

Fidelity Deposit & Discount Bank - Trust and Wealth Management
February 2019 Market Review
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After the best January in more than 30 years, U.S. Stocks continued to march even higher in February, rising 3.21%. The Federal Reserve, signaling a pause and a willingness to be patient while assessing economic conditions, helped usher markets higher. Additionally, the anticipation of amicable trade deals between the U.S and China as well as between the U.S. and European Union boosted investor moral.

Despite uncertainty surrounding Brexit, International Developed Stocks gained on the month with the MSCI EAFE Index posting a 2.55% return. Despite Chinese stocks rising more than 16% in February, a strengthening U.S. Dollar, tensions between India and Pakistan over the Kashmir Providence, and political tensions in South America muted Emerging Markets returns. The MSCI Emerging Markets index returned just 0.22% in February.

The patient stance from the Fed helped relax recessionary fears and US Investment Grade Fixed Income markets reflected that in February, with the Bloomberg Barclays Aggregate Bond Index giving back about 6 basis points. Longer dated U.S. Treasuries were the largest detractor, down about 1.16%. Year to date, the Bloomberg Barclays Aggregate Bond Index is up approximately 1.00%.

Equity

Since peaking just before Christmas 2018, market volatility, measured by the CBOE VIX index, has fallen by more than 60%. This fall in volatility has helped calm investors' recessionary fears and pushed higher those companies most sensitive to a volatility. In fact, those companies exhibiting the greatest degree of sensitivity to volatility outperformed those with the least sensitivity to volatility at an exceptionally wide margin in February (+4.44%) as well as on a year to date basis (+10.33%). As fears of a U.S. recession have abated, those stocks most sensitive to the domestic economy have rebounded. U.S. Small Caps were the best performing asset class during February gaining 5.19% and expanding their year to date lead over large caps (Russell 2000: +17.02%, S&P 500: + 11.48%).

U.S. Dollar strength detracted returns from U.S. investors in both Developed Market and Emerging Markets. The MSCI EAFE index returned 3.47% in local currency terms, but only 2.55% in U.S. Dollar terms. The MSCI Emerging Markets index returned 1.10% in local currency, but the conversion to U.S. Dollars reduced that return to just 0.22%.

Fixed Income

Patient Federal Reserve language on interest rate policy and the reduction in recessionary fears led to a decline in 10 and 30 Year Treasuries (-0.47% and -1.16%, respectively) as investors reduced their need for safe haven assets. Instead, investors deployed that capital in Investment Grade Corporate and High Yield Corporate bonds, with the indexes advancing by .36% and 1.66%, respectively. A strong U.S. dollar muted what had been a strong start to the year for Emerging Markets Local Debt. While the asset class gained nearly 5.5% in January, it paired that gain with a nearly 1.10% loss in February.

Commodities

Broad basket commodities built upon their strong January and edged higher in February by 0.52%. Oil continued to grind higher off its December lows (+6.38% in February, +26.01% YTD) and gasoline led commodities in February, rallying nearly 20%. Silver and gold, which are often viewed as the safe haven assets, lost 3.32% and 0.56%, respectively, during the month, as investors redeployed their capital into riskier assets.

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Index Snap Shot

Month Ending February 28th, 2019 (Cumulative Total Returns)

Equities & Commodities ¹	Close		1-Month		YTD		1-Year		3-Year
S&P 500	2,784	▲	3.21%	▲	11.48%	▲	4.67%	▲	15.27%
Dow Jones Industrials	25,916	▲	4.03%	▲	11.62%	▲	5.95%	▲	19.04%
NASDAQ	7,533	▲	3.60%	▲	13.74%	▲	4.74%	▲	19.64%
Growth Stocks		▲	3.58%	▲	12.89%	▲	6.62%	▲	17.99%
Value Stocks		▲	3.19%	▲	11.23%	▲	3.15%	▲	12.79%
Small Cap Stocks		▲	5.19%	▲	17.02%	▲	5.54%	▲	16.65%
Foreign Developed Stocks		▲	2.55%	▲	9.29%	▼	-6.04%	▲	9.32%
Emerging Market Stocks		▲	0.22%	▲	9.00%	▼	-9.89%	▲	15.04%
Commodities		▲	0.52%	▲	8.30%	▼	-0.99%	▲	7.91%
Sectors ²			1 Month		YTD		1-Year		3-Year
Communication Services		▲	0.82%	▲	11.27%	▲	4.15%	▲	2.68%
Consumer Discretionary		▲	0.78%	▲	11.16%	▲	6.18%	▲	15.33%
Consumer Staples		▲	2.29%	▲	7.60%	▲	5.21%	▲	5.37%
Energy		▲	2.62%	▲	14.02%	▲	0.87%	▲	7.35%
Financials		▲	2.42%	▲	11.47%	▼	-6.35%	▲	17.99%
Health Care		▲	1.17%	▲	6.07%	▲	10.82%	▲	13.42%
Industrials		▲	6.40%	▲	18.55%	▲	1.59%	▲	14.67%
Information Technology		▲	6.89%	▲	14.34%	▲	5.83%	▲	24.23%
Materials		▲	3.28%	▲	8.96%	▼	-5.81%	▲	11.75%
Real Estate		▲	1.11%	▲	12.02%	▲	19.67%	▲	9.26%
Utilities		▲	4.16%	▲	7.73%	▲	20.35%	▲	10.98%
Bonds ³	Yield ⁴		1 Month		YTD		1-Year		3-Year
2 Year Treasury	2.51%	▲	0.07%	▲	0.35%	▲	2.15%	▲	0.67%
10 Year Treasury	2.72%	▼	-0.47%	▲	0.23%	▲	4.01%	▼	-0.91%
30 Year Treasury	3.08%	▼	-1.16%	▼	-0.58%	▲	4.00%	▼	-0.73%
US Investment Grade Bonds	3.21%	▼	-0.06%	▲	1.00%	▲	3.17%	▲	1.69%
US High Yield Bonds	6.54%	▲	1.66%	▲	6.26%	▲	4.31%	▲	9.81%
US Municipal Bonds	2.53%	▲	0.54%	▲	1.30%	▲	4.13%	▲	2.28%
Global Bonds	1.96%	▼	-0.58%	▲	0.94%	▼	-0.57%	▲	1.97%
Emerging Market Bonds	6.31%	▼	-1.09%	▲	4.29%	▼	-4.97%	▲	7.06%
Market Indicators ⁵			As of						
Fed Funds Target	2.50%		2/28/2019						
Inflation	1.60%		1/30/2019						
Unemployment	4.00%		2/1/2019						
Prime	5.50%		2/28/2019						
30 Year Mortgage Rate	4.40%		2/28/2019						
15 Year Mortgage Rate	3.68%		2/28/2019						

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All investments involve risks, including possible loss of principal.

1. Source: Bloomberg. S&P 500 is represented by the S&P 500 Index, Dow Jones Industrials is represented by the Dow Jones Industrial Average, NASDAQ is represented by the NASDAQ Composite Index, Growth Stocks are represented by the Russell 1000 Growth, Value Stocks are represented by the Russell 1000 Value, Small Cap Stocks are represented by the Russell 2000, Foreign Developed Stocks are represented by the MSCI EAFE NR Index and Emerging Market Stocks are represented by the MSCI Emerging Markets NR Index., Commodities are represented by the Deutsche Commodity Index.

2. Source: Bloomberg. Sectors based on S&P 500 Index sector indexes.

3. Sources: Bloomberg. 2-Yr Treasury is represented by the FTSE 2-Year Treasury Bond Index 10-Yr Treasury is represented by the FTSE 10-Year Treasury Bond Index, 30-Yr Treasury is represented by the FTSE 30-Year Treasury Bond Index, US Bonds are represented by the Bloomberg Barclays US Aggregate Index, US High Yield Bonds are represented by the Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD, Global Bonds are represented by the Bloomberg Barclays Global Aggregate Index, Emerging Markets are represented by the Bloomberg Barclays Emerging Markets Sovereign TR Index Value Unhedged USD and US Municipals are represented by Bloomberg Barclays Municipal Bond Index.

4. Sources: Bloomberg. 2-Yr Yield is represented by the Bloomberg US Generic Govt 2 Year Yield, 10-Yr Yield is represented by the Bloomberg US Generic Govt 10 Year Yield, 30-Yr Yield is represented by the Bloomberg US Generic Govt 30 Year Yield, US Municipals is represented by Bloomberg Barclays Municipal Bond Index Yield To Worst, US Bonds Yield is represented by Bloomberg Barclays US Agg Yield To Worst, Global Bonds Yield is represented by Bloomberg Barclays Global-Aggregate Yield To Worst, US Municipals Yield is represented by Bloomberg Barclays Municipal Bond Index Yield to Worst, Emerging Markets Bonds Yield is represented by the 12 month dividend yield of the ETF EMLC.