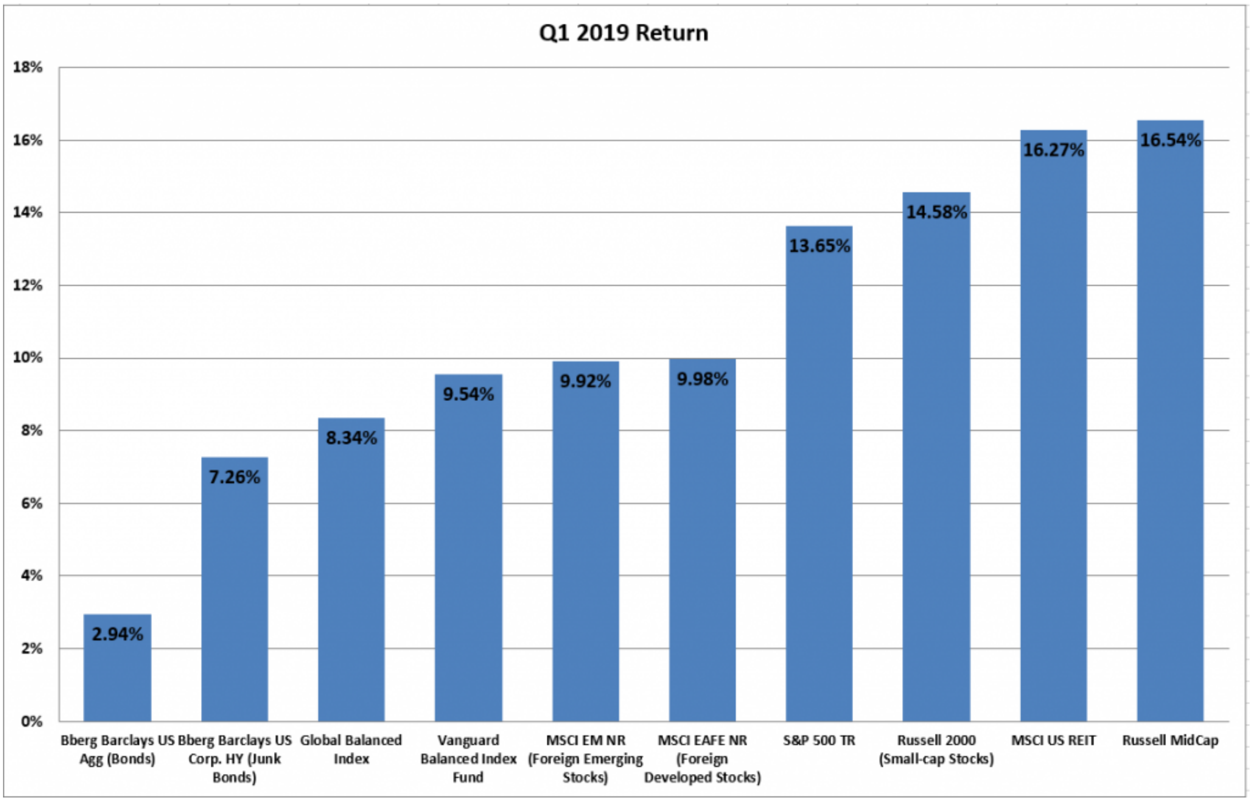
It?s been a wild opening to 2019 for investors. It?s always hard to know why markets make big moves, but it seems the big gains of this quarter are the result of Fed Chairman Powell softening his stance on interest rate hikes. The Fed?s support has likely buoyed the stock market since the financial crisis, and that could continue. But, at some point, a spate of bankruptcies or some other failure could take the Fed?s control away. Over the short-term, anything is possible, but, at current prices, investors shouldn?t expect too much in terms of long-term stock returns.

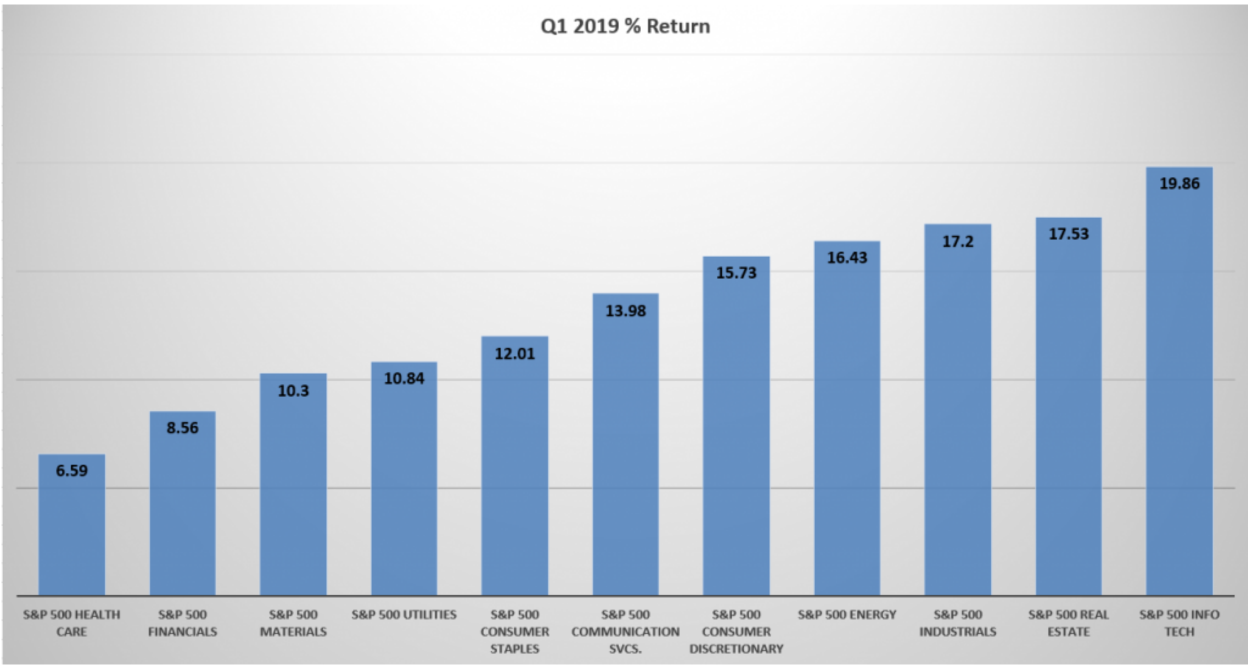
The quarter ended with the S&P 500 Index up 13.65%. Because of the mathematics of compounding, that doesn?t completely erase the 13.55% loss in the last quarter of 2018, but it?s comes close. The index is within two percentage points of where it ended the Third Quarter of 2018, including dividends. That also means the index is expensive again, hitting nearly 30 on the Shiller PE metric (current price relative to the past decade?s worth of real average earnings). The long-term average for the metric is around 16.5, and it has spent most of the last quarter-century above 20. Companies are more profitable now than in the past. Competition is diminished, and workers have less bargaining power. Those factors may persist for a while longer, but conservative investors will have to think hard about counting on those factors enduring, say, two decades into the future.

US small-cap and mid-cap stocks did even better than their large brethren. The Russell MidCap Index returned 16.54%, while the Russell 2000 gained 14.58%. Small cap stocks look even more expensive (and poised for even lower future returns) to asset class valuation firms Like Newport Beach, Calif.-based Research Affiliates, however. Think US small-cap stocks are poised to deliver less than 2% annualized over inflation for the next decade.



Foreign stocks also did well in dollar terms, with the MSCI EAFE Index delivering a nearly 10% return and the MSCI EM Index just on its heels at 9.92%. Emerging markets struggled for most of 2018, but they seem to have shaken off their difficulties for the time being. Debt problems remain in Argentina and Turkey, and Russia has its own set of difficulties. But all seems well in the other larger emerging countries.All of this means both domestic and global balanced indices also did well. The Vanguard Balanced Index fund returned nearly 10%. That gaudy number owes to the fact that the 60% of the fund that's in stocks tracks the MSCI USA Index, which has more small-cap and mid-cap exposure than the S&P 500. A global balanced index composed of 60% MSCI All Country World Index and 40% Bloomberg Barclays US Aggregate delivered an 8.34% return. Global indices are important to track because many, if not most, investors have portfolios benchmarked against them. A balanced portfolio seems to strike the right balance between aggressiveness and the need for safety for many investors, though it may be poised to deliver low returns in the future.

Among the S&P 500 sectors, information technology led the way with an eye-watering 19.9% return for the quarter. Real estate wasn't far behind with a 17.5% return. The bond rally likely encouraged dividend-paying REITs. Usually utilities participate in a bond rally, and they did this time too with a 10.8% return. But that return landed them in the bottom half of sectors. Health care and financials pulled up the rear with 6.6% and 8.6% returns respectively. A flattening yield curve can have a negative effect on banks since the bank business model depends on a steep yield curve or "borrowing short" and "lending long."



Overall, investors enjoyed excellent returns in all asset classes. This presents a problem of which asset class is "correct." Stocks rally, after all when the economy appears strong, and bonds rally when the economy appears weak, and interest rates might be on the way down as a result. Since the financial crisis, stocks and bonds have rallied in tandem in response to low interest rates. **They continued that trend in the first quarter of 2019. At some point, though nobody knows exactly when, investing won't be so easy.**