Global Economy

Under the cover of disappearing volatility, with the CBOE's VIX index nearly 30% below it's long-term average, the generalized rally in risk assets continued through March. With trade discussions between the US and China continuing to develop, concerns over tariff escalation are being increasingly discounted. Current activity indicators in major economies, particularly within China as a result of recent stimulus, are showing tentative signs of stabilization. The Brexit saga refuses to end, however, with the EU having allowed for an extended "deadline" of April 12th. With Prime Minister May unable to negotiate a workable plan, the risk of a disruptive no-deal exit has UK businesses scrambling to prepare.

The Federal Open Market Committee (FOMC) met in March, and left interest rates at 2.25% - 2.50%. The Committee's statement was particularly dovish, highlighting an attitude of patience and reducing forward rate hike expectations. The "dots plot" is now pointing to no hikes in 2019, with a rare policy re-start producing a single hike in 2020. In addition, the balance sheet reduction program is set to taper off over the next six months. The market's expectations are fairly in line with the FOMC, but the futures market is suggesting the next action will be a rate cut, sometime in late 2019 or early 2020.

The third estimate of 4Q-18 GDP growth showed an annual rate of 2.2%, which was in-line with expectations. The drop from the second estimate of 2.6% was due to downward revisions in consumer spending, state and local government spending, and business fixed investments. The US economy grew 2.9% for all of 2018, the strongest full year of growth since 2005. Economists are projecting a seasonally-slower growth rate of 1.4% for 1Q-19.

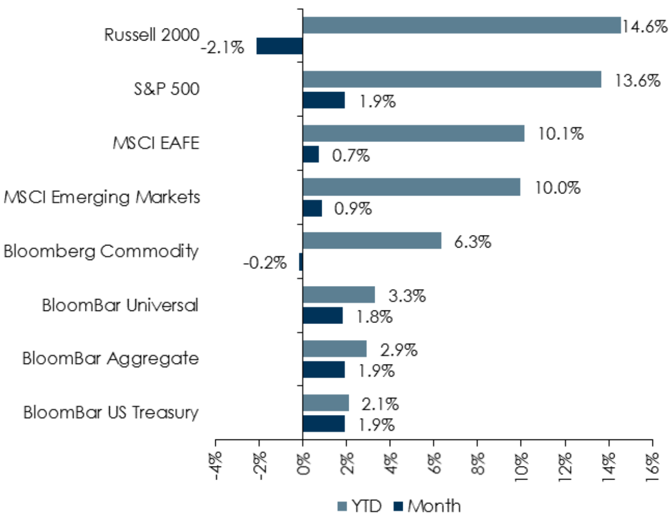
The unemployment rate remained at 3.8% in March, even as hiring rebounded more than expected and 196,000 jobs were added. The labor participation rate dropped slightly to 63.0%, and average hourly wages rose at a year-over-year pace of 3.2%. Inflation continues to be kept in check, with the Core CPI index once again remaining moderate at 2.1% year-over-year. The FOMC's preferred measure, the Core PCE index, was reported at 1.8% year-over-year through January, with February's data still not yet released due to the lingering impact of the government shutdown.

	Current	Dec-18
US GDP (%)	2.20	3.40
US Unemployment (%)	3.80	3.90
CPI (Core) (%)	2.10	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.41	2.69
S&P 500 Div Yld (%)	1.94	2.15
S&P 500 P/E (Trailing)	18.69	17.12
Gold/oz.	$1,293.00	$1,281.30
Oil (Crude)	$60.14	$45.41
Gasoline (Natl Avg)	$2.70	$2.36
USD/Euro	$1.12	$1.15
USD/GBP	$1.30	$1.28
Yen/USD	¥110.86	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

March was somewhat a return to the "slow and steady" recovery pace of the last decade for large cap and international stocks. The S&P 500, which represents large US-based entities, was up +1.9% for the month and is now up 13.6% on the year. Most major sectors in the domestic benchmark were up materially, with IT (+4.7%) and Real Estate (+4.5%) leading the way. The Financials (-2.8%) sector was hit by yield curve inversion concerns, while Industrials (-1.2%) also trailed the full benchmark. Small cap stocks, as represented by the Russell 2000, were down for the month, with a return of -2.1%, even as year-to-date returns of +14.6% are impressive.

In the broad international developed markets, the MSCI EAFE index was modestly positive for the month at +0.7%. Strength in the US dollar detracted overall, but returns were relatively consistent across regions, with Pacific ex Japan leading at +0.9%. Sector performance was more differentiated, with Consumer Staples (+4.8%) and Real Estate (+4.5%) leading the way. Financials (-2.5%) and Consumer Discretionary (-1.4%) were notable laggards.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were once again positive, and outpaced developed international stocks with a return of +0.9%. Latin America showed weakness once again, falling -2.5%, even as Asian markets continued their growth at a pace of +1.8%. The US dollar strengthened against the diversified basket of emerging market currencies, but the impact of currency is essentially flat year-to-date.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up significantly at +3.7% during the month, and is now up +14.9% for the year. The Alerian MLP index was also up meaningfully at +3.4%, and is up +16.8% for the year. Both of these income-oriented categories tend to benefit as interest rates decline. The near-month NYMEX oil contract was up +5.1% for the month and has now advanced +32.4% in 2019. The broadly diversified Bloomberg Commodity index reversed the upward trend from January and February, retreating -0.2% for the month.

Global Markets (continued)

US Treasury (UST) yields moved decisively lower in March, an occurrence that typically contradicts the optimism being observed within risk markets. The Fed's increasingly accommodative stance has a lot to do with the recent correlation between stock and bond returns. Amid this robust environment for high-quality fixed income, the overall government bond complex returned 1.9% for the month. The commonly referenced 10-year UST yield ultimately ended 31 bps lower to finish at 2.41%. The slope of the entire yield curve remains very flat by historical standards, and it has actually inverted between six-months and five-years as the futures market now projects a >60% chance of a rate cut by the end of 2019.

The BloomBar US Aggregate Bond index responded well to falling interest rates, returning +1.9% in March. Spreads for IG corporates tightened by another 2 bps, led mostly by strong demand for BBB-rated credits. Given growing pre-payment risk, mortgage-backed securities (MBS) were the benchmark's only underperforming sub-sector relative to risk-free US Treasuries. Notable declines in both rates and spreads caused the benchmark's yield-to-worst to fall back below 3.0%.

The Bloombar 1-15-Year Municipal index returned +1.2% in March, taking 12-month returns to a very respectable +5.1%. Despite some notable flattening throughout the month, the tax-exempt yield curve remains somewhat steeper than that of US Treasuries. Comparable yield ratios out to 10-years trade historically rich given extremely strong technicals.

The Bloombar US Corporate High Yield index built upon year-to-date gains with a return of +1.0% in March. Returns were best for BB-rated issues, as investors favored higher liquidity. Overall benchmark spreads widened 12 bps, but all-in yields declined slightly to 6.4%. Global yield moves were directionally consistent with US government bonds, but US dollar strength tempered results for unhedged international bonds. Hard-dollar emerging market bonds produced solid gains, even as spreads for both sovereigns and corporate issues widened modestly. Local currency bonds continued to lag.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.09	-0.01
Germany	-0.07	0.24
France	0.32	0.71
United Kingdom	1.00	1.28
Spain	1.09	1.41
United States	2.41	2.69
Italy	2.49	2.74
Mexico	8.01	8.64
Brazil	8.97	9.24

Source: Bloomberg

Indices Report (Periods Ending March 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.94	13.65	9.50	13.51	10.91	15.92	8.57
Russell 1000	1.74	14.00	9.30	13.52	10.63	16.05	8.74
Russell 1000 Growth	2.85	16.10	12.75	16.53	13.50	17.52	9.71
Russell 1000 Value	0.64	11.93	5.67	10.45	7.72	14.52	7.63
Russell 2500	-0.82	15.82	4.48	12.56	7.79	16.23	8.88
Russell 2000	-2.09	14.58	2.05	12.92	7.05	15.36	8.04
Russell 2000 Growth	-1.35	17.14	3.85	14.87	8.41	16.52	8.71
Russell 2000 Value	-2.88	11.93	0.17	10.86	5.59	14.12	7.24
Wilshire 5000 Cap Wtd	1.50	14.11	8.93	13.59	10.52	16.00	8.77
MSCI ACWI	1.32	12.33	3.16	11.27	7.03	12.58	7.36
MSCI ACWI ex US	0.68	10.43	-3.74	8.61	3.05	9.35	6.06
MSCI EAFE	0.74	10.13	-3.22	7.80	2.81	9.47	5.59
MSCI EAFE Local Currency	1.45	10.73	3.36	9.06	6.48	10.27	6.18
MSCI EAFE Growth	1.85	12.18	-0.88	8.03	4.33	10.14	6.06
MSCI EAFE Value	-0.38	8.08	-5.56	7.54	1.24	8.74	5.05
MSCI Emerging Markets	0.86	9.95	-7.06	11.09	4.06	9.31	8.28
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.60	0.97	2.71	0.99	0.98	1.04	1.98
BloomBar US Aggregate	1.92	2.94	4.48	2.03	2.74	3.77	3.89
BloomBar Gov't Bond	1.89	2.10	4.20	1.07	2.15	2.44	3.36
BloomBar US Credit	2.44	4.87	4.89	3.48	3.61	6.22	4.66
BloomBar 10 Yr Municipal	1.48	3.15	6.32	2.76	3.88	4.82	4.49
BloomBar US Corp High Yield	0.94	7.26	5.93	8.56	4.68	11.26	7.33
FTSE World Govt Bond	1.27	1.74	-1.57	0.95	0.59	2.20	3.00
BloomBar Global Aggregate	1.25	2.20	-0.38	1.49	1.04	3.05	3.33
BloomBar Multiverse	1.20	2.39	-0.29	1.85	1.19	3.33	3.50
Real Assets							
NCREIF Property	0.00	0.00	4.93	6.44	8.74	8.31	8.68
NFI ODCE Net	0.00	0.00	5.30	6.58	8.92	7.61	7.09
FTSE NAREIT US Real Estate	3.35	16.33	20.86	6.13	9.12	18.28	8.52
Bloomberg Commodity	-0.18	6.32	-5.25	2.22	-8.92	-2.56	-2.79
Cash and Equivalents							
US T-Bills 90 Day	0.22	0.59	2.12	1.19	0.74	0.43	1.36

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