Global Economy

With optimism continuing to reign in April, investors bid risk assets higher and markets maintained the "great start to 2019." Sentiment indicators have been resilient, even as we can cite continuing conflicts on various global fronts. Little has actually been settled between the US and China, between the US and North Korea, between the Democratic-controlled House and the Trump administration, or between the UK and the rest of the EU. Still, there have been ongoing signs of growth in the US, and stabilization in the Eurozone and in China, with the largest gains in the service sectors as opposed to manufacturing. Rising oil/gasoline prices have thus far not impacted corporate profits or consumer outlooks.

The Federal Open Market Committee (FOMC) met on April 30th/May 1st, ultimately leaving interest rates at 2.25% - 2.50%. Chairman Powell indicated the recently soft inflation readings were not necessarily a sign of a weak economy and could be due to more "transitory" factors. This was viewed as slightly hawkish, suggesting the FOMC is not yet ready to focus on a potential rate cut later in 2019 or early 2020, as the futures market has already been priced in.

The initial estimate of 1Q-19 GDP growth showed an annualized rate of 3.2%, which was well above consensus expectations. A significant piece of the growth came from net exports and inventory accumulation, components that tend to be more volatile and perhaps less repeatable in upcoming quarters. Personal consumption growth was just 1.2%, significantly less than the reading in 4Q-18 as retail sales drifted lower. The Federal Reserve Bank of Atlanta is currently projecting 2Q-19 GDP growth of 1.7%, while the consensus of analyst projections points to something closer to 2.5%.

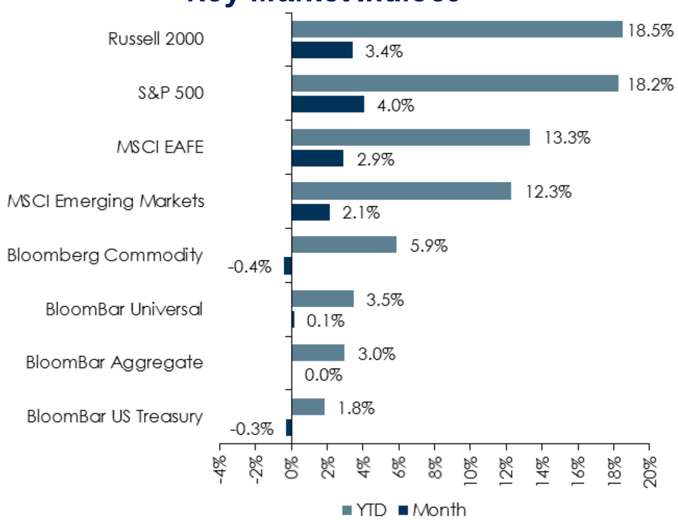
The unemployment rate dropped to 3.6% in April, confirming the strength of the labor market, as 263,000 jobs were added. Even as the labor participation rate dropped slightly to 62.8%, the overall labor force is up 1.4 million from a year ago alongside improved productivity measures. Average hourly wages continue to rise at a year-over-year pace of 3.2%, pointing to limited inflation pressures from this source. The Core CPI index dropped slightly to 2.0% year-over-year, while the FOMC's preferred measure, the Core PCE index, was reported at just 1.6% year-over-year through March.

	Current	Dec-18
US GDP (%)	3.20	3.40
US Unemployment (%)	3.60	3.90
CPI (Core) (%)	2.00	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.50	2.69
S&P 500 Div Yld (%)	1.88	2.15
S&P 500 P/E (Trailing)	19.23	17.12
Gold/oz.	$1,285.70	$1,281.30
Oil (Crude)	$63.91	$45.41
Gasoline (Natl Avg)	$2.97	$2.36
USD/Euro	$1.12	$1.15
USD/GBP	$1.30	$1.28
Yen/USD	¥111.42	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

April returns were solid for both domestic and international stocks, with several key indices establishing all-time highs. The S&P 500, which represents large US-based entities, was up +4.0% for the month and is now up 18.2% on the year. Most major sectors in the domestic benchmark were up materially, with Financials (+8.8%), IT (+6.4%) and Communication Services (+6.2%) leading the advance. Healthcare was a significant outlier (-2.7%), with Real Estate (-0.6%) and Energy (+0.0%) also underperforming. Small cap stocks, as represented by the Russell 2000, were also up meaningfully for the month, with a return of +3.4%, as year-to-date returns of +18.5% lead the major asset classes.

In the broad international developed markets, the MSCI EAFE index was meaningfully positive for the month at +2.9%, with particular strength in Europe at +3.7%. Sector performance was strong in many areas, with IT (+6.7%), Financials (+5.7%) and Industrials (+5.3%) leading the way. Real Estate (-3.1%), Health Care (-2.3%) and Utilities (-1.8%) were notable laggards abroad.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were once again positive, though trailed developed international stocks slightly with a return of +2.1%. All major regions were positive, led by Europe, Middle East and Africa at +5.2%, and Eastern Europe at +3.0%. Latin America showed weakness once again, with its regional return of +0.5 held back by declines in the countries of Brazil, Columbia, and Chile.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down moderately at -1.3% during the month, but is still up +13.4% for the year. Likewise, the Alerian MLP index was also down -1.3% in April, but remains up +15.3% for the year. The near-month NYMEX oil contract was up +6.3% for the month and has now advanced +40.7% thus far in 2019. The broadly diversified Bloomberg Commodity index retreated -0.4% for the month given weakness in metals and agriculture, but is still up 5.9% for the year.

Global Markets (continued)

Investor appetite for risk assets caused US Treasury (UST) yields to move slightly higher in April. Given the Fed's currently accommodative stance, the short-end of the yield curve held in much better than longer-dated issues. Although high-quality issues inside of five years generated a positive total return, the overall government bond complex returned -0.3% for the month. The commonly referenced 10-year UST yield ultimately ended 10 bps higher to finish at 2.50%. Despite the modest re-steepening bias, the slope of the yield curve remains quite flat by historical standards, and the futures market continues to project a >60% chance of a rate cut by the end of 2019.

The BloomBar US Aggregate Bond index outperformed risk-free Us Treasuries on a duration-matched basis, returning a flat +0.0% in April. Spreads for IG corporates tightened by another 8 bps, led mostly by strong demand for BBB-rated Industrial credits. Mortgage-backed securities (MBS) were once again the benchmark's only underperforming sub-sector. Competing forces between rates and spreads left the benchmark's yield-to-worst slightly higher, but still just below 3.0%.

The Bloombar 1-15-Year Municipal index returned +0.2% in April, driving 12-month returns to a very respectable +5.6%. With capital continuing to flow into the market at a robust pace, most segments of the tax-exempt yield curve have now flattened to post-crisis lows. Comparable yield ratios and credit spreads are also looking historically rich at this point.

The Bloombar US Corporate High Yield index built upon year-to-date gains with a return of +1.4% in April. Returns were best for CCC-rated issues, as investors gained comfort with risk. Overall benchmark spreads narrowed 33 bps, taking all-in yields down to just over 6.1%. Global yield moves were directionally consistent with US government bonds, and US dollar strength hampered results for unhedged international bonds. Hard-dollar emerging market bonds produced modest gains, as spreads for both sovereigns and corporate issues tightened. Local currency bonds experienced a loss of -0.2%.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.05	-0.01
Germany	0.01	0.24
France	0.37	0.71
United Kingdom	1.18	1.28
Spain	1.00	1.41
United States	2.50	2.69
Italy	2.55	2.74
Mexico	8.09	8.64
Brazil	8.98	9.24

Indices Report (Periods Ending April 30, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	4.05	18.25	13.49	14.87	11.63	15.32	8.97
Russell 1000	4.04	18.60	13.33	14.82	11.41	15.39	9.16
Russell 1000 Growth	4.52	21.35	17.43	18.62	14.50	16.96	10.12
Russell 1000 Value	3.55	15.90	9.06	10.97	8.27	13.76	8.06
Russell 2500	3.50	19.88	7.89	13.31	9.04	14.97	9.49
Russell 2000	3.40	18.48	4.61	13.60	8.63	14.09	8.66
Russell 2000 Growth	3.05	20.71	6.91	15.64	10.22	15.24	9.31
Russell 2000 Value	3.78	16.16	2.19	11.46	6.94	12.87	7.89
Wilshire 5000 Cap Wtd	4.01	18.68	12.85	14.84	11.35	15.29	9.21
MSCI ACWI	3.43	16.18	5.63	11.96	7.54	11.70	7.77
MSCI ACWI ex US	2.72	13.44	-2.75	8.61	3.31	8.24	6.47
MSCI EAFE	2.91	13.33	-2.73	7.77	3.09	8.45	5.95
MSCI EAFE Local Currency	3.48	14.58	2.25	9.82	7.02	9.44	6.32
MSCI EAFE Growth	3.38	15.97	0.85	8.51	4.86	9.58	6.47
MSCI EAFE Value	2.42	10.69	-6.27	6.97	1.27	7.26	5.36
MSCI Emerging Markets	2.12	12.29	-4.68	11.66	4.42	7.87	9.05
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.22	1.19	3.08	1.05	0.99	1.07	2.06
BloomBar US Aggregate	0.03	2.97	5.29	1.90	2.57	3.72	4.07
BloomBar Gov't Bond	-0.27	1.83	4.76	1.02	1.98	2.55	3.56
BloomBar US Credit	0.49	5.39	6.38	3.23	3.46	5.98	4.92
BloomBar 10 Yr Municipal	0.26	3.42	6.84	2.58	3.64	4.66	4.71
BloomBar US Corp High Yield	1.42	8.78	6.74	7.69	4.84	10.15	7.48
FTSE World Govt Bond	-0.50	1.24	-0.18	0.37	0.27	2.15	3.27
BloomBar Global Aggregate	-0.30	1.90	0.94	0.94	0.75	2.93	3.57
BloomBar Multiverse	-0.25	2.14	1.03	1.28	0.92	3.19	3.74
Real Assets							
FTSE NAREIT US Real Estate	-0.24	16.06	18.88	6.90	8.36	15.10	9.65
FTSE EPRA/NAREIT Dev RE	-1.28	13.39	10.63	6.23	6.44	12.62	8.42
Bloomberg Commodity	-0.42	5.88	-8.03	-0.66	-9.43	-2.67	-2.70
Cash and Equivalents							
US T-Bills 90 Day	0.20	0.79	2.18	1.25	0.78	0.45	1.37

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