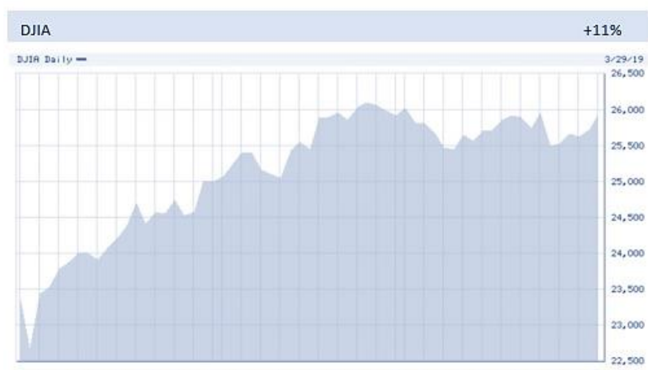
HUGHES FINANCIAL SERVICES, LLC

Q1'19 Economic *update*

GREAT EXPECTATIONS OR HARD TIMES AHEAD?

During the first three months of 2019, investors had a lot to cheer about as U.S. equity markets turned in their best quarterly gains in nearly a decade.

This helped many of the major indexes recoup a good portion of the losses they suffered in the final months of 2018. For the quarter, the S&P index rose slightly over 13%, marking its best start since 1998. Equally impressive, the Dow Jones Industrial Average (DJIA) advanced more than 11% for the quarter. Gains for the quarter were broad, and all eleven S&P 500 sectors ended higher for the quarter for the first time since 2004.



Many factors can contribute to strong equity gains. However, analysts feel that much of the first quarter's rally was fueled by investor reaction to the central bank's backing off from their previous plan of interest rate hikes and instead, announcing they will not raise interest rates this year. Also seen as contributing to the increase was that many investors had stepped back into equities after the late 2018 sell-off.

On March 29th, the last business day of the first quarter, the yield on a 10-year Treasury U.S. Note finished the day at 2.416%, below the October 2018 peak of 3.25% and the year-end close of 2.684%. The Wall Street Journal reported that yields, which fall as bond prices rise, had retreated around the world in the quarter's last weeks. While some analysts are saying that the first quarter gain put equity markets above their 2019 year-end projections, others are quick to point out that indexes are still below the all-time highs reached in 2018.

MONEY RATES
(as posted in Barron's 4/1/2019)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	**2.41%**	**1.73%**
Bank Money Market -z	**0.24%**	**0.15%**
12-month Cert -z	**0.97%**	**0.49%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their specific goals and dreams.

We are a fee-based firm that adheres to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. We proudly specialize in helping employees and retirees of local government, school systems and military with their retirement options. Our combined education and experience allow us to offer you independent financial advice and solutions that we are proud to provide.

Located in Herndon, Virginia (Fairfax County) Hughes Financial Services works with clients across the country.

GLOBAL ECONOMIC CONCERNS RESURFACE

THE NEW YEAR BROUGHT DIFFERENT RESULTS THAN THE END OF 2018, WITH EQUITIES AND CREDIT RALLYING STRONGLY ACROSS THE WORLD. HOWEVER, FOR THE FIRST QUARTER AND MOVING FORWARD, GLOBAL WORRIES ARE KEEPING MANY ANALYSTS WATCHFUL.

Analysts felt the sell-off in equities and credit in the final quarter of last year had been predominantly triggered by concerns about:

- potential heightening of the trade war between the U.S. and China
- worries that higher interest rates could hurt the U.S. economy
- broader uncertainties about a slowdown in global growth

CHINA, one of the world's largest economies, continues to slow. In the middle of a recession, China's GDP grew by 6.4% compared to a year earlier, the weakest increase since Q1'09 according to the National Bureau of Statistics (NBS). "Growth in China could plummet to 2% over the next decade — from the expected 6.0 to 6.5% target this year," predicted Capital's Chief Asia Economist Mark Williams at a March conference in Singapore. Williams added, "China's time as an emerging markets outperformer is ending." Julian Evans-Pritchard, Capital Economics' Senior China Economist felt that China's greatest fears were its growing debt problem, declining working population, and increasingly weaker drivers of productivity.

BREXIT, the withdrawal of the United Kingdom from the European Union, is another major concern for investors. The original vote was in June 2016 with a deadline of March 2019. A delay has pushed this deadline into the second quarter, so at the end of the first quarter (which is when this report was written) Brexit continues to be another source of uncertainty.

IN THE U.S., although the stock market advanced in 2019, the Peterson Institute for International Economics, a Washington D.C.-based think tank that makes regular economic forecasts, feels that in the United States currently, economic growth will drop from 2.9% in 2018 to 2.2%; in the Euro Zone (the 19 countries in the European Union that use the Euro), they project the decline will be from 1.8% to 1.2%. Is the global slowdown a problem or only a pause? Global economies are important to equity markets so they are something that investors will have to watch carefully in the months ahead.

THE FED PIVOTS ON RATES

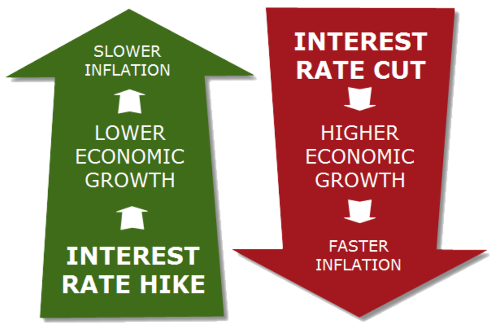
An evaluation of the health of the U.S. economy during its two-day meeting in March led the members of the Federal Reserve to, as expected, leave interest rates alone.

After reexamining old assumptions about inflation, the Fed cited "stubbornly low inflation" as the chief reason for shifting direction from its earlier plans to raise the key interest rate. The key interest rate is a factor that influences the cost of borrowing for businesses and consumers.

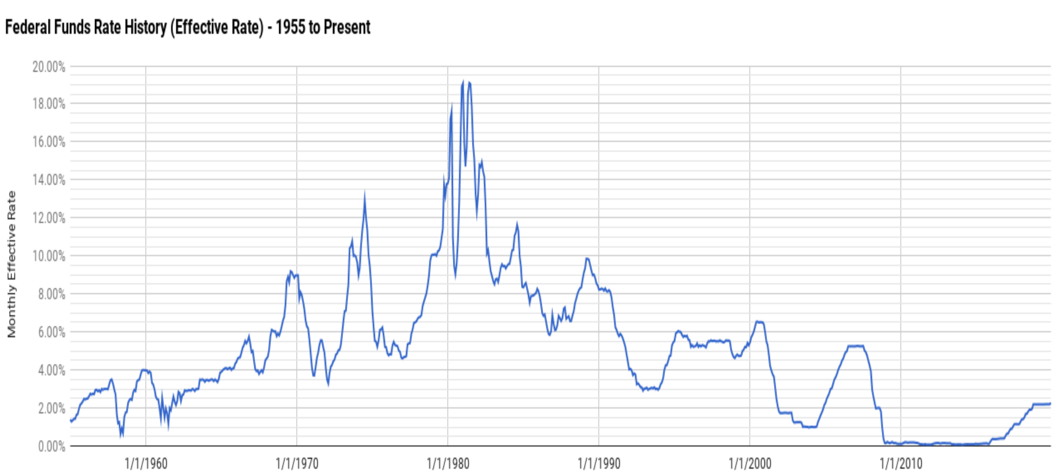
"We are almost 10 years deep into this expansion and inflation is still not clearly meeting our target," Powell said following the March meeting. He added, "we are being patient" and "if your models are not working, take a wait-and-see approach."

Investors now know that the central bank wants to see more evidence — clear and overwhelming — that inflation is really heating up before it raises interest rates again. The Fed's current benchmark rate is at a range of 2.25% to 2.5%, up from near zero as recently as 2015 and marking it at its highest level in over a decade. Put in perspective, the current rate is still quite low by historical standards.

Powell noted the central bank's next move could be an increase or a decrease, depending upon how the economy looks in the months ahead. Many economists think the economy is slowing, which is why they believe the Fed may have to cut rates and that when equity markets were falling last December, the Fed should not have raised rates again.



The possibility of a rate cut being the next move for the Fed, especially in 2019, could be favorable. Many times, when interest rates are extremely low, corporations pay less for leverage and that can make them more profitable. Low interest rates can also make strong dividend yields more attractive. Obviously, all investors need to keep a watchful eye on the Fed and interest rates moving forward.



HIGHLIGHTS

- Q1'19 started with strong returns for equity investors
- 10-Year Treasury Notes yields declined to 2.416% by quarter's end
- Many global economies struggled in 2019
- No current plan to raise interest rates this year
- U.S. economy could be showing signs of a slowdown
- Continue to be cautious and watchful but not emotional
- Focus on your personal goals and always call us with any concerns

What's Happening @HFS

2019 WORKSHOPS

2019 started off with such a bang, we had to add a second session for our first workshop this year! Thanks to our many clients and their guests for joining us for our annual economic updates!

Mark your calendars and save the dates! Additional workshops are currently scheduled for:

- **MAY 16, 2019**
- **SEPTEMBER 24, 2019**
- **NOVEMBER 7, 2019**

We announce our workshop topics via email invitation. If you haven't heard from us since the beginning of this year, let us know if your email has changed recently or check your spam folder.

Registration is available at www.h4fs.com

FIVE STAR CONGRATS!

Managing Partner Paul Hughes, ChFEBC℠, was awarded the annual Five Star Wealth Manager Award, one of the largest award programs for the financial services industry in the U.S.

HFS TEAM TRAVELS & LEARNS

In January and February, some of HFS' team members traveled to the west coast to attend the Academy of Preferred Financial Advisors (APFA) and the TD Ameritrade LINC conferences.

Why do we attend conferences all over the country? We can certainly assure you it's not because we love airport security lines or hotel food!

We want to provide the very best service to you, our clients, and keeping abreast of issues that impact your financial future is key to that goal. These conferences give our team members great insight into current industry trends about financial planning, retirement, tax planning and much more from renowned industry experts as well as the opportunity to learn about new tools that can better the experience for our clients.

WE'RE CERTIFIABLY CERTIFIED … IN CPR & FIRST AID

The HFS team recently spent a morning learning the ins and outs of CPR & First Aid Training. Under the guidance of **Helping Hands CPR & First Aid Training's Tim and Rebecca Kelly,** who are emergency rescue professionals from Fairfax County, we learned the necessary skills to assist someone in need of immediate medical assistance. If you would like to learn more about CPR training, contact Helping Hands at (540) 491-4918.

THE U.S. ECONOMY'S LEADING INDICATORS

Market turmoil in the fall and the "December to remember sale" were especially ugly. That said, 2019 has started off on somewhat better footing – let's look at some of the leading indicators that impact the U.S. economy.

U.S. GDP: One of the most critical data points for the U.S. economy is our Gross Domestic Product or GDP. This rate, which measures the growth of the economy, is expected to stay between 2-3% for 2019. At their March meeting, the Federal Open Market Committee forecasted that the U.S. GDP's growth will slow from 3% in 2018 to 2.1% in 2019. They also predicted it to be 1.9% in 2020 and 1.8% in 2021.

JOBS: The Bureau of Labor Statistics has projected that the U.S. unemployment rate will be 3.7% in 2019. By 2021, they feel that it will likely increase to 3.9%.

MANUFACTURING: Another key economic indicator is U.S. manufacturing. Although the Manufacturers Alliance for Productivity and Innovation (MAPI) Foundation forecasts U.S. manufacturing to increase faster than the general economy, it expects our current growth rate of 3.9% to slow to 2.4% in 2020 and 1.9% in 2021.

A weaker housing market and rising oil prices can also put further pressure on the overall U.S. economy. Challenges aside, the U.S. economy is still the largest and most important in the world. Our economy represents about 20% of total global output and it is still larger than China's economy.

Bloomberg reports, "concerns that a recession is coming are rising, with a quarter of all economists saying that a slump is possible in the next 12 months." Are we headed for a recession? If so, what does that really mean?

WHAT YOU SHOULD KNOW ABOUT THE RECESSION OBSESSION

The word "recession" gets tossed around liberally in the financial media these days, a boogeyman lurking and ready to strike at any moment. But is our economy in danger?

After several years of growth, analysts and reporters in the media are now cautioning that the U.S. may be headed for a recession within the next year. They've become hypersensitive to any signs one may be looming. "The global economy is highly likely" to go into a recession if the U.S. and China don't reach a trade deal within three months, stated Moody's Analytics Chief Economist Mark Zandi on April 2nd on CNBC.

Yes, the word "recession" can sound scary. Stock market volatility and the steep correction late last year, the recent slowdown in U.S. economic activity and an economic expansion fast approaching its 10-year anniversary have all contributed to worries about an economic downturn.

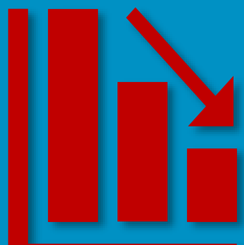
IN A FREE MARKET ECONOMY, RECESSIONS ARE A PART OF THE BUSINESS CYCLE, can be mild, moderate or severe, and are unpredictable. There is no perfect way to predict how and when a recession will occur or how long it will last.

What we do know is that expansions don't simply peter out. They come to an end when economic and financial imbalances arise, such as a stock or housing bubble, or the Fed aggressively hikes rates in response to a spike in inflation.

For the most part, neither of these conditions are currently present, lessening the odds a near-term recession is lurking. Further, recent market activity has been good for investors. While we've seen some volatility, year-to-date performance isn't signaling that an economic downturn is imminent.

A "recession" is generally defined as a period of economic decline during two consecutive quarters of inflation-adjusted Gross Domestic Product (GDP).

How many has the U.S. experienced?



Since 1854, there have been 33 recessions, five of which have happened since 1980. Yet there has been only one Great Depression (1929).

Why Do We Care About Recessions?
There are plenty of reasons. For most Americans, job insecurity increases, layoffs and cutbacks rise, and it becomes much more difficult to find work.

For investors, it's a time of heavy uncertainty. Bear markets – a 20% or greater decline in the S&P 500 Index – are typically tied to recessions, as corporate profits decline, and companies warn about the future.

Whether we are headed for a slowdown, pullback or recession, one of the most important things an investor can do would be to talk with their financial advisor about their timeframes, risk tolerance levels, and portfolio design to ensure these are all in alignment with each other.

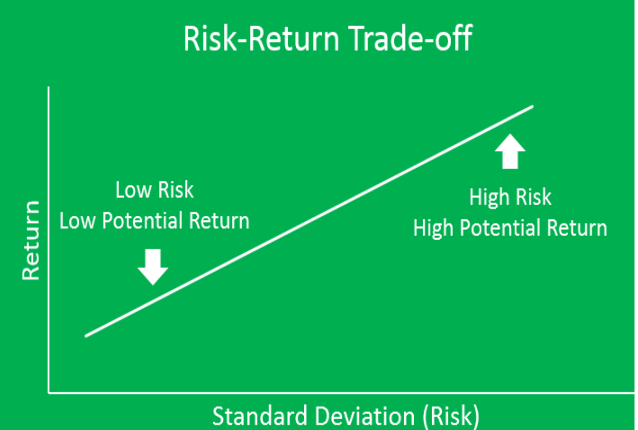
WHAT'S YOUR NEXT STEP?

With the recent rise in financial markets, the slowdown in global growth, and Federal Reserve Chair Jerome Powell now stressing a much more patient approach to monetary policy, investors need to once again proceed with caution.

Completely avoiding market risk may not be appropriate for most investors because today's traditional fixed rates might not help you achieve your desired goals. Most investors are still attempting to build a plan that includes risk awareness. Often, this can lead to safer but lower returns. Traditionally, bonds have been a nice hedge against market risk, but with interest rates still historically low, caution is advised as fixed rates may not provide the best solution for investors who are seeking higher returns. Looking at your entire financial landscape can be a helpful exercise in determining your strategy.

Find the balance that's right for you

Many investors use a risk/reward ratio to compare the expected returns of an investment with the amount of risk they must undertake to earn these returns. In economics, you operate with the assumption that the greater the risk an investor takes, the greater the reward they will receive, if and only if the investment makes money. On the other hand, if an investor only takes a small risk, they are more likely to earn a small reward. This principle is referred to as the **Risk/Reward Trade-Off**.



It's all about you! When we began working with you, one of our primary tenets is to always focus on your personal objectives. During confusing times, it's always wise to create realistic time horizons and return expectations for your own personal situation and adjust your investments accordingly. We work closely with you to understand your personal commitments, so we can categorize your investments into near-term, short-term and long-term buckets.

What's your comfort level? Now is the time to make sure you are comfortable with your investments. Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short-term downward movements in your portfolios. Make sure your investment plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets and is highly likely a trend that will continue.

Discuss any concerns with us: Investment needs are not one-size-fits-all, so we continually review economic, tax and investment issues and draw on that knowledge to offer specific direction and strategies to our clients. We take pride in offering our clients:

- regular client meetings
- continued education for clients on issues that can impact their lives
- consistent and strong communications
- continuing education for Hughes Financial Services team on issues that affect our clients

FOUR CONSIDERATIONS FOR INVESTORS

CONTROLLABLE	NO CONTROL
RISK	RETURNS
TIMELINE	
BEHAVIOR	

We enjoy helping clients with the three things that can be controlled

A good financial adviser should help make your financial planning journey easier. Our goal at HFS is to understand your specific goals and dreams and then offer direction and strategies to help get you there. While we cannot control financial markets or interest rates, we do keep a watchful eye on economic, tax and investment issues, continually monitoring your portfolio, and consistently communicating with you in a way that's simple, streamlined and easy to understand. One of our primary objectives is to take the emotions out of investing for clients. We can discuss your specific situation at your next review meeting, or you can call to schedule an appointment anytime.

As always, we appreciate the opportunity to work with you in addressing your financial matters.

Note: The views stated in this report are not necessarily the opinion of Hughes Financial Services, LLC, and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. This material contains forward-looking statements and projections. There are no guarantees that these results will be achieved. All indices referenced are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. The S&P 500 is an unmanaged index of 500 widely held stocks that is general considered representative of the U.S. Stock market. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Past performance is no guarantee of future results. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. **Sources:** Sources: Barron's (4/1/2019); Wall Street Journal (3/30-31/2019); CNBC (3/6/2019); Washington Post (3/29/2019); The Balance (3/29/2019); Focus Economics (3/26/2019); Bloomberg (4/4/2019); CNBC (4/2/2019); Horsesmouth April Letter (4/2019).

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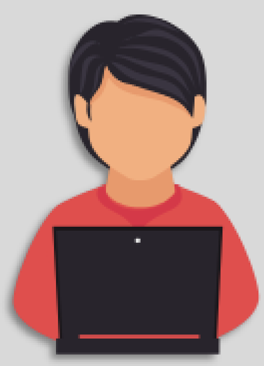

YOU'RE INVITED TO ATTEND OUR

Workshop

HFS CLIENT EDUCATIONAL SERIES 2019

THURSDAY, MAY 16TH

HACK ATTACK!

How to Protect Yourself from Cyber Attacks and Identity Theft

Data breaches and cybersecurity issues continue to be as inevitable as death and taxes. As the hackers get smarter and more devious, we need to look beyond protecting only our credit card and debit numbers and come up with more effective and up-to-date methods of improving our security and keeping our identities safe.

Join us as we show you the many ways you can be "Hack Attacked" and present you with easy to use, effective and up-to-date information on how to protect yourselves and our loved ones.

This workshop is open to anyone so feel free to host a friend or family member who want to learn more about this important topic.

SCHEDULE

11:45 am: Registration & Lunch
12:00-1:00 pm: Workshop Program

LOCATION

Maggiano's at Tysons Galleria
2001 International Drive | McLean, VA

HOSTED BY

Paul Hughes, ChFEBCsm
Managing Partner & Financial Advisor

Scott Hughes, CFP®, MBA
Managing Partner & Financial Advisor

Patrick Hughes, CFP®
Managing Partner & Financial Advisor

REGISTER TODAY & BRING A GUEST

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