401K MANAGER

401k Plan Manager

Domestic Stocks

Domestic stocks opened the year on a strong note, reaching a record high on January 26th, 2018. After that, we saw a return of volatility that led to multiple broad market drawdowns during the year that culminated in major market indices close negative for the year.

The silver lining to the drawdown was that it helped lower forward P/E multiples that might set the stage for more attractive future returns. The chart shows the S&P 500's P/E ratio compared to consensus long-term earnings growth. What you will notice is that after several years of earnings growth trailing P/E expansion, that trend has now reversed and the aggregate earnings for the S&P 500 has expanded at a higher rate than the P/E multiple. Some of this undoubtedly reflects the boost that earnings have received from improved economic growth and tax reform.

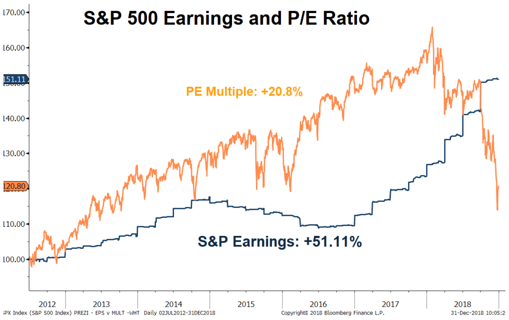
International Stocks

After turning in a solid 2017, International stocks have also saw a major pullback in 2018. Improving economic data that we saw at the start of 2018, has shown signs of softening and other geopolitical uncertainties have helped put pressure on international stocks. At this has occurred, short-term technical indicators have shown signs of weakness with 20-day exponential moving averages below 50-day exponential moving averages for both the MSCI EAFE Index and MSCI Emerging Markets Index. Long-term technical indicators are also now showing signs of deterioration. Our recommendation is to maintain exposure to developed international stocks and emerging markets but a further deterioration may require a change to this positioning.

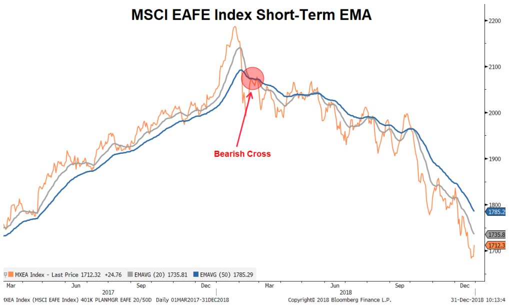
Bonds

Global economic growth has accelerated and both business and consumer sentiment have continued to show strength. This has lifted bond yields significantly since the second half of 2016. We are currently witnessing a transition from accommodative monetary policies, which have suppressed bond yields since the financial crisis, to interest rate normalization.

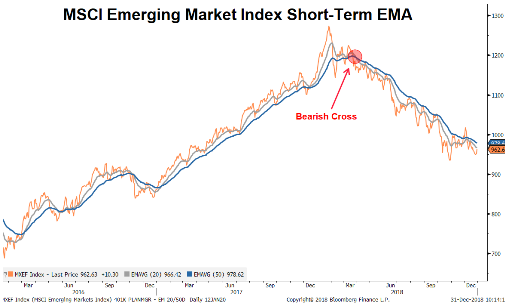
Rising bond yields are a positive for bond investors who have been searching for yield in a low interest environment. However, rising nominal growth, wages and inflation, are likely to continue pressuring bond returns in the foreseeable future. While returns are likely to be lower than historical averages, bonds remain an indispensable component of portfolio construction as they provide a stable income stream and may protect principal when equity markets come under pressure. Nevertheless, with the backdrop of rising interest rates, bond investors should carefully consider duration, proactive inflation hedging, and potential yield curve shifts.



SPX Index (S&P 500 Index) PREZI - EPS v MULT -WHT Daily 02JUL2012-31DEC2018 Copyright© 2018 Bloomberg Finance L.P. 31-Dec-2018 10:05:2



MXEA Index (MSCI EAFE Index) 401K PLANMGR EAFE 20/50D Daily 01MAR2017-31DEC2018 Copyright© 2018 Bloomberg Finance L.P. 31-Dec-2018 10:13:4



MXEF Index (MSCI Emerging Markets Index) 401K PLANMGR - EM 20/50D Daily 12JAN20 Copyright© 2018 Bloomberg Finance L.P. 31-Dec-2018 10:14:1

*Click each chart to enlarge

Domestic Stocks CURRENT WEIGHT 25%	International Stocks CURRENT WEIGHT 20%
Bonds CURRENT WEIGHT 40%	Cash CURRENT WEIGHT 15%

*The 401k Plan Manager is a "guide" for a base allocation of a Balanced Investment Model for an investor with 5+ years before retirement. It is not intended to provide specific recommendations regarding investment style (i.e. value vs. growth), market capitalization (i.e. small cap/mid-cap/large cap). For more information of how STA can assist you in 401k questions, please contact us at info@stawealth.com.