and will maintain our focus on what we can control. This includes constructing low-cost and tax efficient portfolios, diligent rebalancing, and a never-ending quest to understand our clients' needs. This should allow us to continue to provide cash flow when necessary, from sources that will not have suffered in the short-term.

-We thank you for your continued support!