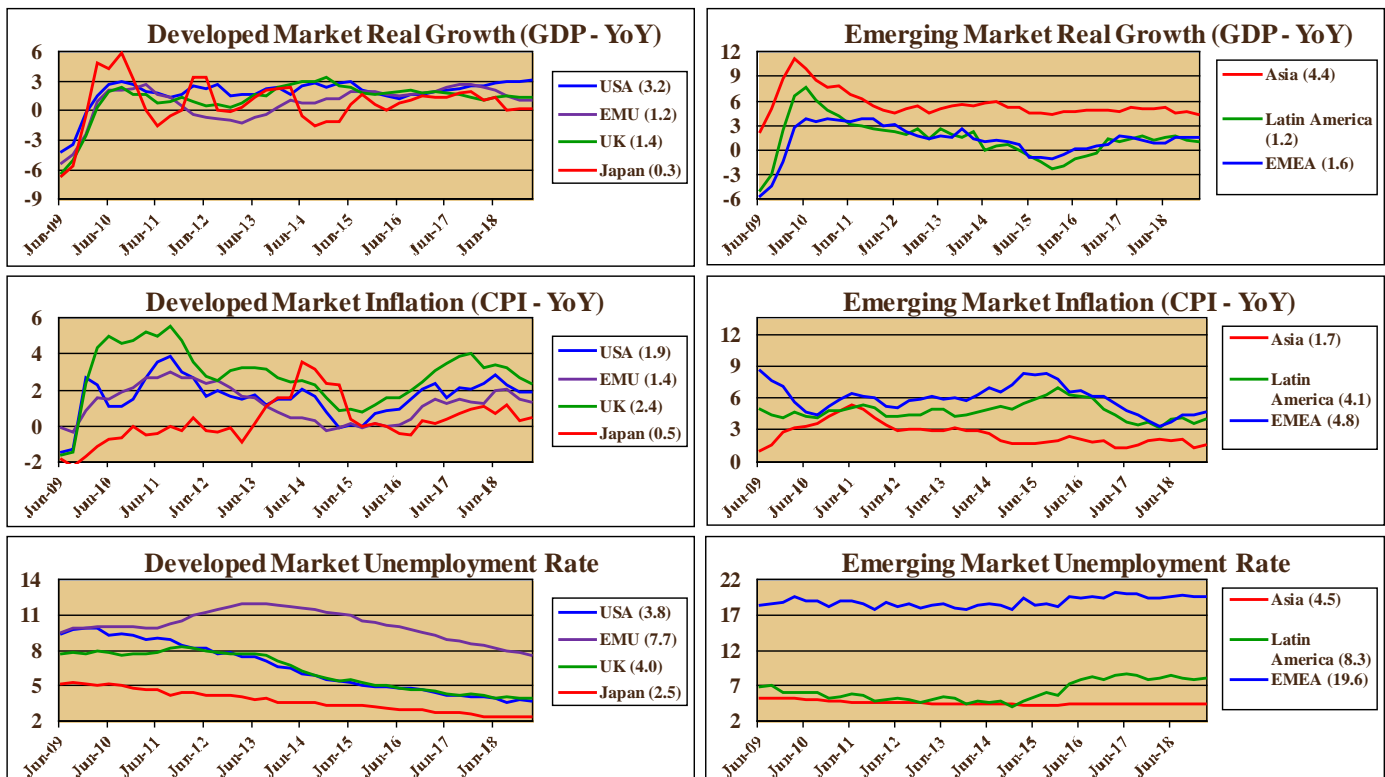


**First Quarter 2019**

# Global Market and Economic Perspective

**Global Economic Commentary**

- ❖ GDP growth in the US remained at a healthy level of 3.0% or better during both the fourth quarter of 2018 (data release was delayed due to the government shutdown) and the first quarter of 2019. As a result, the unemployment rate has stayed below 4.0% thus far in 2019. Despite this economic strength, inflation has yet to emerge as a threat, with the consumer price index rising at an annualized rate of only 1.9%.
- ❖ Developed market economies outside the US are experiencing more sluggish growth. The UK economy continues to suffer from Brexit-related weakness in corporate investment spending, and many countries, such as Japan and Italy, have fiscal and structural problems (e.g. high debt levels and aging populations) that are suppressing growth.
- ❖ In emerging economies, the economic picture continued to be better than in developed economies. Growth in Asia, in particular, remained healthy, although somewhat softer than in years past. For example, China's GDP has been closer to 6% in recent quarters, rather than the 8%-9% range of 5 years ago.



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.

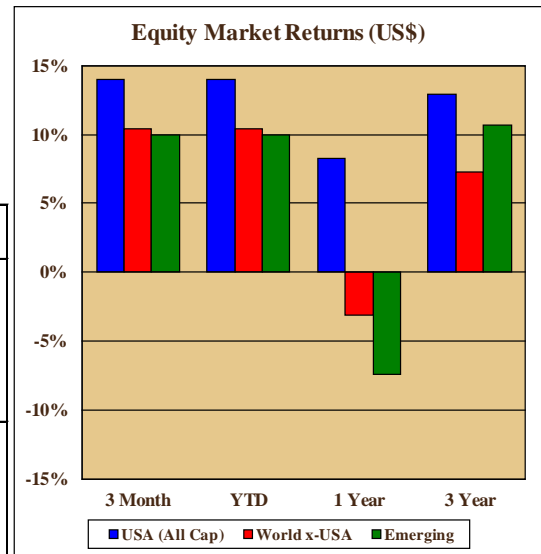
## Global Market and Economic Perspective – Q1 2019

### Global Equity and Currency Commentary

- ❖ The first quarter of 2019 saw equity markets largely erase the steep losses they produced in the fourth quarter of last year. This recovery did not seem to come as the result of substantive positive news, but rather from investors becoming less pessimistic and more willing to buy riskier assets.
- ❖ In the US, stock market gains were particularly strong. Interestingly, this was despite the fact that profit growth expectations for 2019 turned negative, with first quarter S&P 500 earnings appearing as though they will show a year-on-year decline for the first time since 2016.
- ❖ Both in the US and in other markets, some of the buoyancy in equities can be attributed to expectations that central banks will not raise rates in 2019. Likewise, concerns around growth in China have diminished, which led to strong performance in Asian emerging markets.
- ❖ The US dollar showed only a small gain during the quarter against a broad basket of currencies, which detracted a bit from non-US equity returns.

Global Equity Market Returns (MSCI)

3/31/2019	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)	14.0%	14.0%	8.3%	12.9%				
USA Growth	16.3%	16.3%	11.3%	15.7%				
USA Value	11.2%	11.2%	6.3%	10.0%				
USA SC Growth	18.0%	18.0%	8.3%	16.0%				
USA SC Value	13.7%	13.7%	0.6%	9.5%				
<b>Foreign Developed</b>								
World x-USA	10.4%	10.4%	-3.1%	7.3%	10.8%	10.8%	3.2%	8.5%
Europe	10.8%	10.8%	-3.7%	6.6%	11.6%	11.6%	4.3%	8.4%
Far East	7.8%	7.8%	-5.8%	8.8%	8.6%	8.6%	-2.5%	8.5%
Australia	11.4%	11.4%	4.5%	8.7%	10.4%	10.4%	12.8%	11.6%
Canada	15.4%	15.4%	3.1%	7.5%	12.8%	12.8%	6.8%	8.6%
<b>Emerging Markets</b>								
Emerging	9.9%	9.9%	-7.4%	10.7%	9.8%	9.8%	-1.9%	11.2%
Asia	11.1%	11.1%	-6.8%	11.8%	11.3%	11.3%	-3.9%	11.9%
Latin America	7.9%	7.9%	-6.7%	11.1%	7.5%	7.5%	5.3%	14.8%
EMEA	5.6%	5.6%	-10.6%	5.4%	4.9%	4.9%	3.7%	6.6%

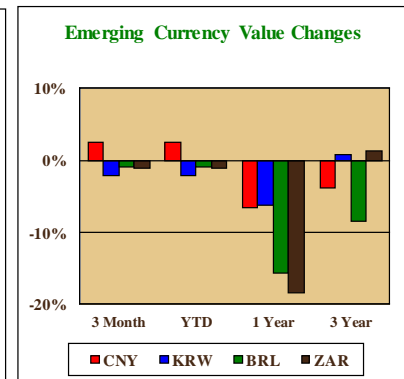
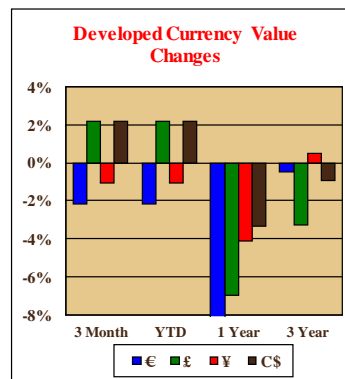


Annualized if greater than one year

Foreign Exchange Rate History (Bloomberg)

3/31/2019	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
<b>Developed</b>					
Euro (€)	1.12	-2.2%	-2.2%	-9.0%	-0.5%
British Pound (£)	1.30	2.2%	2.2%	-7.0%	-3.3%
Japanese Yen (¥)	111	-1.1%	-1.1%	-4.1%	0.5%
Canadian Dollar (C\$)	1.33	2.2%	2.2%	-3.4%	-0.9%
<b>Emerging</b>					
Chinese Renminbi (CNY)	6.71	2.5%	2.5%	-6.5%	-3.9%
Korean Won (KRW)	1135	-2.1%	-2.1%	-6.3%	0.7%
Brazilian Real (BRL)	3.92	-1.0%	-1.0%	-15.6%	-8.4%
South African Rand (ZAR)	14.50	-1.1%	-1.1%	-18.3%	1.3%

Annualized if greater than one year



## Global Market and Economic Perspective – Q1 2019

### US Fixed Income and Fed Commentary

- ❖ The US Treasury yield curve inverted for a short time during the first quarter, which means that yields on longer-term Treasury bonds were lower than yields on short-term T-bills. This unusual situation raised some concerns, as historically an inverted yield curve has presaged an economic downturn. Most observers were not overly worried, however, because the inversion was short-lived and was also not reflected in other yield curves, such as corporate bonds.
- ❖ Long-term interest rates declined due to investors' belief that the Fed is unlikely to raise short-term interest rates further, and might reduce rates in 2019. We continue to believe that these market expectations are inaccurate, and the next interest rate move from the Fed is more likely to be an increase rather than a decrease. Although the Fed has softened the language in their policy pronouncements, they have only stated that they are pausing in the timetable – not reversing course and planning cuts.
- ❖ Given the decline in Treasury yields during the quarter, longer-term bonds performed very well, and short- and intermediate-term Treasury notes also produced good returns. Yields in credit-sensitive sectors, such as emerging markets bonds and US high yield bonds, generated large gains, as their yields fell due to both the decline in the underlying Treasury yield curve and a narrowing in credit spreads.

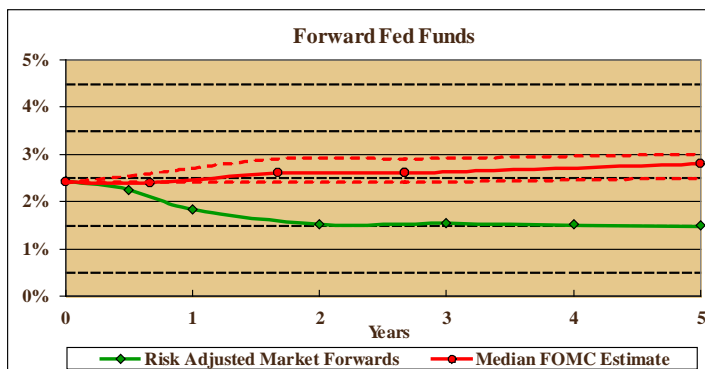
FOMC Fed Funds Rate Projections as of March 2019 Meeting						
	Current	Dec-19	Dec-20	Dec-21	Dec-21	Long Run
Upper	2.41%	2.40%	2.40%	2.40%	2.40%	2.50%
Median	2.41%	2.40%	2.60%	2.60%	2.60%	2.80%
Lower	2.41%	2.60%	2.90%	2.90%	2.90%	3.00%

Market Implied Fed Funds Rate as of Apr 01, 2019						
Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
2.43%	2.25%	1.84%	1.53%	1.55%	1.51%	1.49%

**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 March 2019			
		3 Month	YTD	1 Year	3 Year
<b>US Treasury</b>					
Short	2.28%	-0.23%	-0.23%	-0.10%	1.39%
Intermediate	2.33%	-0.27%	-0.27%	-0.35%	0.80%
Long	2.77%	-0.22%	-0.22%	-0.17%	0.30%
<b>US High Yield</b>					
Yield	6.43%	-1.52%	-1.52%	0.24%	-1.75%
Spread	3.91%	-1.35%	-1.35%	0.37%	-2.64%
<b>Tax-Exempt Muni</b>					
Short	1.57%	-0.31%	-0.31%	-0.30%	0.62%
Intermediate	1.94%	-0.40%	-0.40%	-0.46%	0.32%
Long	2.53%	-0.46%	-0.46%	-0.42%	0.13%

