



Monthly Market Commentary March 2019

ECONOMY: Growth Expected to Moderate

U.S. GDP GROWTH SLOWED

Economic growth in the U.S. slowed in the final part of 2018, with GDP posting a gain of just 2.2% in Q4. That was down from the previous estimate of 2.6% and leaves full-year growth at 2.9%. Consumer spending, government expenditures, and fixed investment all were revised lower and subtracted from GDP. Imports also were revised lower amid continuing tensions between the U.S. and its global trading partners.

JOBS POST BIG RECOVERY

After an unexpectedly weak February report, the jobs market surged ahead in March. According to the Labor Department, the U.S. economy added 196,000 jobs in March, outpacing most economists estimates. The February report was also revised higher to 33,000 from 20,000, while the unemployment rate remained unchanged at 3.8%.

FED "PAUSES"

The Federal Reserve's March meeting concluded with a unanimous decision to keep the range of the federal funds rate unchanged. This decision was widely expected, but the Fed also indicated there are likely no increases to be made in 2019. This was a substantial change in policy considering members estimated in December that two rate hikes would be appropriate in 2019 after four increases in 2018. The Fed downgraded its assessment of the economy, reducing growth projections from 2.5% to 2.1%.

CONSUMER CONFIDENCE REBOUNDS

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in February, after a flat January, and a 0.1% decline in December. *"The U.S. LEI increased in February for the first time in five months. February's improvement was driven by accommodative financial conditions and a rebound in stock prices, which more than offset weaknesses in the labor market components. Despite the latest results, the U.S. LEI's growth rate has slowed over the past six months, suggesting that while the economy will continue to expand in the near-term, its pace of growth could decelerate by year end."*

ECB PLANS TO HOLD RATES

The European Central Bank (ECB) released the minutes of its March policy meeting which pushed out the timing of when it expects to start raising interest rates. ECB policymakers had initially expected that rates would remain unchanged through summer 2019. However, due to recent signs of economic weakness that "pointed to a sizeable moderation in the pace of the economic expansion that would extend into the current year" as well as "the persistence of uncertainties," the ECB now plans to hold off through at least the end of this year.

BREXIT MESS

UK lawmakers have rejected Prime Minister May's proposals while also rejected the idea of a no-deal Brexit. PM May has requested an extension to Brexit to June 30th but there are strong signals of dissent from many EU members. The UK is due to leave the EU on April 12th if it is not granted the requested extension. As it stands, if the EU refuses to grant the extension to June 30th, the U.K. could be faced with a stark choice on Friday, April 12th — leave the EU without a deal in place or revoke the whole departure entirely.

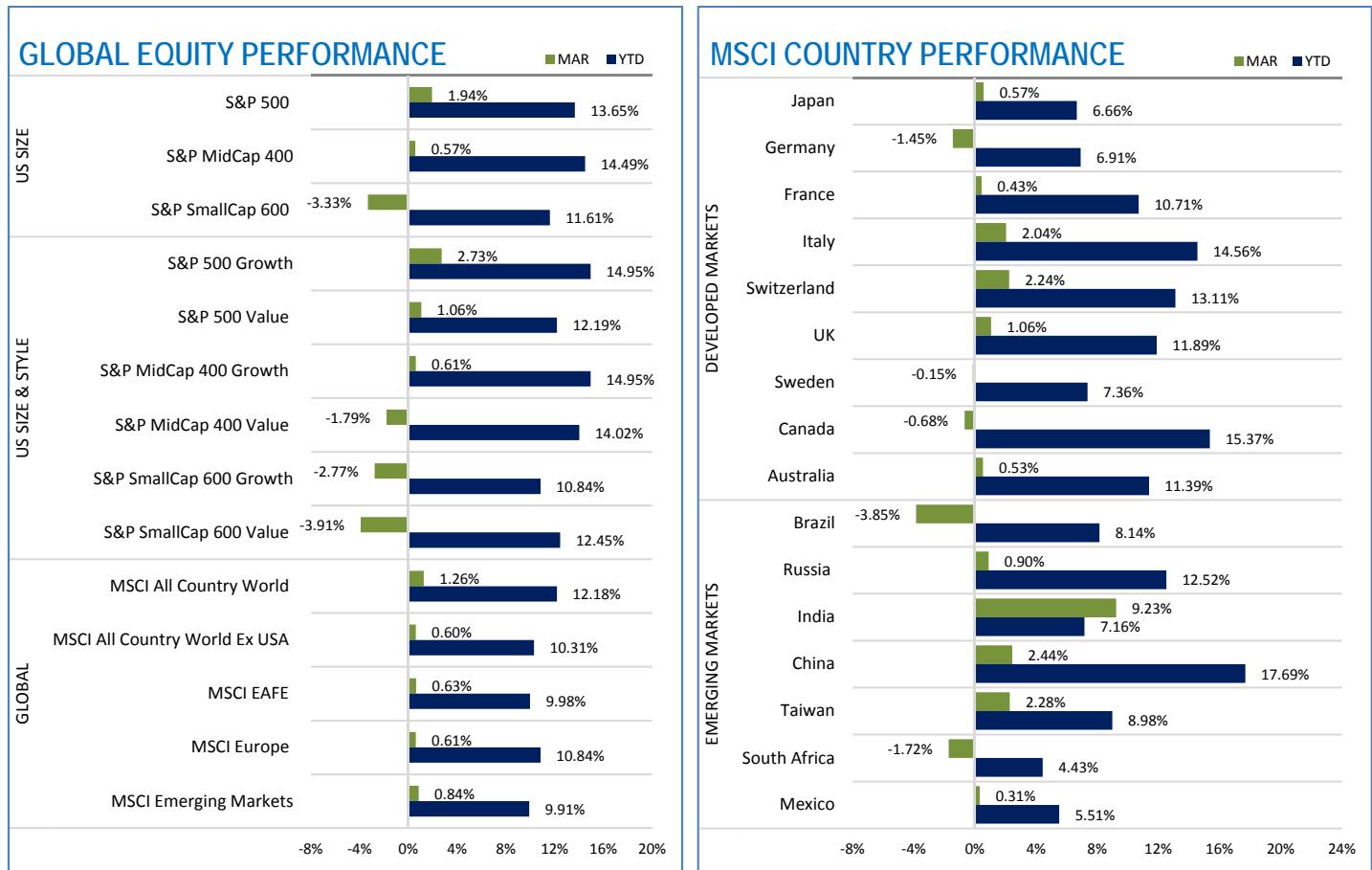
CHINA MANUFACTURING REBOUNDS

China's Caixin Manufacturing PMI rose to 50.8 in March, up from 49.9 in February and a multi-year low of 48.3 in January. The improvement over the past couple months offers some signs that the monetary and fiscal stimulus enacted by Chinese policymakers is beginning to take hold.

US-CHINA TRADE PROGRESSING

U.S. economic advisers recently noted that the U.S. and China are "closer and closer" to a trade deal. Chinese negotiators and their U.S. counterparts have discussed technology transfers, intellectual property protections, non-tariff measures, services, agriculture, trade balance and enforcement issues. The White House released a statement saying that "significant work remains, and the principals, deputy ministers, and delegation members will be in continuous contact to resolve outstanding issues." An official announcement is possible within the next four to six weeks.

GLOBAL EQUITIES: The End To a Strong Q1



EARNINGS & FED'S PAUSE HELP STOCKS

Better than expected earnings and a pause from the Federal Reserve, pushed the S&P 500 higher in March. The index posted a 1.94% gain after February's 3.21% gain, which was after the broad January rebound of 8.01%. The year's strong gains have the index within 1.48% of its high in late September 2018. March also marked the 10 year anniversary of the current bull market (3/9), making it the longest-running bull market in the S&P 500's history. Since the March 9, 2009 low, the S&P 500 is up 17.63% annually, or 412.16% on a cumulative basis.

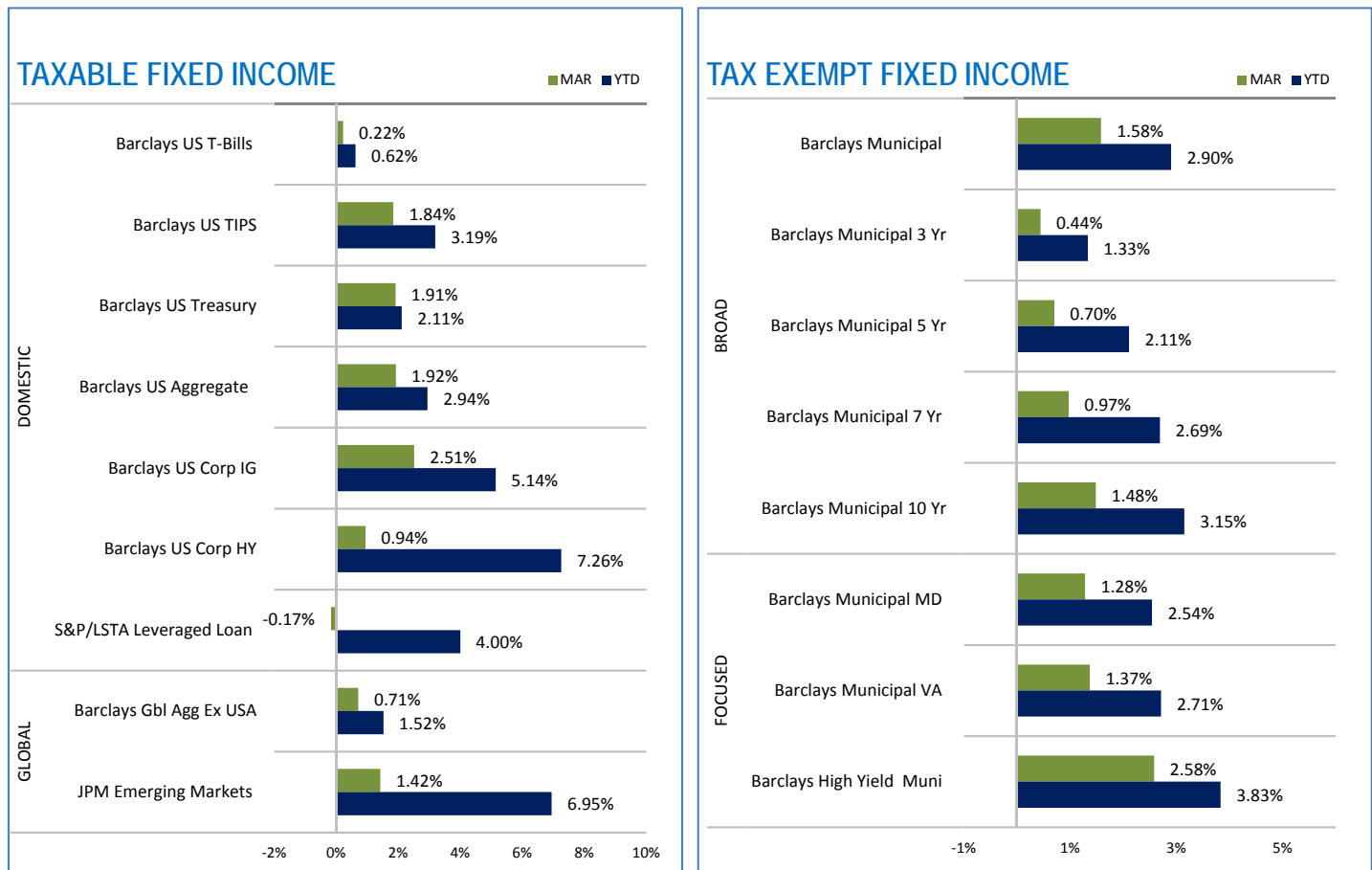
ECB EASES, EUROPE GAINS

European equity markets posted their third consecutive month of positive returns despite generally weak economic data. The European Central Bank (ECB) cut growth forecasts and revised their guidance to now leave interest rates unchanged "at least to the end of 2019". The MSCI Europe Index gained 0.61% for the month, with particular strength in Belgium, Denmark, and Switzerland.

INDIA BOOSTS EM

Global emerging equity markets edged slightly higher during March, gaining 0.84% for the month and 9.91% for the quarter. Asia, however, was the only region to register a gain for the month on the back of a 9.23% gain in India. Turkey was the weakest performer, falling 14.93%, as sentiment towards the country was weakened by currency concerns leading up to the municipal elections.

FIXED INCOME: Fed To Pause



CURVE INVERSION & RATE PAUSE

The 10-yr U.S. Treasury yield declined 0.30% in March to end the quarter at 2.41%, exactly where it finished in 2018. Rates fell across the yield curve, which continued to flatten and even invert over certain segments. An inverted yield curve, where short term rates are higher than long term rates, has historically been a recessionary signal. The yield spread between the 3-mo U.S. Treasury bill and 10-yr U.S. Treasury Note inverted for five consecutive days in late March by a modest 0.06%. At its March meeting, the Federal Reserve left rates unchanged and reduced the expectation for hikes in 2019 from two to zero with possibly one in 2020.

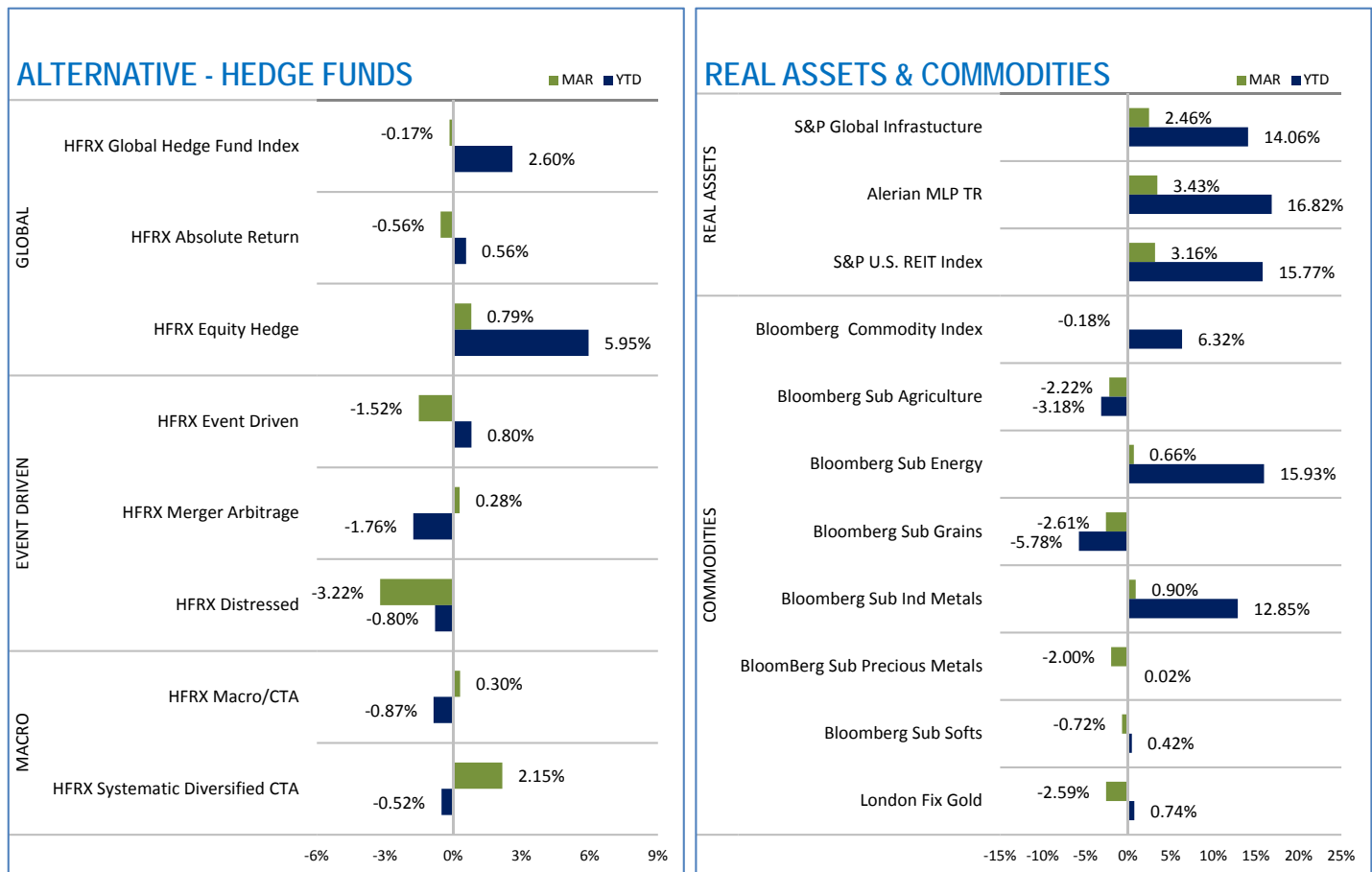
CREDIT SECTOR MOMENTUM

Fixed Income returns were positive across the board in Q1, with the Barclays U.S. Aggregate Bond Index gaining 1.92% in March and ending the quarter up 2.94%. With rates falling slightly, longer maturities continued to outperform shorter maturity bonds. Credit sectors also continued to outperform Treasuries. Investment grade and high yield corporates ended the quarter up 5.14% and 7.26% respectively. Emerging Market bonds also generated healthy gains, up 1.42% in March and 6.59% in Q1.

HIGH YIELD & LONG TERM IN MUNI MARKET

In the municipal market, credit and duration risk have rewarded investors thus far in 2019. Long maturities have outperformed both intermediate and short-term debt, with the Barclays Municipal 10 Year Index gaining 1.48% in March and 3.15% in Q1. Similarly, the Barclays High Yield Municipal Index gained 2.58% for the month and 3.83% in Q1.

ALTERNATIVES: REITS Finish Strong in Q1



MIXED BAG FOR HEDGE FUNDS

Global financial markets posted mixed performance in March to conclude a strong Q1 in 2019. Hedge funds posted mixed performance for the month with the HFRX Global Hedge Fund Index falling 0.17%. The HFRX Equity Hedge Index posted a gain of 0.79% for March, primarily due to fundamental equity and market neutral strategies. The HFRX Event Driven Index, however, posted a decline of 1.52% with declines in special situations and distressed strategies offset by small gains in merger arbitrage.

REITS OUTPERFORM IN Q1

REIT returns were higher in March and outperformed the broader market during both the month and the first quarter of the year. Solid gains were posted across most REIT sectors. The S&P U.S. REIT Index rose 3.16% percent in March, while the S&P 500 gained only 1.94%. For Q1, REITs outperformed U.S. equities by a little more than 2%. REITs continue to benefit from a strong economy, healthy demand, and stable interest rates.