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Q1 2019
MARKET & ECONOMIC REVIEW

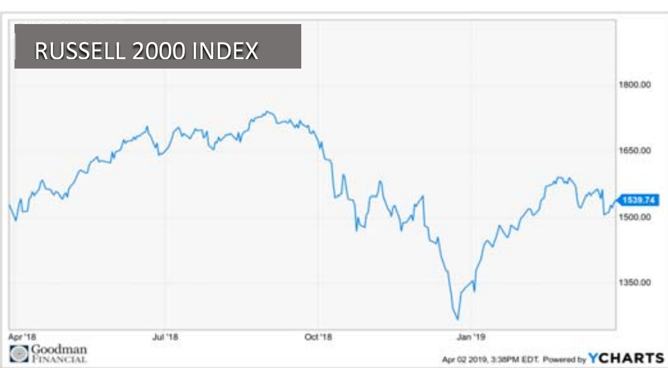
MAJOR EQUITY MARKET INDICES

INDEX	DESCRIPTION	12/31/18	LOW CLOSE	HIGH CLOSE	3/31/19	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	2,506.85	2,447.89	2,854.88	2,834.40	+13.1%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	23,327.46	22,686.22	26,091.95	25,928.68	+11.2%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	6,635.28	6,463.50	7,838.96	7,729.32	+16.5%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,348.56	1,330.83	1,590.06	1,539.74	+14.2%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies.	20,014.77	19,561.96	21,822.04	21,205.81	+6.0%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	965.67	949.57	1,070.95	1,058.13	+9.6%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom.	337.65	333.92	384.29	379.09	+12.3%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

- Major stock indices worldwide rebounded nicely from the major losses suffered in Q4 last year, posting solid returns during the first quarter of 2019, with all the major U.S. indices showing double digit returns. In fact, as measured by the S&P 500, the Q1 2019 return of +13.1% was the best first quarter since 1998.
- Despite suffering losses in March, the small-cap Russell 2000 index bested its large cap S&P 500 peer in Q1 with a +14.2% return. At quarter-end, the Russell 2000 was up 21.5% from its Christmas Eve low value but was still 11.6% below its high value last Fall.
- The gains in Q1 were broad-based with every S&P 500 sector showing positive returns. The Information Technology sector led with a 19.4% return in Q1, while the Healthcare sector brought up the rear with a 6.1% return.
- The MSCI Emerging Markets Index was up 9.6% in Q1, underperforming major U.S. and European indexes. These markets had suffered in 2018 from concerns about fallout from global trading wars, especially since mainland China and Hong Kong combined comprise a significant part of the index. Consequently, reduced trade tensions in Q1 were positively received by those markets.
- European stocks as represented by the STOXX Europe 600 were up 12.3% in Q1, roughly in line with most U.S. equity indexes. This is a positive development as European stocks have lagged U.S. stocks the past few years.
- Japanese stocks as represented by the Nikkei 225 index were up 6.0% in Q1, lagging most other developed world markets. Japan's export-driven economy is highly dependent on Europe and China where economic growth is slowing.



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FIXED INCOME RATES

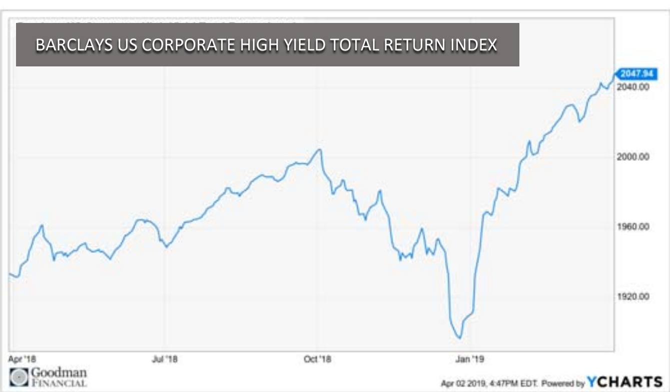
DESCRIPTION	12/31/18	3/31/19	QTD CHANGE IN BASIS POINTS	DESCRIPTION	12/31/18	3/31/19	QTD CHANGE IN BASIS POINTS
90 Day Treasury Bill	2.45%	2.40%	↓ -5	Federal Funds Rate Target	2.25%-2.50%	2.25%-2.50%	0
10 Yr. Treasury Note	2.69%	2.41%	↓ -28	Prime Rate (U.S.)	5.50%	5.50%	0
30 Yr. Treasury Bond	3.02%	2.81%	↓ -21	LIBOR (3 month)	2.81%	2.60%	↓ -21
15 Yr. Mortgage Rate	3.89%	3.57%	↓ -32	5-Year CD	2.02%	2.03%	↑ +1
30 Yr. Mortgage Rate	4.50%	4.10%	↓ - 40	New-car Loan (48 month)	4.58%	4.70%	↑ +12

***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall Street Journal, U.S. Treasury

FIXED INCOME MARKETS COMMENTARY

- Bonds posted nice gains in Q1 as interest rates continued to fall in the quarter. The yield on the 10-year Treasury decreased in Q1 from 2.69% to 2.41%, as the market expressed concerns about slowing U.S. and global economic growth. Due to this decrease in interest rates, the widely followed Barclay's Aggregate Bond Composite Index posted a 2.9% return for Q1. The yield on the 10-year Treasury Note has now declined meaningfully to 2.41% from 3.05% at September 30, 2018.
- High-yield bonds, as measured by the Bloomberg Barclays High Yield Corporate Bond Index significantly outperformed other bond indexes in Q1, up 7.3%. As seen on the attached chart, this allowed the index to more than recover its substantial losses sustained in Q4 last year due to fears at that time of a perceived looming economic recession and the subsequent potential for increased corporate defaults.
- The Federal Open Markets Committee of the U.S. Federal Reserve (the Fed) voted during its March 2019 meeting to hold the Fed Funds Target Rate steady at its range of 2.25% to 2.50%. As mentioned in our ***March 2019 Market Commentary***, the Fed had previously expected to implement at least two more rate hikes in 2019, but due to slowing economic growth and sputtering equity markets, is now projecting no further rate hikes for the rest of 2019. As usual, upcoming economic and inflation data will guide the Fed's decisions, so stay tuned!
- Mortgage rates continued to drop in Q1 and are now down to 4.10% from 4.74% at September 30, 2018. This is good news for the housing market, which had seen weakness in existing and new home sales for most of 2018. The decrease in mortgage rates is the likely cause of a recent significant spike in existing home sales, as seen below.



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U.S. ECONOMIC HEALTH

INDICATOR	DESCRIPTION	12/31/18	3/31/19	QTD CHANGE
Average Weekly Initial Claims for Unemployment Insurance (Thousands)	The number of new filings for unemployment insurance benefits. **Claims stayed low for another quarter, reflecting strength in the labor market.** *Most economists believe claims below 300,000 indicate a healthy labor market environment.*	231	202	-12.6%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. **The unemployment rate remains near low levels last seen in late 2000.** *The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%.*	3.9%	3.8%	-10 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wages rose during the quarter, likely a result of a tightening labor market. This suggests more disposable income for consumers and may attract more workers to join the labor force.**	$948.06	$955.65	+0.80%
Index of Consumer Sentiment	This index reflects consumer attitudes towards the state of the economy. **Consumer sentiment continues to stay near post-recession highs.**	98.3	98.4	+0.1%
Manufacturers' New Orders for Consumer Goods and Materials (Millions) *	The number of new orders placed for consumer goods. **New orders decreased, likely due to the government shutdown and to worse than normal winter weather.**	$216,957	$209,531	-3.4%
Manufacturers' New Orders for Nondefense Capital Goods, Excluding Aircraft (Millions) *	This index is the producer's counterpart of new orders of consumer goods and materials. **New orders for nondefense capital goods increased only very slightly during the quarter.**	$68,684	$68,873	+0.3%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization increased modestly and remains within the mid-to high 70% range it has been in since 2012.**	76.2%	77.1%	+90 bps

***These items are as of 2/28/19, the date of the most recently published statistics**

Sources: Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor

U.S. ECONOMIC HEALTH

- As indicated by the number of green arrows above, the U.S. economy continues to be healthy and growing. Yet, some leading economic indicators like the Institute for Supply Management (ISM) Purchasing Managers' Index® (PMI) also show the U.S. economy in growth mode, but at a slowing rate. Indicators like this are something we are watching closely for signs of further weakening.
- As seen in the chart below, Initial Claims for Unemployment Insurance at the end of Q1 dropped to the lowest level since December 1969 – even while the U.S. population has grown 50% since then. Several other labor market indicators all point to a very tight labor market that is causing upward pressure on wages that will begin to either reduce corporate earnings or, if able to be passed along to consumers, should show up in higher core inflation rates. In fact, average hourly earnings grew at a 3.3% pace for the past twelve months.
- As seen below, U.S. Core CPI (i.e. ex food and energy) grew at a 2.1% annualized rate for Q1 2019, keeping in the 1.5%-2.5% band it has been in for the past few years. Given the tight labor markets and the observed 3.3% wage growth mentioned above, we are left to wonder if or when core inflation begins to drift higher. Certainly, this has given the Fed room to pause their rate hikes for the time being.