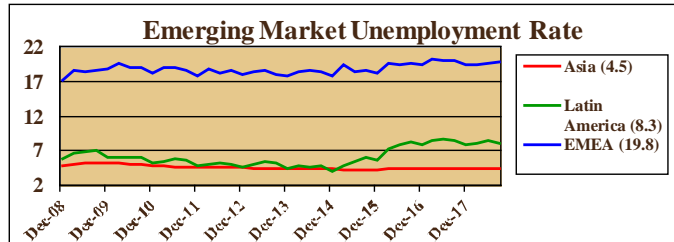
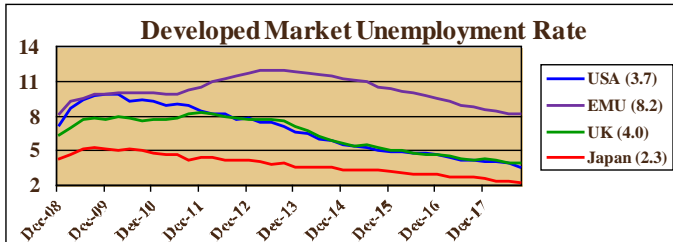
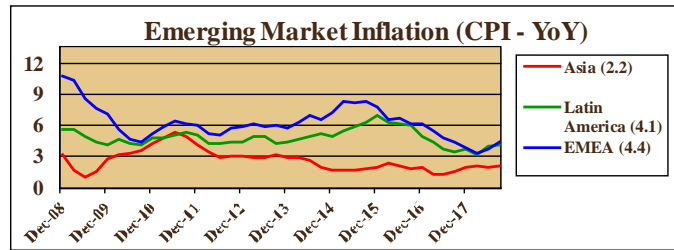
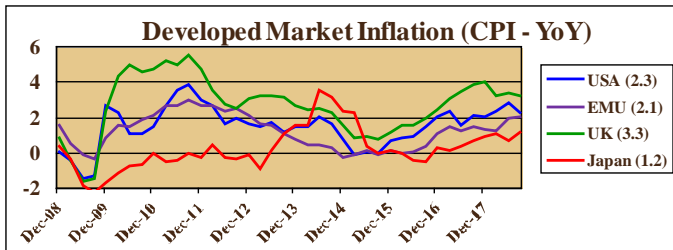
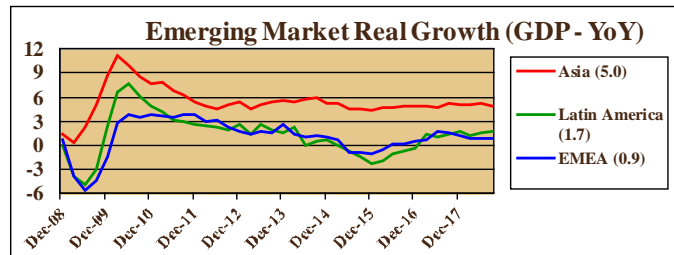
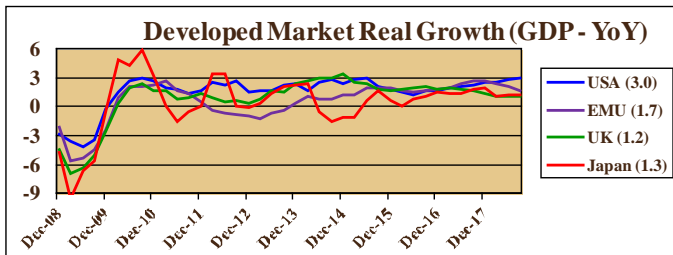


**Fourth Quarter 2018**

# Global Market and Economic Perspective

**Global Economic Commentary**

- ❖ Normally, we would have the fourth quarter GDP numbers for the US when issuing this report. However, these have not been normal times. The lengthy US government shutdown that began a few days before Christmas has meant delays in releasing economic reports and data, including GDP. Although indications point to continued good economic growth, one dissonant note has been the continued widening trade deficit with China, which may contribute to a moderate slowdown in the coming quarters.
- ❖ Outside the US, the continuing uncertainty surrounding Brexit in Britain has led to weak investment spending, slower economic growth, and weakness in the British Pound. Brexit has also weighed on European Union economies, where growth has softened, particularly in Germany. Other conditions in the Euro area, such as unemployment and inflation, remain good.
- ❖ In China, the slowing of exports and constrained credit conditions in the shadow banking industry resulted in 2018 showing the lowest full-year GDP growth in nearly 30 years.



Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

## Global Market and Economic Perspective – Q4 2018

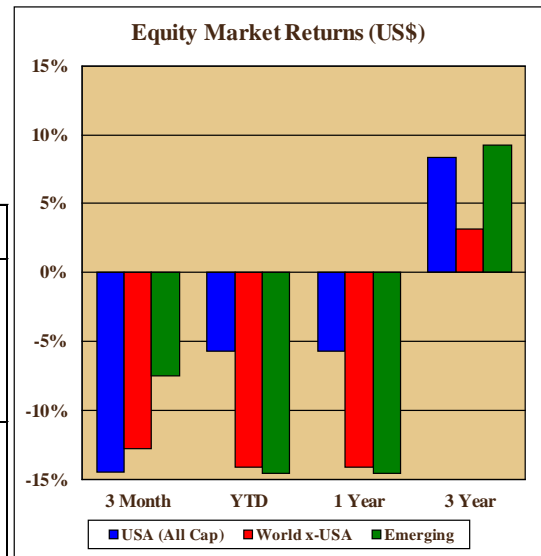
### Global Equity and Currency Commentary

- ❖ Most equity markets experienced sharp declines during the fourth quarter. Only a few markets bucked this trend, such as Brazil where the election of business-friendly Jair Bolsonaro as president produced a strong upward move in the stock market. The declines in many Asian stock markets reflected the signs of slowing growth and increased financial difficulty in China.
- ❖ US equities had double-digit losses, as investors appeared to become increasingly concerned over the outlook for earnings growth. Expectations for positive earnings growth in 2019 remain; however, the expected growth rate fell due to the effect of the 2018 tax cuts rolling off and to expectations that revenue growth will slow in line with softer economic growth.
- ❖ The fourth quarter saw the US dollar strengthen further against most currencies. As a result, returns in non-US equities were reduced by adverse currency movements.

Global Equity Market Returns (MSCI)

12/31/2018	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
<b>United States</b>								
USA (All Cap)	-14.5%	-5.7%	-5.7%	8.4%				
USA Growth	-16.6%	-2.3%	-2.3%	9.9%				
USA Value	-10.8%	-8.0%	-8.0%	6.9%				
USA SC Growth	-19.6%	-6.7%	-6.7%	9.3%				
USA SC Value	-18.1%	-14.0%	-14.0%	5.9%				
<b>Foreign Developed</b>								
World x-USA	-12.8%	-14.1%	-14.1%	3.1%	-12.0%	-10.9%	-10.9%	2.8%
Europe	-12.7%	-14.9%	-14.9%	2.1%	-11.2%	-10.6%	-10.6%	2.7%
Far East	-12.7%	-12.1%	-12.1%	4.2%	-15.2%	-13.9%	-13.9%	1.6%
Australia	-10.0%	-12.0%	-12.0%	5.6%	-7.5%	-2.2%	-2.2%	6.7%
Canada	-15.3%	-17.2%	-17.2%	6.2%	-10.5%	-9.7%	-9.7%	5.6%
<b>Emerging Markets</b>								
Emerging	-7.5%	-14.6%	-14.6%	9.2%	-7.4%	-10.1%	-10.1%	8.8%
Asia	-9.3%	-15.5%	-15.5%	8.6%	-9.6%	-13.1%	-13.1%	8.1%
Latin America	0.4%	-6.6%	-6.6%	14.9%	0.9%	3.8%	3.8%	16.4%
EMEA	-4.1%	-16.1%	-16.1%	7.8%	-2.6%	-4.1%	-4.1%	7.4%

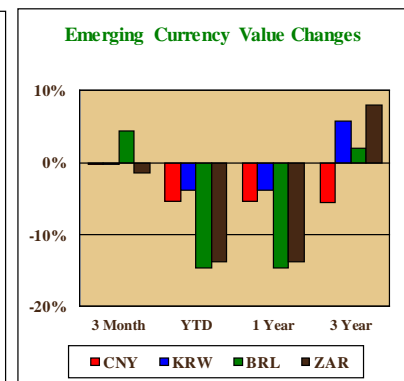
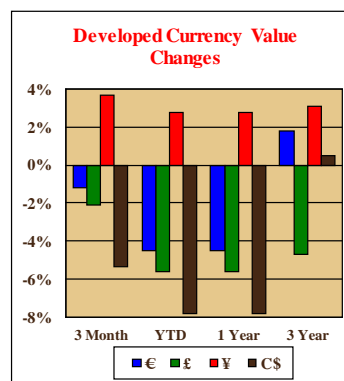
Annualized if greater than one year



Foreign Exchange Rate History (Bloomberg)

12/31/2018	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
<b>Developed</b>					
Euro (€)	1.15	-1.2%	-4.5%	-4.5%	1.8%
British Pound (£)	1.28	-2.1%	-5.6%	-5.6%	-4.7%
Japanese Yen (¥)	110	3.7%	2.7%	2.7%	3.1%
Canadian Dollar (C\$)	1.36	-5.3%	-7.8%	-7.8%	0.5%
<b>Emerging</b>					
Chinese Renminbi (CNY)	6.88	-0.1%	-5.4%	-5.4%	-5.6%
Korean Won (KRW)	1111	-0.1%	-3.9%	-3.9%	5.8%
Brazilian Real (BRL)	3.88	4.4%	-14.7%	-14.7%	2.1%
South African Rand (ZAR)	14.35	-1.4%	-13.7%	-13.7%	7.9%

Annualized if greater than one year



## Global Market and Economic Perspective – Q4 2018

### US Fixed Income and Fed Commentary

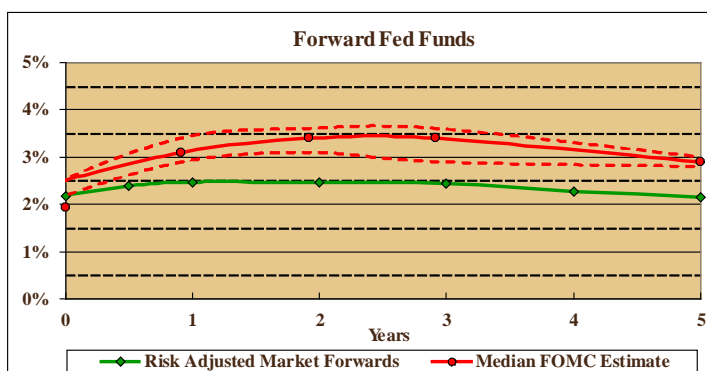
- ❖ Treasury bond yields fell in the fourth quarter, as bond market investors became increasingly convinced that the Federal Reserve was turning more dovish and would not be raising interest rates as aggressively as they had expected previously. The change in sentiment hinged on the difference in the Fed’s language from October – when Chairman Powell stated that the policy interest rate was “a long way from neutral...” – to the end of November – when the statement said the rate, at 2.25% to 2.50%, was “just below the broad range of estimates” of their neutral level of 2.50% to 3.50%.
- ❖ Contrary to much of the year prior to the quarter, the Treasury yield curve actually steepened. The flattening curve had been raising concerns earlier of an increased probability of recession, because past instances in which long-term yields fell below short-term yields were typically followed by an economic contraction. As a result, when short and intermediate-term rates fell more than long-term rates, this concern was somewhat alleviated.
- ❖ Yields in emerging markets bonds and in US high yield bonds rose during the quarter, which meant that these bond markets saw their spreads over Treasury bonds widen substantially. Because these bonds carry a significant credit-risk component, they tend to be sensitive to movements in the equity market. The weakness in equities and concerns over slower earnings growth thus led to credit concerns and higher yields.

FOMC Fed Funds Rate Projections as of September 2018 Meeting						
	Current	Dec-18	Dec-19	Dec-20	Dec-21	Long Run
Upper	1.92%	2.10%	2.90%	3.10%	2.90%	2.80%
<b>Median</b>	<b>1.92%</b>	<b>2.40%</b>	<b>3.10%</b>	<b>3.40%</b>	<b>3.40%</b>	<b>2.90%</b>
Lower	1.92%	2.40%	3.40%	3.60%	3.60%	3.00%

Market Implied Fed Funds Rate as of Oct 01, 2018						
Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
<b>2.18%</b>	<b>2.38%</b>	<b>2.46%</b>	<b>2.45%</b>	<b>2.43%</b>	<b>2.27%</b>	<b>2.14%</b>

**Notes**

Upper and lower bands show central tendency for FOMC projections.  
Market implied Fed Funds rates are risk adjusted.



### US Bond Yield and Spread History (Barclays)

	Current Level	Change Through December 2018			
		3 Month	YTD	1 Year	3 Year
<b>US Treasury</b>					
Short	2.51%	-0.35%	0.52%	0.52%	1.22%
Intermediate	2.60%	-0.41%	0.28%	0.28%	0.54%
Long	2.99%	-0.20%	0.29%	0.29%	0.10%
<b>US High Yield</b>					
Yield	7.95%	1.71%	2.23%	2.23%	-0.79%
Spread	5.26%	2.10%	1.83%	1.83%	-1.34%
<b>Tax-Exempt Muni</b>					
Short	1.88%	-0.22%	0.19%	0.19%	0.79%
Intermediate	2.34%	-0.23%	0.29%	0.29%	0.53%
Long	2.99%	-0.17%	0.44%	0.44%	0.36%

