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ECONOMY: Global Growth Slowing

GOV'T OPEN FOR BUSINESS…FOR NOW

The longest partial government shutdown on record came to an end in late-January, but with only a tentative solution that funds the portion of the government that was closed until February 15. Based off of what has already transpired, economists estimate that the shutdown will directly reduce GDP growth in Q1 by about 0.3%, with a likely rebound in Q2 of a similar magnitude.

JOBS MARKETS STAYS STRONG

According the U.S. Labor Department, businesses created 304,000 jobs in January. This was far more than the 165,000 economists had estimated would be created. The transportation, leisure and hospitality, construction, and health care industries led the job gains. The unemployment rate rose slightly, to 4% from 3.9%. This marks the second straight month the unemployment rate has increased. However, it is increasing because more people are joining the labor market, which is a good sign for the economy.

FED TO BE "PATIENT"

The Federal Reserve held its first policy meeting of 2019, and as it was widely expected, left rates unchanged. With a unanimous decision, the Fed decided to keep its target range for the fed funds rate unchanged at 2.25% to 2.50%. Moreover, the tope of the policy statement was notably more dovish. The Fed removed its forward guidance, and noted that it *"will be patient as it determines what future adjustments to the target range"* may be appropriate.

LEADING INDICATORS REMAIN POSITIVE

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1% in December after a 0.2% increase in November, and a 0.3% decline in October. *"The US LEI declined slightly in December and the recent moderation in the LEI suggests that the US economic growth rate may slow down this year. While the effects of the government shutdown are not yet reflected here, the LEI suggests that the economy could decelerate towards 2% growth by the end of 2019."*

SLOWING GLOBAL ECONOMY…

- The Eurozone economy grew just 0.2% on a sequential basis in Q4, while the year-over-year pace of growth slowed to just 1.2%.
- The Italian economy shrank by 0.2% during Q4, following a 0.1% contraction in Q3. With two consecutive quarterly contractions in GDP, the country is now in a recession.
- Mexico's Q4 GDP growth figures fell short of expectations, as the year-over-year pace of growth slowed to 1.8%.
- Canada's GDP figures fell for the second time in 3 months – falling 0.1% in November. The central bank sees growth slowing to 1.3% in 2018 and 0.8% in Q1 2019. Canadian GDP growth has been slowed by the drop in oil prices.
- China's January PMI figures werestill below 50, the target number for sector growth. The manufacturing PMI came in at 49.5, while the services PMI climbed to 54.7.

IMF CALLS GLOBAL SLOWDOWN TOO

The International Monetary Fund recently warned governments of a possible economic "storm" as global growth undershoots expectations. IMF Managing Director, Christine Lagarde noted, *"The bottom line – we see an economy that is growing more slowly than we had anticipated."* Last month, the IMF lowered its global economic growth forecast for 2019 from 3.7% to 3.5%. Risks include trade tensions and tariffs, financial tightening of monetary policy, Brexit uncertainty, and an accelerated slowdown of the Chinese economy.

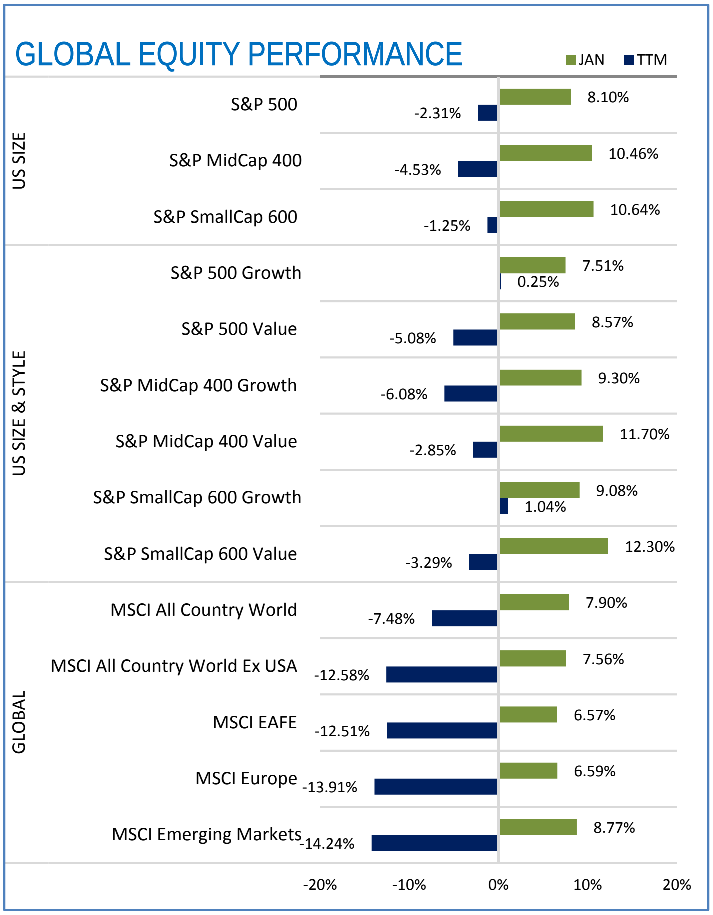
BREXIT FAST APPROACHING

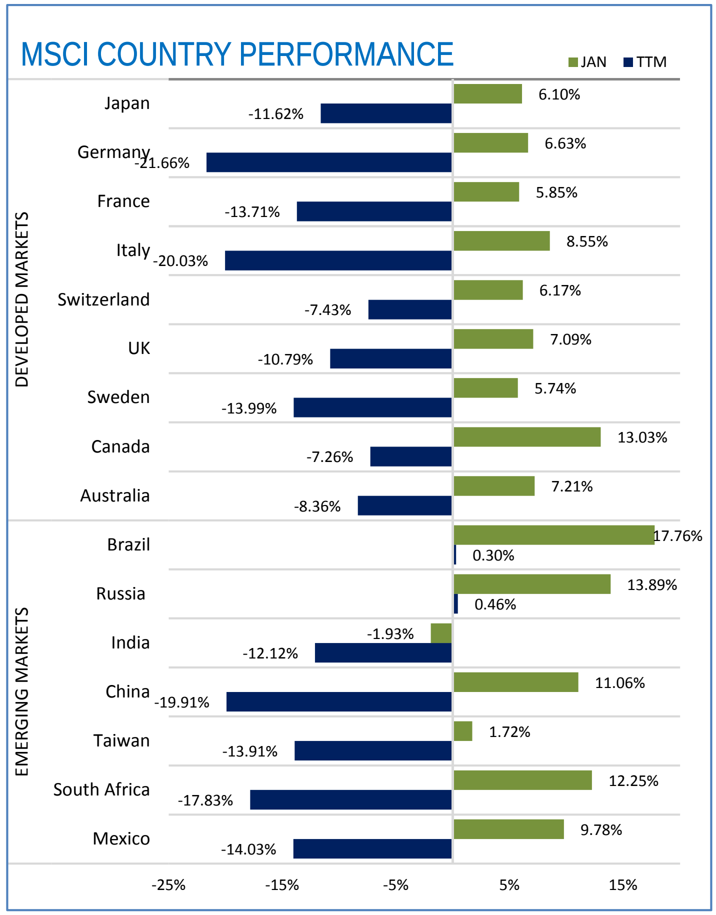
U.K. Parliament considered a number of paths forward for Brexit, but did not appear to be in favor of any proposals that were acceptable to the European Union. Parliament is scheduled to vote on Prime Minister May's deal again in mid-February, and another failure to pass the deal could see the U.K. push for an extension of the March Brexit deadline.

ECB STANDS READY

The ECB again acknowledged that economic risks had moved to the downside, while policymakers have become more vocal in their concerns around the pace of economic growth.

GLOBAL EQUITIES: The January Effect? Global Equities Rally





Strong Sales & Earnings Boost Equities

After the worst December since 1931, the S&P 500 posted its best January since 1987 with a gain of 8.10%. Many are hoping for some truth to the old adage that "as January goes, so goes the year, " which according to S&P is correct 71.1% of the time. January's gain pushed the index out of correction territory and the focus is now squarely on earnings. With 57.7% of the market value reported, earnings are beating the recently lowered estimates, with sales coming in stronger than expected and set to post a quarterly record. To date, 216 issues have reported, with 71% beating, 24% missing, and 5% meeting earnings expectations.

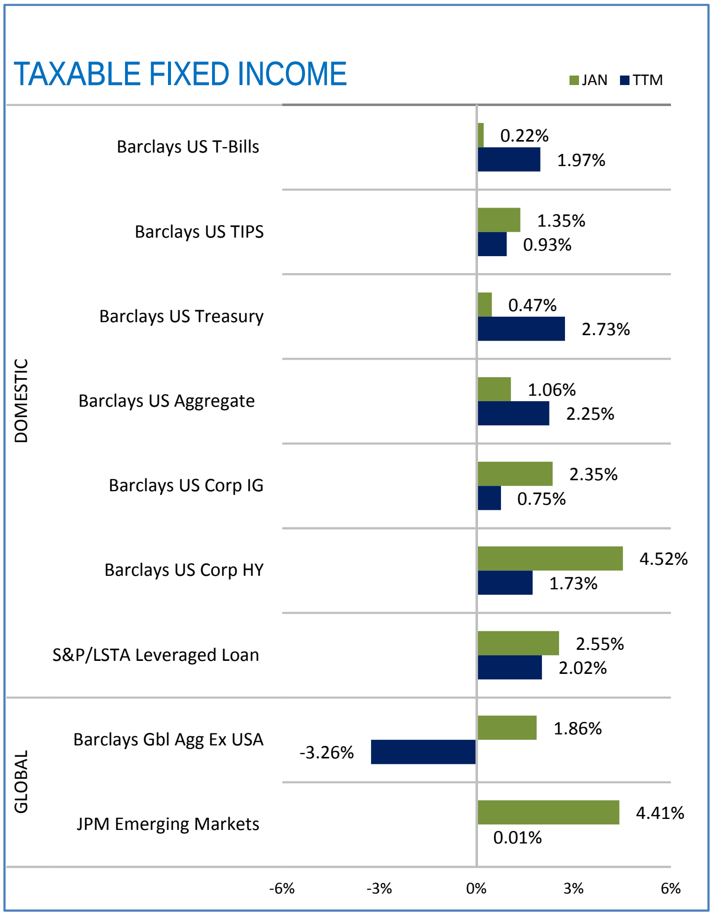
Europe Joins The Rally

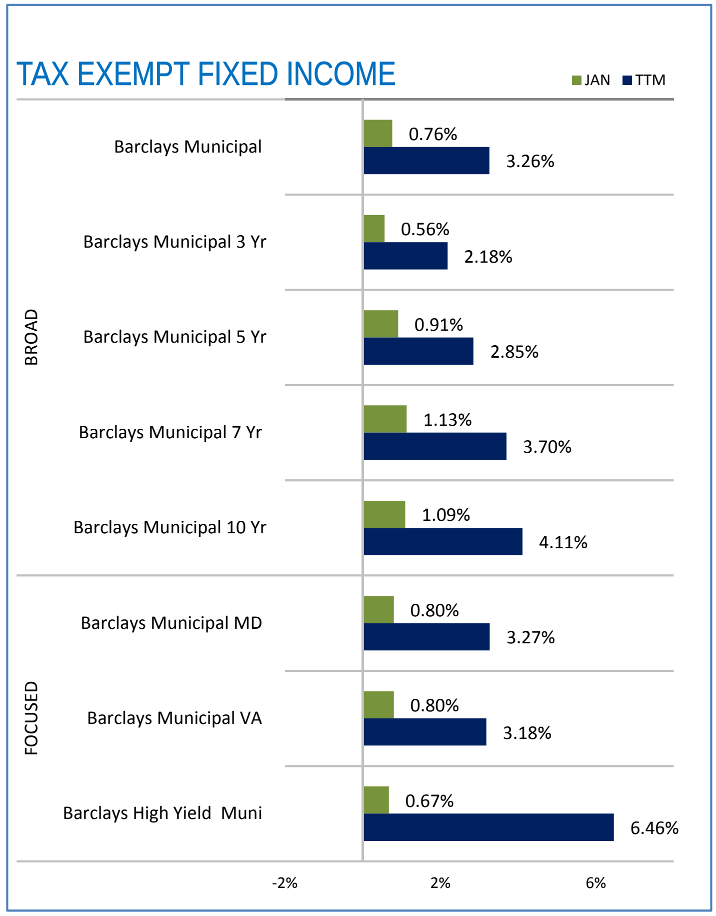
European stocks joined the global equity market rally in January and were boosted by signs of progress in U.S.-China trade negotiations. Within Europe, there is speculation that the ECB may keep interest rates at ultra-low levels for longer than previously expected, considering the strained Brexit negotiations, weakening economic data, and low inflation. Bouncing back from a dismal fourth quarter, the MSCI Europe Index gained 6.59% in January.

Emerging Market Start Strong

Global emerging equity markets enjoyed a strong start to the year with all regions registering gains, and the MSCI Emerging Markets Index up 8.77%. . Favorable developments, including a more patient U.S. Federal Reserve, progressive trade discussions, and stronger than expected commodity prices benefitted emerging market equities. Latin America led the advance, followed by EMEA (Europe, Middle East and Africa). Asia also performed well with market sentiment towards China bolstered by positive US-China trade talks. China ended the month up 11.06%. Favorable economic and political developments pushed Brazilian equities higher by 17.76%, while reduced sanctions and higher oil prices propelled Russian equities up 13.89%.

FIXED INCOME: Fed's Stance A Positive For Fixed Income





Fed Changes Stance

A shift in the Federal Reserve's policy stance was the highlight of the month. The Fed clarified it will be "patient" with future rate hikes, and flexible with the pace of its balance sheet runoff. Citing slower global economic growth, muted inflation pressures and elevated political uncertainty the Fed removed the reference to "further gradual increases" in the federal funds rate, which had been part of every Fed statement since 2015. Rather, the Fed noted that it will be "*patient as it determines what future adjustments…may be appropriate*."

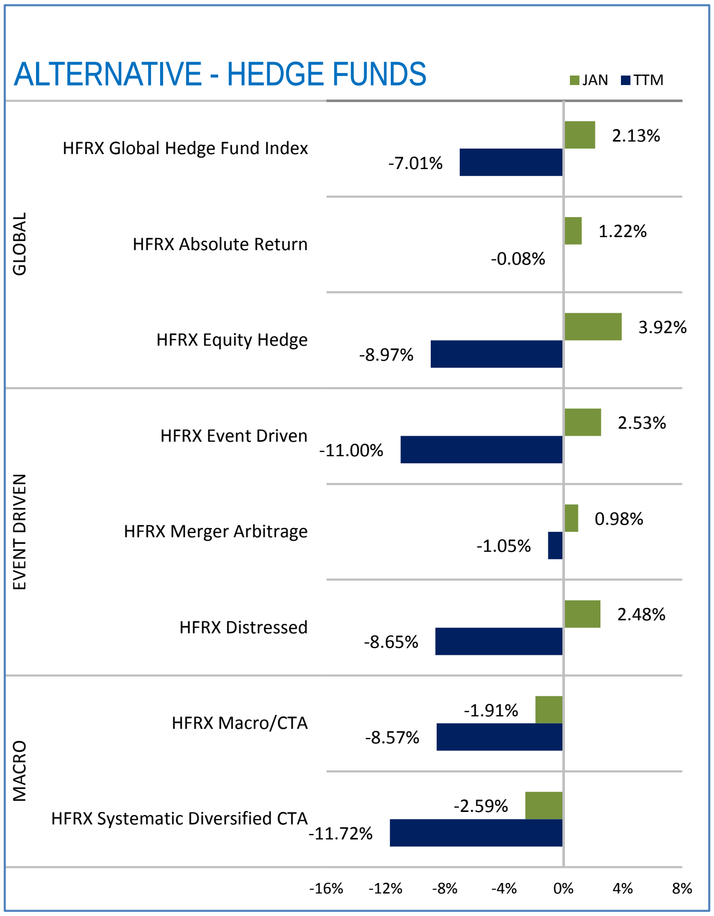
Bonds Follow The Fed

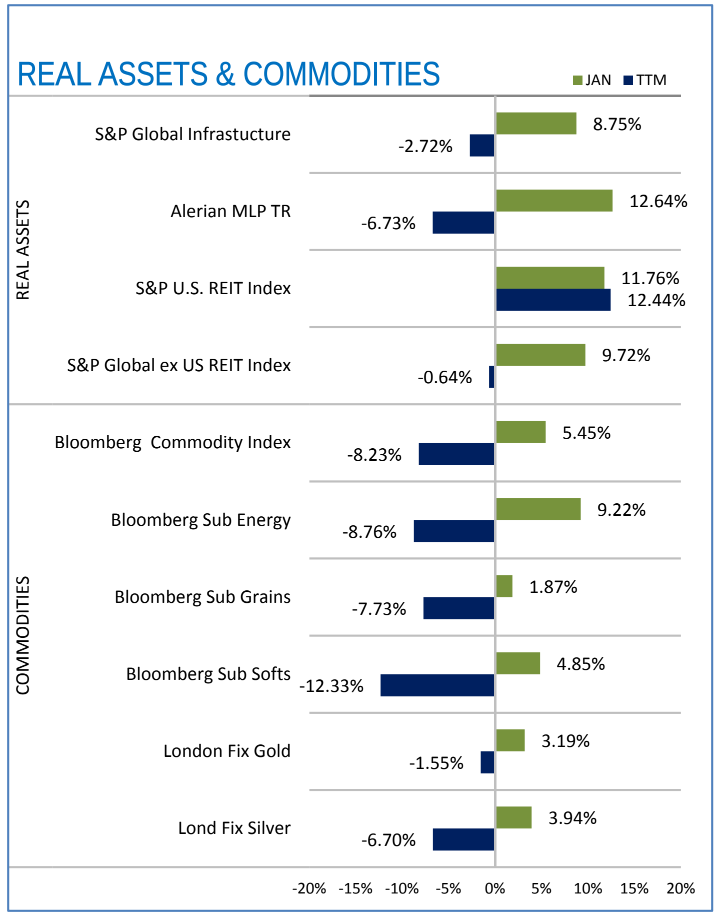
Fixed income returns were positive across all sectors as the December weakness in investor demand largely reversed to start the new year. January saw the yield on the benchmark 10-year Treasury decline 0.05% to 2.63% while the Barclays U.S. Aggregate Bond Index gained 1.06%. Investment Grade Corporates gained 2.35%, and posted the highest total return among investment-grade sectors, nearly reversing the 2.51% decline of 2018. Credit sensitive sectors were among the best performers as High Yield Corporates gained 4.52% and Emerging Market debt gained 4.41%.

Muni's Continue to Rally

The municipal market began the new year with strong performance, building upon the solid year-end rally and strong relative 2018. The Barclays Municipal Bond Index gained 0.76% in January. Intermediate maturities generally outperformed both shorter and longer segments of the municipal curve due to strong demand from individual investors. There was little differentiation in performance across market sectors or investment grade rating categories, all of which provided positive returns for the month.

ALTERNATIVES: Alts Off To Good Start in 2019





Hedge Funds Rally With Markets

As the global financial markets surged in January to begin 2019, hedge funds joined the rally. The HFRX Global Hedge Fund Index gained 2.13%, while the HFRX Equity Hedge Index posted a gain of 3.92% for January. The HFRX Event Driven Index posted a gain of 2.53% with gains in Special Situations equity, Distressed and Merger Arbitrage strategies. Global macro strategies such as managed futures (CTA-commodity trading advisors) where one are that struggled to begin the year.

REITs Surge

REIT share prices rose sharply in January, as the S&P U.S. REIT index delivered a 11.76% return to investors. REITs outpaced the broader stock market, as the S&P 500 posted a total return of 8.1%. January was the strongest monthly performance for REITs since October 2011. Gains were widespread across the different REIT property types, with every property sector posting gains of 6% or more for the month. Timber REITs led the way with an 18.3% return, followed by Industrial REITs (15.3%) and Office REITs (14.5%).