

## Global Economic Review

Jerome Powell's January 4<sup>th</sup> speech in Atlanta was a pivotal point for financial markets. The U.S. Federal Reserve's shift away from its tightening monetary stance turned the tide for global markets that had plunged into bear market territory in December. While most economic indicators remained tepid during the first quarter, China's policy stimulus resulted in signs of stabilization and progress.

- Economists have been raising their estimates for first quarter U.S. GDP to 2.0% - 2.5% after the trade deficit unexpectedly narrowed in February. European GDP has been falling from the low 2's to the low 1's and China's GDP is at 6.4% (7% used to be considered a recession). U.S.-China trade negotiations are increasingly looking outcome oriented, not time oriented which is both a positive (results) and a negative (lingering uncertainty).
- The 3-month/10-year yield curve briefly inverted in March triggering concerns that a recession could be on the horizon. While it is true that every recession since 1962 has been preceded by a yield curve inversion, not every inversion has been followed by a recession. Currently the yield curve is not inverted with the 3-month yield at 2.44% and the 10-year yield at 2.59%.
- The Fed kept rates steady at 2.375%, projected no more rate hikes in 2019, reduced their 2019 growth forecast to 2.1%, and announced a tapering of the balance sheet normalization program with a conclusion by September – much sooner than anticipated. The pace of Chairman Powell's pivot from a hawk last October to an outright dove in March has been remarkable. Fed funds futures markets have taken it further, now pricing in over 50% odds of a rate cut in 2019.
- Most recent headline and core PCE inflation readings of 1.4% and 1.8%, respectively, raised no eyebrows and probably supports the dovish tone from the Fed.
- British Prime Minister May's Brexit withdrawal proposals have failed in Parliament three times as did eight votes on alternative proposals including remaining in the European Union, holding a second referendum on Brexit, and revoking Article 50. The European Union is soon to decide on a second extension which may push things out to June 30<sup>th</sup> or later.
- U.S. unemployment rates continue to hover around historic lows (3.8%). Wage growth moved slightly higher to 3.2%.
- The most recent consumer confidence reading of 124.1 was far short of expectations thanks to deteriorating views of the economy and wage growth while consumer sentiment jumped to a 6-month high of 98.4 reflecting favorable current conditions and forward expectations.

## Market Review

Over the last six months, the S&P 500 swung from its worst quarter in in over seven years to its best quarter in almost ten years. In fact, December was the worst final month of the year since the Great Depression. By comparison, January and February performance was the strongest start to a year we have seen in 32 years. Volatility, as measured by the CBOE Volatility Index, spiked on Christmas Eve hitting 36.07,



well above its 5-year average of 14.95. The S&P was up 13.7% in the first quarter with Technology (+19.9%), Industrials (+17.2%), and Energy (+16.4%) jumping to the front of the pack after dropping the most during the fourth quarter. Healthcare (+6.6%) was the laggard during the first quarter after being the best performing sector during the second half of 2018. Growth stocks outperformed value stocks as evidenced by the S&P 500 Growth Index (+15.0%) vs. the S&P 500 Value Index (+10.8%). There was a slight positive bias towards smaller companies with the Russell 2000 posting a 14.6% return. International equities also had strong results for the quarter with both the EAFE Index and MSCI Emerging Markets Index gaining 10.0%. The United Kingdom (+11.9%) and France (+10.8%) led developed markets while China (+17.7%) and Russia (+12.2%) led emerging markets. Although fears over the U.S.-China trade war seem to have abated, worries about Brexit and the U.S. closing its border to Mexico have investors fretting about global supply chains as we enter the second quarter.

Like the equity markets, the risk-off trade in fixed income markets during the fourth quarter was largely erased during the first few months of 2019. The Fed's dramatic shift to a dovish tone mitigated fears that a recession is imminent, and investors piled into bonds during the first quarter. The yield curve has been flattening for some time and briefly inverted on March 22<sup>nd</sup> through March 29<sup>th</sup>, its first inversion since 2007. Every recession since 1962 has been preceded by a yield curve inversion, but not every inversion has been followed by a recession. Sometimes, an inversion is a signal that markets are anticipating a cut in interest rates. U.S fixed income posted positive returns across the maturity spectrum during the first quarter with the Bloomberg Barclays Aggregate Bond Index gaining 2.9%. Returns were also positive across the quality spectrum with high-yield bonds posting the strongest results as evidenced by the Bloomberg Barclays High Yield Bond Index up 7.3%. Municipal bonds kept in step with taxable bonds with the Bloomberg Barclays Municipal Bond Index up 2.9%. Internationally, more than half the debt of developed economies yields below 1%, as measured by the Bloomberg Barclays Global Developed Sovereign Index. In many cases, investors have to go out five years or more on the yield curve to achieve a positive yield. It appears that global bond investors are betting on further central bank stimulus in the face of softening economic data. The FTSE World Gov't Bond Index ex U.S. was up 1.7% in the first quarter.

Commodity prices climbed 6.3% in the quarter, boosted by a 15.9% gain in the energy sector and a 12.9% gain in industrial metals. WTI Crude Oil prices spiked sharply higher during the first quarter (\$45.15 at 12/31 to \$60.19 at 3/31) as the global demand outlook improved while supply remained constrained (Venezuela, Saudi, Iran). Agriculture was impacted by the U.S.-China trade war and lost 3.2%.

### Outlook

We are maintaining a cautiously constructive view looking forward and recommending that clients remain modestly overweight risk assets relative to their long-term strategic asset allocation targets. Despite the spike in volatility at the end of last year, we are reassured by strong corporate fundamentals and solid economic data, particularly in the U.S. Earlier concerns that a hawkish Fed may raise rates too aggressively and trigger a recession have dissipated. We are closely watching as China's policy stimulus gains traction and potentially sends positive ripples through emerging markets and Europe, as this may present an opportunity later in the year.



## U.S. Equity Index Data

Broad Market	Qtd	Ytd	2018	2017	2016	2015	2014	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr
DJ Industrial Average	11.81	11.81	(3.48)	28.11	16.50	0.21	10.04	10.09	16.38	12.21	12.86	15.97
NASDAQ Composite	16.81	16.81	(2.84)	29.64	8.87	6.96	14.75	10.63	17.98	14.29	15.37	18.93
Russell 3000	14.04	14.04	(5.24)	21.13	12.74	0.48	12.56	8.77	13.49	10.36	12.63	16.00
Russell 3000 Value	11.93	11.93	(8.58)	13.19	18.40	(4.13)	12.70	5.30	10.51	7.56	11.03	14.50
Russell 3000 Growth	16.18	16.18	(2.12)	29.59	7.39	5.09	12.44	12.06	16.42	13.10	14.14	17.44
Wilshire 5000 Total Market	14.11	14.11	(5.27)	20.99	13.37	0.67	12.71	8.93	13.60	10.52	12.67	16.00
<b>Large Cap</b>												
S&P 500	13.65	13.65	(4.38)	21.83	11.96	1.38	13.69	9.50	13.52	10.91	12.85	15.92
S&P 500 Equal Weight	14.91	14.91	(7.64)	18.90	14.80	(2.20)	14.49	7.22	12.04	9.52	12.69	17.76
Russell 1000	14.00	14.00	(4.78)	21.69	12.05	0.92	13.24	9.30	13.53	10.64	12.79	16.05
Russell 1000 Growth	16.10	16.10	(1.51)	30.21	7.08	5.67	13.05	12.75	16.55	13.50	14.34	17.52
Russell 1000 Value	11.93	11.93	(8.27)	13.66	17.34	(3.83)	13.45	5.67	10.46	7.72	11.14	14.52
<b>Sm/Mid Cap</b>												
Russell Mid Cap	16.54	16.54	(9.06)	18.52	13.80	(2.44)	13.22	6.47	11.82	8.81	11.99	16.88
Russell Mid Cap Growth	19.62	19.62	(4.75)	25.27	7.33	(0.20)	11.90	11.51	15.07	10.89	12.97	17.61
Russell Mid Cap Value	14.37	14.37	(12.29)	13.34	20.00	(4.78)	14.75	2.89	9.51	7.22	11.31	16.39
Russell 2000	14.58	14.58	(11.01)	14.65	21.31	(4.41)	4.89	2.05	12.93	7.05	10.74	15.36
Russell 2000 Growth	17.14	17.14	(9.31)	22.17	11.32	(1.38)	5.60	3.85	14.88	8.41	11.79	16.52
Russell 2000 Value	11.93	11.93	(12.86)	7.84	31.74	(7.47)	4.22	0.17	10.86	5.60	9.62	14.12
<b>Sector</b>												
S&P 500 Sec/Consumer Discretionary	15.73	15.73	0.83	22.98	6.03	10.11	9.68	13.19	14.42	13.59	15.91	21.11
S&P 500 Sec/Consumer Staples	12.01	12.01	(8.38)	13.49	5.38	6.60	15.98	10.49	5.15	8.59	10.48	13.48
S&P 500 Sec/Energy	16.43	16.43	(18.10)	(1.01)	27.36	(21.12)	(7.78)	1.32	4.95	(2.80)	1.39	6.39
S&P 500 Sec/Financials	8.56	8.56	(13.03)	22.18	22.80	(1.53)	15.20	(4.67)	14.28	9.39	12.64	15.71
S&P 500 Sec/Health Care	6.59	6.59	6.47	22.08	(2.69)	6.89	25.34	14.89	12.58	11.29	15.62	16.35
S&P 500 Sec/Industrials	17.20	17.20	(13.29)	21.03	18.86	(2.53)	9.83	3.23	11.68	9.34	12.51	17.20
S&P 500 Sec/Information Technology	19.86	19.86	(0.29)	38.83	13.85	5.92	20.12	15.44	22.58	18.64	16.54	20.02
S&P 500 Sec/Materials	10.30	10.30	(14.70)	23.84	16.69	(8.38)	6.91	(0.43)	9.48	5.30	8.14	12.40
S&P 500 Sec/Real Estate	17.53	17.53	(2.22)	10.85	3.39	4.68	30.19	21.00	8.04	10.75	10.31	20.29
S&P 500 Sec/Commun Services	13.98	13.98	(12.53)	(1.25)	23.49	3.40	2.99	7.75	1.40	5.20	7.63	9.73
S&P 500 Sec/Utilities	10.84	10.84	4.11	12.11	16.29	(4.85)	28.98	19.33	9.20	10.90	11.57	12.88

## Global & International Equity Index Data

Global	Qtd	Ytd	2018	2017	2016	2015	2014	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr
MSCI ACWI	12.33	12.33	(8.93)	24.62	8.48	(1.84)	4.71	3.16	11.28	7.03	9.02	12.59
MSCI ACWI Small Cap	13.22	13.22	(14.03)	24.32	12.10	(0.63)	2.20	(2.29)	10.41	5.99	9.21	14.77
MSCI World	12.65	12.65	(8.20)	23.07	8.15	(0.32)	5.50	4.61	11.32	7.38	9.80	13.02
MSCI World Small Cap	13.84	13.84	(13.48)	23.19	13.25	0.12	2.32	(1.05)	10.89	6.46	9.98	15.23
<b>International</b>												
MSCI ACWI Ex USA	10.44	10.44	(13.78)	27.77	5.01	(5.25)	(3.44)	(3.74)	8.61	3.05	5.21	9.35
MSCI ACWI Ex USA Growth	12.42	12.42	(14.10)	32.47	0.50	(0.91)	(2.29)	(2.66)	8.83	4.39	6.06	9.85
MSCI ACWI Ex USA Value	8.46	8.46	(13.45)	23.35	9.59	(9.59)	(4.60)	(4.82)	8.38	1.66	4.32	8.81
MSCI EAFE	10.13	10.13	(13.36)	25.62	1.51	(0.39)	(4.48)	(3.22)	7.81	2.81	6.13	9.47
MSCI EAFE Growth	12.18	12.18	(12.48)	29.34	(2.66)	4.47	(4.06)	(0.88)	8.03	4.33	6.88	10.14
MSCI EAFE Value	8.08	8.08	(14.26)	22.12	5.68	(5.22)	(4.92)	(5.56)	7.55	1.24	5.31	8.74
MSCI ACWI Ex USA Small	10.36	10.36	(17.89)	32.12	4.29	2.95	(3.69)	(9.13)	7.41	3.64	6.43	12.26
MSCI EAFE Small Cap	10.76	10.76	(17.58)	33.50	2.55	9.94	(4.63)	(9.01)	7.91	4.84	8.59	13.14
MSCI EM	9.97	9.97	(14.25)	37.75	11.60	(14.60)	(1.82)	(7.06)	11.10	4.06	3.06	9.31
MSCI EM Growth	12.07	12.07	(18.04)	47.12	7.87	(11.12)	(0.09)	(9.29)	12.04	5.30	4.66	10.24
MSCI EM Value	7.90	7.90	(10.28)	28.67	15.48	(18.16)	(3.60)	(4.79)	10.08	2.72	1.37	8.30
MSCI EM Small	7.80	7.80	(18.30)	34.22	2.56	(6.57)	1.34	(12.11)	6.28	2.07	2.91	10.69
MSCI Frontier Emerging Market	9.51	9.51	(14.37)	27.19	5.41	(17.99)	7.52	(7.77)	6.13	0.64	3.29	7.99
<b>Regional</b>												
MSCI Europe	11.00	11.00	(14.32)	26.24	0.22	(2.34)	(5.68)	(3.10)	7.22	1.63	6.07	9.61
MSCI Far East	7.96	7.96	(11.83)	26.24	2.62	7.02	(2.33)	(5.55)	9.16	6.29	6.84	8.95
MSCI Pacific	8.66	8.66	(11.78)	24.96	4.46	3.21	(2.47)	(3.58)	9.12	5.24	6.32	9.34
MSCI EM Europe&Middle East	6.38	6.38	(7.49)	16.50	22.81	(14.68)	(28.40)	(3.37)	7.75	(1.65)	(2.02)	5.67
MSCI EM Far East	11.72	11.72	(16.18)	44.02	7.63	(9.93)	3.24	(8.13)	12.28	6.43	5.88	11.13
MSCI EM Asia	11.13	11.13	(15.16)	43.26	6.53	(9.47)	5.27	(6.53)	12.17	6.57	5.97	11.17
MSCI EM Latin America	7.94	7.94	(6.23)	24.15	31.47	(30.82)	(12.03)	(6.38)	11.49	0.03	(2.64)	5.57
MSCI EM Eastern Europe	8.87	8.87	(3.58)	18.08	38.77	(3.99)	(37.11)	0.85	14.38	2.90	0.81	8.38

## Global Fixed Income & Specialty Index Data

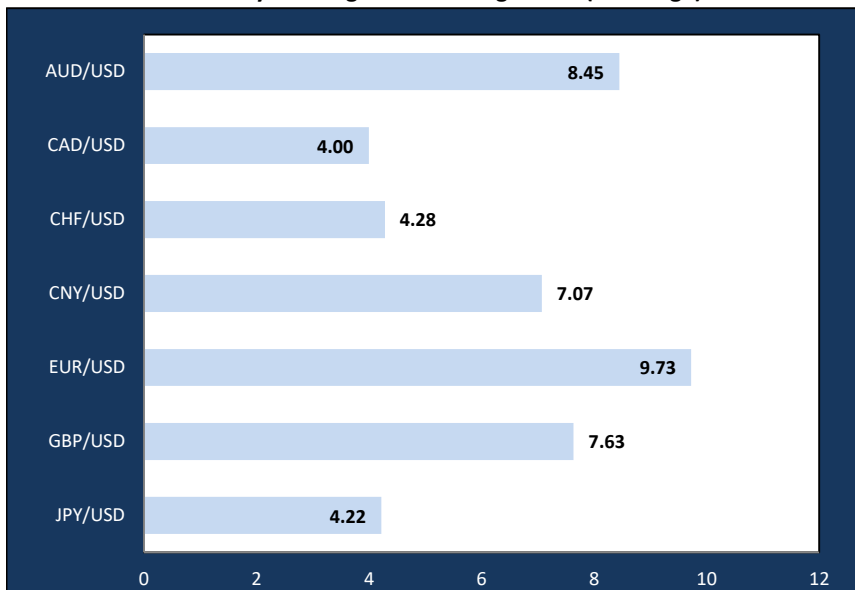
U.S. Broad Market	Qtd	Ytd	2018	2017	2016	2015	2014		1 Yr	3 Yr	5 Yr	7 Yr	10 Yr
BBgBarc US Agg Bond	2.94	2.94	0.01	3.54	2.65	0.55	5.97		4.48	2.03	2.74	2.48	3.77
BBgBarc US Govt/Credit Interm	2.32	2.32	0.88	2.14	2.08	1.07	3.13		4.24	1.66	2.12	2.00	3.15
<b>Corporate</b>													
ICE BofAML All US Convertible	10.26	10.26	0.15	13.70	10.43	(2.99)	9.44		7.84	12.10	7.13	9.75	13.00
ICE BofAML US Corporate	5.01	5.01	(2.25)	6.48	5.96	(0.63)	7.51		4.95	3.68	3.74	3.98	6.77
ICE BofAML US Corp&Govt	3.26	3.26	(0.32)	4.03	2.92	0.30	6.48		4.56	2.11	2.88	2.66	4.01
ICE BofAML US HY Master II	7.40	7.40	(2.26)	7.48	17.49	(4.64)	2.50		5.94	8.69	4.70	6.26	11.24
ICE BofAML Single-B US HY	7.27	7.27	(1.54)	6.76	16.94	(5.00)	1.32		6.11	8.78	4.31	5.94	10.26
ICE BofAML 1-3Y BB US Cash Pay HY	3.77	3.77	1.34	3.64	8.46	1.20	1.92		5.40	4.98	3.83	4.61	7.45
Credit Suisse Leveraged Loan	3.78	3.78	1.14	4.25	9.88	(0.38)	2.06		3.33	5.87	3.83	4.63	7.95
<b>Government</b>													
BBgBarc US Treasury 1-3 Yr	0.99	0.99	1.56	0.42	0.86	0.56	0.63		2.73	0.98	0.98	0.84	1.04
BBgBarc US Treasury 3-5 Yr	1.59	1.59	1.49	0.99	1.33	1.60	2.18		3.87	0.96	1.75	1.46	2.12
BBgBarc US Treasury 5-7 Yr	2.17	2.17	1.44	1.87	1.30	1.98	4.84		4.96	1.05	2.47	1.95	2.87
BBgBarc US Treasury 7-10 Yr	2.87	2.87	0.90	2.55	1.05	1.63	9.00		-N/A	0.91	3.03	2.46	3.45
BBgBarc US Treasury 10-20 Yr	3.82	3.82	(0.02)	4.19	1.04	1.40	14.53		6.43	1.15	3.94	3.28	4.30
BBgBarc US Treasury 20+ Yr	4.73	4.73	(2.00)	8.98	1.43	(1.59)	27.48		6.20	1.50	5.73	4.47	5.05
BBgBarc US Treasury US TIPS	3.19	3.19	(1.26)	3.01	4.68	(1.44)	3.64		2.70	1.70	1.94	1.21	3.41
FTSE WGBI NonUSD	1.52	1.52	(1.82)	10.33	1.81	(5.54)	(2.68)		(4.55)	0.87	(0.06)	(0.01)	2.02
FTSE WGBI	1.74	1.74	(0.84)	7.49	1.60	(3.57)	(0.48)		(1.57)	0.95	0.59	0.52	2.20
JPM EMBI Global Core	7.42	7.42	(5.17)	10.46	10.17	0.81	7.60		3.96	5.58	5.29	5.23	8.52
<b>Municipal</b>													
ICE BofAML 1-3Y US Muni	1.03	1.03	1.76	0.99	0.33	0.76	0.72		2.50	1.20	1.06	1.03	1.39
ICE BofAML 3-5Y US Muni	1.77	1.77	1.82	2.23	(0.18)	1.72	1.98		3.83	1.54	1.75	1.76	2.56
ICE BofAML 5-10Y US Muni	2.92	2.92	1.49	4.69	(0.43)	3.28	6.06		5.94	2.33	3.14	2.98	4.21
ICE BofAML 3-15Y US Muni	2.78	2.78	1.45	4.64	(0.06)	3.16	6.57		5.49	2.38	3.19	3.04	4.23
<b>Specialty</b>													
Alerian MLP	16.82	16.82	(12.42)	(6.52)	18.31	(32.59)	4.80		15.11	5.70	(4.73)	0.67	10.13
Bloomberg Commodity	6.32	6.32	(11.25)	1.70	11.77	(24.66)	(17.01)		(5.25)	2.23	(8.92)	(7.15)	(2.56)
HFRI Fund of Funds Composite			(3.48)	7.76	0.49	(0.26)	3.37						
Wilshire US REIT	16.02	16.02	(4.84)	4.18	7.24	4.23	31.78		19.34	5.46	9.00	9.03	18.69

# U.S. Capital Market Composite

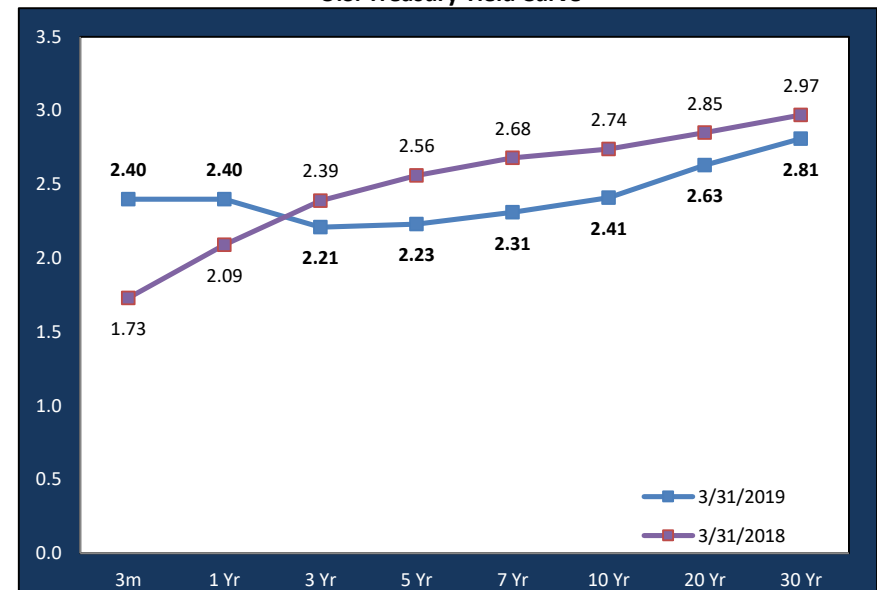
	Aggregate	High Yield	Corporate	EM Debt	Floating-Rate	MBS
<b>Max Spread Date</b>	12/3/08	12/15/08	12/3/08	10/24/08	12/19/08	12/3/08
<b>Min Spread Date</b>	2/23/05	6/1/07	3/11/05	6/1/07	3/31/06	7/27/10
<b>Spread on 3/31/19</b>	44	405	119	351	463	35
<b>Spread on 12/31/18</b>	54	533	153	415	551	35
<b>Spread on 12/31/17</b>	36	358	93	285	405	25
<b>Spread on 12/31/16</b>	43	422	123	342	465	15

	Fwd. P/E	P/CF	P/B	Div. Yld (TTM)
<b>MSCI ACWI</b>	14.93	10.71	2.17	2.00
<b>MSCI EAFE</b>	13.48	9.40	1.56	3.07
<b>MSCI EM</b>	11.11	7.92	1.63	2.04
<b>MSCI Euro</b>	12.88	9.21	1.54	3.16
<b>MSCI Pacific ex Japan</b>	15.31	9.03	1.63	4.43
<b>S&amp;P 500</b>	17.02	12.96	3.17	1.85

Currency Exchange Rate Trailing 1 Year (% Change)



U.S. Treasury Yield Curve



## U.S. Economic Signpost

	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
<b>Employment</b>												
Unemployment Rate	3.8%	3.8%	4.0%	3.9%	3.7%	3.8%	3.7%	3.8%	3.9%	4.0%	3.8%	3.9%
U-6 Unemployment Rate	7.5%	7.7%	8.8%	7.5%	7.2%	7.0%	7.1%	7.4%	7.9%	8.1%	7.3%	7.4%
Labor Force Participation Rate	63.0%	63.2%	63.2%	63.1%	62.9%	62.9%	62.7%	62.7%	62.9%	62.9%	62.8%	62.8%
Avg Weekly Earnings (Yr/Yr)	3.2%	3.1%	3.5%	3.3%	3.0%	3.6%	3.6%	3.5%	3.1%	3.2%	3.2%	3.1%
Avg Hourly Earnings (Yr/Yr) (Wage Growth)	3.2%	3.4%	3.2%	3.3%	3.3%	3.3%	3.0%	3.2%	2.8%	2.9%	2.9%	2.8%
Nonfarm Payrolls	196	33	312	227	196	277	108	282	178	262	270	196

<b>Inflation</b>												
CPI	1.9%	1.5%	1.6%	1.9%	2.2%	2.5%	2.3%	2.7%	2.9%	2.9%	2.8%	2.5%
Core CPI	2.0%	2.1%	2.2%	2.2%	2.2%	2.1%	2.2%	2.2%	2.4%	2.3%	2.2%	2.1%
PCE	-	-	1.4%	1.8%	1.8%	2.0%	2.0%	2.2%	2.4%	2.3%	2.3%	2.0%
Core PCE	-	-	1.8%	2.0%	1.9%	1.8%	2.0%	1.9%	2.0%	2.0%	2.0%	1.9%

<b>Economic Output</b>												
GDP Growth	3.2%	3.2%	3.2%	2.2%	2.2%	2.2%	3.4%	3.4%	3.4%	4.2%	4.2%	4.2%
ISM Purchasing Managers Index	55.3	54.2	56.6	54.3	59.3	57.7	59.8	61.3	58.1	60.2	58.7	57.3
ISM Production Index	55.8	54.8	60.5	54.1	60.6	59.9	63.9	63.3	58.5	62.3	61.5	57.2
Industrial Production Index	110.2	110.3	110.2	110.6	110.5	109.9	109.7	109.5	108.7	108.2	107.4	108.2

<b>Consumer Sentiment</b>												
Michigan Consumer Confidence	98.4	93.8	91.2	98.3	97.5	98.6	100.1	96.2	97.9	98.2	98.0	98.8
Personal Income	-	-	-0.2%	1.0%	0.3%	0.4%	0.1%	0.3%	0.2%	0.3%	0.1%	0.0%
Retail Sales (Mo/Mo)	1.7%	-0.3%	0.8%	-1.8%	0.0%	1.1%	0.0%	-0.1%	0.5%	0.1%	1.0%	0.5%

<b>Housing Market</b>												
Housing Starts (Mo/Mo)	-0.3%	-12.0%	13.9%	-5.5%	-0.2%	-2.3%	-3.4%	8.1%	0.6%	-11.4%	4.2%	-3.8%
Building Permits (Mo/Mo)	-1.7%	-2.0%	-0.7%	0.3%	4.5%	-0.4%	1.7%	-4.1%	0.9%	-0.7%	-4.6%	-0.9%
Existing Home Sales (Mo/Mo)	-4.9%	11.2%	-1.4%	-4.0%	-0.2%	0.8%	-3.2%	-0.7%	0.0%	-0.2%	-0.6%	-1.5%
Case-Shiller Yr/Yr Change	-	-	3.5%	4.1%	4.5%	5.0%	5.2%	5.6%	5.9%	6.3%	6.4%	6.6%