# Market Commentary

## After Last Quarter's Bloodbath, We've Had a Nice Rally. Is it Time to Pop the Corks?!

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So far in 2019, and really since Christmas Eve, we have seen a nice risk-on rally. Equities (as measured by the S&P 500® Index) were up about 8% in the month of January despite the U.S. government shutdown and international turmoil. While it is nice to have a breather from the march downward, it may be too early to pop the champagne corks and celebrate for the rest of the year. 2019 has only just begun, and (stop me if you've heard this) investing is a marathon, not a sprint!

While this recent rally has given investors a moment to collect their thoughts, the markets are still vulnerable. Geopolitical risks (e.g. Brexit, the Middle East and Venezuela, just to name a few), as well as the impact of the U.S. government shutdown and ballooning federal debt (hello trillion dollar deficits) mean there are plenty of shoes that have yet to drop. In fact, it's only a few weeks until we face another debt ceiling limit and a possible showdown.

There are perhaps echoes of last year, where a bullish start gave way to a sharp 10% drop in late January and an absolutely brutal 4th quarter of 2018. Ultimately, a record 90% of asset classes posted negative returns for 2018 (according to Deutsche Bank), demonstrating in stark relief that for investors there was nowhere to hide.

## Nowhere to Hide in 2018

A record share of asset classes have posted negative total returns this year, according to Deutsche Bank data going back to 1901.

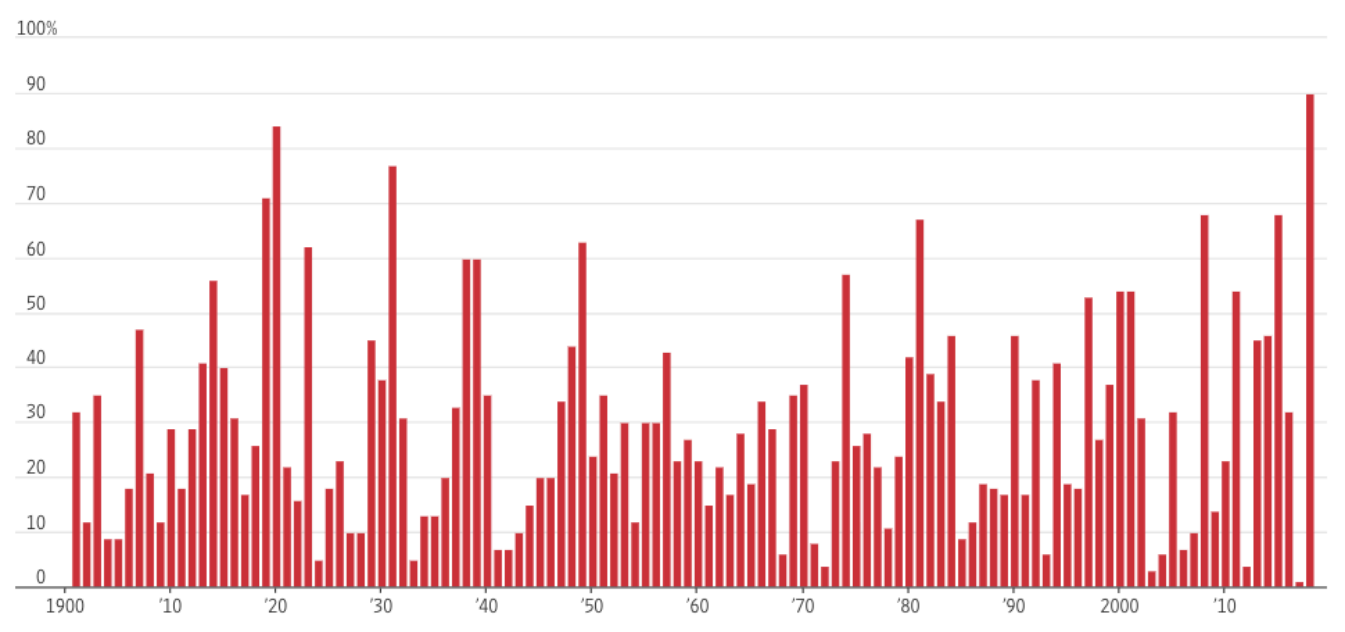


*Figure 1.* Asset classes under pressure. Adapted from "Why 2018 has been the worst year ever, according to one metric," by S. Langlois, *MarketWatch*. Retrieved December 27, 2018. Copyright 2019 MarketWatch, Inc.

Last year, in order to beat the market and protect against downside and losses, you had to be either spectacularly lucky, or tactical and disciplined in your asset class exposure. When you consider that 2019 portends even more volatility across asset classes, record-high duration in the Bloomberg Barclays U.S. Aggregate Bond Index, a flat yield curve, and rocketing government debt levels, instituting a tactical approach and learning from any "buy-and-hold" mistakes made in 2018 is going to be crucial in the year ahead.

## So What Asset Classes Do We See as Attractive Now?

At Sierra we put money to work in December in interest-rate sensitive vehicles like intermediate and long-dated Treasuries and gained from the upside trends there. We are again fully invested and allocating to assets that are generally inverse to the dollar, for example emerging market equities and bonds. We are also investing in strategies with high correlation to the U.S. stock market, but low Beta—so directionally the same, but driven by other factors than pure equity Beta. For instance, high yield bonds tend to trend in the same direction as stocks with 1/3 the volatility (over the long term). Certain alternative strategies which explicitly manage volatility while seeking equity-like returns are also attractive. In summary, less risk for similar returns always hits our radar screens.

As always, we prefer being systematic and disciplined over getting lucky when it comes to our chances for managing volatility and seeking positive returns. Tactical allocation can be the difference between defensive portfolio positioning and permanent loss of capital, especially in uncertain market environments.

**Terri Spath, CFA, CFP®**
*Chief Investment Officer & Portfolio Manager*

Terri Spath serves as a leading member for market and economic analysis, portfolio allocation and investment strategy for Sierra, while providing reasoned analysis through portfolio management and market commentary.

## Definitions

The S&P 500® Index, a registered trademark of McGraw-Hill Co., Inc., is a market-capitalization-weighted index of 500 widely-held common stocks.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

Beta is a measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole.

3420 Ocean Park Boulevard, Suite 3060 | Santa Monica, CA 90405 | Sales: (844) 727-1813

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