Global Economy

Relative calm permeated the globe, sustaining the rally in risk assets throughout February. Ongoing trade discussions between the US and China delayed tariff escalation, and fostered hopes for a deal. Continued efforts by Prime Minster May to negotiate a workable deal/extension between the UK and the EU lowered the odds of a "hard Brexit." Broadly positive measures of the US and global economy also helped sentiment readings improve. Issues surrounding the supply of oil were the outlier from a volatility perspective. Although still below the recent peak in October 2018, prices have been influenced higher by OPEC nations, as well as other exporters such as Russia, holding firm in production cuts.

The Federal Open Market Committee (FOMC) did not meet in February, but released minutes from the January meeting. The minutes reflect discussion on the balance sheet reduction program as well as the impact of Fed actions on market conditions. The FOMC is now expected to stop its balance sheet reduction program toward the end of 2019. There was considerable discussion as to the wording of the January statement, which incorporated language regarding a "patient approach" to monetary policy. The next meeting is March 19-20, where no interest rate action is expected.

The initial release of 4Q-18 GDP growth showed an annual rate of 2.6%, which was slightly above expectations. The US economy grew 2.9% for all of 2018, the strongest full year of growth since 2005. Consumer spending was strong early in the quarter, as was business investment, but dropped in December amid volatility. A larger-than-expected inventory build may be a headwind for early 2019 growth.

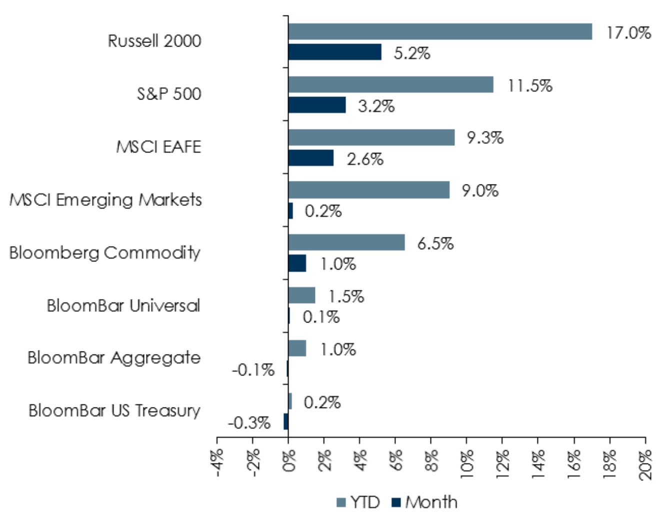
The unemployment rate declined to 3.8% in January, even with the disappointing increase of only 20,000 jobs for the month. The labor participation rate remained constant, and average hourly wages rose at a healthy year-over-year pace of 3.4%. Inflation continues to be kept in check, with the Core CPI index once again holding steady at 2.2% year-over-year. The FOMC's preferred measure, the Core PCE index, was reported at 1.9% year-over-year through December, with January's data not yet released due to the lingering impact of the government shutdown.

	Current	Dec-18
US GDP (%)	2.60	3.40
US Unemployment (%)	3.80	3.90
CPI (Core) (%)	2.20	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.72	2.69
S&P 500 Div Yld (%)	1.97	2.15
S&P 500 P/E (Trailing)	18.35	17.12
Gold/oz.	$1,316.10	$1,281.30
Oil (Crude)	$57.22	$45.41
Gasoline (Natl Avg)	$2.47	$2.36
USD/Euro	$1.14	$1.15
USD/GBP	$1.33	$1.28
Yen/USD	¥111.39	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Major market indexes followed up an explosive January with a solid February, and key US benchmarks now boast double-digit gains year-to-date. The S&P 500, which represents large US-based entities, was up +3.2% for the month. All major sectors in the domestic benchmark were up materially, with IT (+6.6%) and Industrials (+6.1%) leading the way. Relative sector laggards included Real Estate (+0.8%), Consumer Discretionary (+0.7%), and Communication Services (+0.8%). Small cap stocks, as represented by the Russell 2000, again outperformed with a return of +5.2% for the month, with Growth (+6.5%) oriented names meaningfully outperforming Value (+3.9%) for the month.

In the broad international developed markets, the MSCI EAFE index was closely behind large US stocks at +2.6%. Japan was flat for the month given weakness in the Yen, while the Pacific Ex Japan (+3.8%) and European (+3.4%) regions both outperformed their domestic counterparts. Sector performance was quite consistent, with Healthcare (+4.0%) and Financials (+3.7%) leading the way. Real estate (-0.7%) and Utilities (+0.3%) were notable laggards.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were once again positive, but lagged the other major equity markets, with a return of +0.2%. Latin America showed particular weakness, falling -3.7%, even as Asian markets (led by Taiwan and China) appreciated at a more moderate pace of +1.7%. Overall, the US dollar strengthened against the diversified basket of emerging market currencies.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down slightly at -0.1% during the month, following double-digit growth in January. The Alerian MLP index was up just slightly at +0.3%, also cooling from more than 10% gains in the first month of the year. The near-month NYMEX oil contract was up +6.4% for the month and now +26.0% for the year, amid the trade and supply concerns illustrated above. The more broadly diversified Bloomberg Commodity index continued its positive overall trend at +1.0% for the month and +6.5% year-to-date.

Global Markets (continued)

US Treasury (UST) yields edged modestly higher in February, but the degree of economic optimism remains tempered relative to risk markets. Confident in the Fed's accommodative bias, the futures market projects neither rate hikes nor rate cuts in 2019. Despite this benign environment for high-quality fixed income, the overall government bond complex returned -0.3% for the month. The commonly referenced 10-year UST yield ultimately ended 9 bps higher to finish at 2.72%. The slope of the yield curve remains very flat by historical standards, even as longer-dated maturities underperformed.

The BloomBar US Aggregate Bond index fared slightly better, but still lost -0.1% in February. Spreads for IG corporates tightened by another 7 bps despite higher-than-anticipated new issue supply. Given strength in the commercial real estate market, CMBS was the benchmark's best performing sub-sector relative to risk-free US Treasuries. The offsetting impact of rising rates and lower spreads caused the all-in yield for the index to remain 3.2%.

The Bloombar 1-15-Year Municipal index returned +0.5% in February, taking 12-month returns to a very respectable +4.1%. Extremely strong technicals have driven valuations to their richest level in over a decade. Still, the tax-exempt yield curve is notably steeper than that of US Treasuries, providing enhanced yield and better valuations for extended maturities.

The Bloombar US Corporate High Yield index built upon year-to-date gains with a return of +1.7% in February. Returns were unusually uniform across the credit spectrum. Overall benchmark spreads tightened by 44 bps, such that all-in yields are back down to 6.5%. Global yield moves were directionally consistent with US government bonds, but US dollar strength produced losses in unhedged international bonds. Hard-dollar emerging market bonds produced solid gains, with spreads for both sovereigns and corporate, tightening back below the average levels seen over the past 15-years

Selected Bond Yields

10 Year Sovereign Bond Yields (%)

	Current	Dec-18
Japan	-0.03	-0.01
Germany	0.18	0.24
France	0.57	0.71
United Kingdom	1.30	1.28
Spain	1.17	1.41
United States	2.72	2.69
Italy	2.75	2.74
Mexico	8.16	8.64
Brazil	9.00	9.24

Source: Bloomberg

Indices Report (Periods Ending February 28, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.21	11.48	4.68	15.28	10.67	16.67	8.32
Russell 1000	3.39	12.05	4.99	15.43	10.39	16.82	8.51
Russell 1000 Growth	3.58	12.89	6.62	17.99	12.63	18.19	9.37
Russell 1000 Value	3.20	11.23	3.16	12.80	8.09	15.39	7.52
Russell 2500	4.72	16.78	6.36	15.92	7.89	17.34	8.98
Russell 2000	5.20	17.03	5.58	16.67	7.36	16.60	8.26
Russell 2000 Growth	6.46	18.75	6.70	18.27	8.16	17.69	8.85
Russell 2000 Value	3.89	15.25	4.42	14.95	6.48	15.43	7.55
Wilshire 5000 Cap Wtd	3.47	12.42	5.07	15.63	10.34	16.79	8.59
MSCI ACWI	2.72	10.86	-0.30	13.48	6.85	13.34	7.23
MSCI ACWI ex US	1.97	9.69	-6.00	11.25	2.97	10.13	6.05
MSCI EAFE	2.56	9.32	-5.57	9.85	2.54	10.07	5.59
MSCI EAFE Local Currency	3.49	9.15	-0.29	9.62	6.08	10.53	6.09
MSCI EAFE Growth	3.45	10.14	-3.77	9.65	3.83	10.55	5.94
MSCI EAFE Value	1.68	8.49	-7.36	10.02	1.20	9.53	5.15
MSCI Emerging Markets	0.23	9.02	-9.54	15.46	4.52	10.70	8.31
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.10	0.37	2.29	0.84	0.83	1.03	1.96
BloomBar US Aggregate	-0.06	1.00	3.17	1.69	2.32	3.71	3.81
BloomBar Gov't Bond	-0.26	0.21	3.21	0.50	1.71	2.43	3.30
BloomBar US Credit	0.22	2.38	2.72	3.51	3.13	5.96	4.56
BloomBar 10 Yr Municipal	0.55	1.64	5.13	2.36	3.56	4.62	4.35
BloomBar US Corp High Yield	1.66	6.26	4.31	9.81	4.53	11.50	7.31
FTSE World Govt Bond	-0.92	0.47	-1.31	1.41	0.32	2.33	3.02
BloomBar Global Aggregate	-0.58	0.94	-0.57	1.97	0.78	3.16	3.32
BloomBar Multiverse	-0.49	1.18	-0.48	2.41	0.95	3.45	3.50
Real Assets							
FTSE NAREIT US Real Estate	0.73	12.56	21.40	8.40	8.53	18.36	8.67
FTSE EPRA/NAREIT Dev RE	-0.09	10.81	13.04	8.67	6.63	15.27	7.76
Bloomberg Commodity	1.01	6.51	-5.67	3.57	-8.81	-2.19	-2.58
Cash and Equivalents							
US T-Bills 90 Day	0.18	0.38	2.04	1.13	0.70	0.41	1.35

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