# MARKET COMMENTARY

## FIRST QUARTER 2019

Insights On The Global Markets and Economy from Our Asset Management Group

SHP FINANCIAL

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## Key Takeaways

- Stocks broadly ended the first quarter with strong positive returns supported by a sharp reversal in interest rate policy from the Federal Reserve and hopes for a truce on trade between the U.S. and China.  Stocks have produced what may amount to a year's worth of gains in the first three months of 2019.
- Despite a strong rally in stock markets, government bond yields around the world hit multi-year lows as investors sought to also benefit from more accommodative central banks.
- As the uncertainty about global growth remains elevated, investors should remain disciplined and cautious given the age of this economic expansion.

## Global Economic Summary

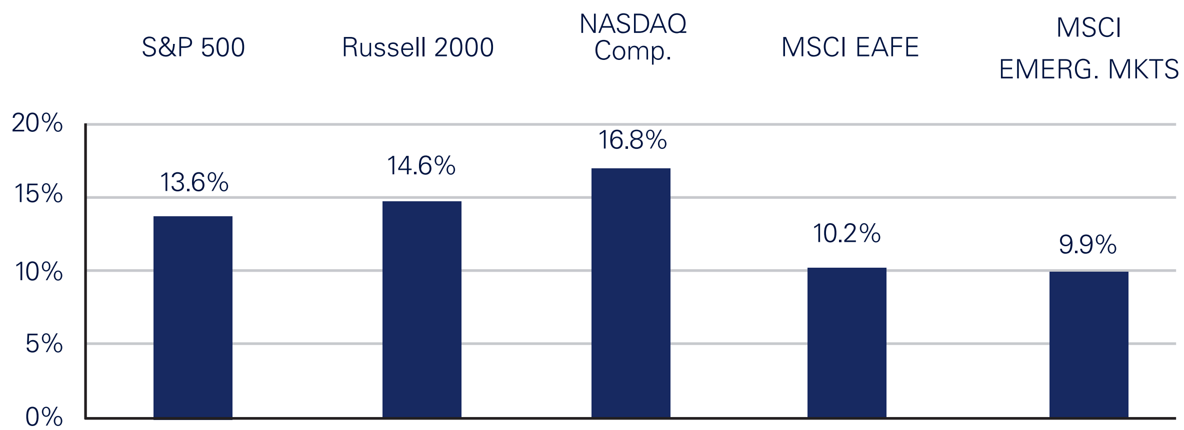
U.S. economic growth continued at a slower, but steady pace. U.S. GDP came in at a 2.2% annualized rate for the fourth quarter of 2018. This reading was slightly below expectations for the quarter, but similar to the 2.3% annualized rate for the same quarter last year. For the full year 2018, the economy advanced 2.9%, the most since 2015, and above 2.2% in 2017. The employment picture remained solid in Q12019 with the unemployment rate near a cyclical low of 3.8%; however, employment growth in February was a meager +20,000 after averaging a monthly gain of over +223,000 in 2018. Concerns of a slowing economy led the Federal Reserve (Fed) to sharply change its view on the path for interest rates in early 2019 by putting further rate hikes on hold, after raising rates four times in 2018.

Abroad, the weakness in global growth has been most evident in the manufacturing decline. Concerns over trade disputes and Britain's possible departure from the European Union without a deal pushed manufacturing activity lower. Germany, a key engine in the Eurozone's economy, saw its manufacturing sector contract at the fastest rate since July 2012. In response, the European Central Bank (ECB) kept deposit rates steady and said it would not raise rates till next year. Similary, China took efforts to stimulate its slowing economy through easier credit and additional fiscal spending. Already, China's manufacturing index seems to be responding to the stimulus, which bodes well for global trade.

## Global Economic Summary: Global Equity

Global equities rebounded sharply in the first quarter of 2019 after a sharp sell-off in the fourth quarter of 2018. The markets showed no signs of concerns during the first two months of 2019, as the rally continued straight up. However, a healthy dose of caution surfaced in March, as the bond market sent a warning signal when the 3M - 10YR bond yield spread turned negative for the first time since 2007. Despite the cautionary pullback in March, the S&P 500 rebounded 13.6% and posted its best quarterly performance in ten years. The rebound was driven by optimism on a trade deal with China and, more importantly, a sharp reversal in interest rate policy from the Fed. In terms of size, large-cap stocks underperformed their small-cap counterparts for the quarter as the Russell 2000 Index rose by 14.6%. In terms of style, growth outperformed value in Q12019, continuing the trend from 2018. Finally, within U.S. equity markets, all sectors advanced. Information technology continued to be a top performing sector, while rate sensitive financials underperformed the broad equity market. International markets also participated in the rally. Developed international equity markets, as represented by the MSCI EAFE (Europe, Australasia and Far East), posted a gain of 10.2% for the quarter. Finally, emerging markets also joined the global rally on the heels of stimulus from China and posted a gain of 9.9%.

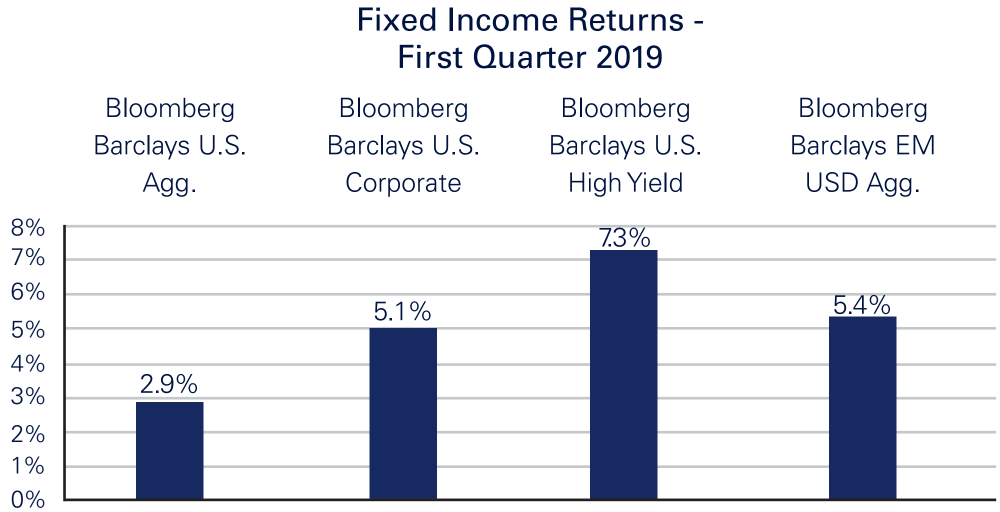
**Global Equity Markets - First Quarter 2019**




Source: Bloomberg as of 3/31/19.

## Fixed Income

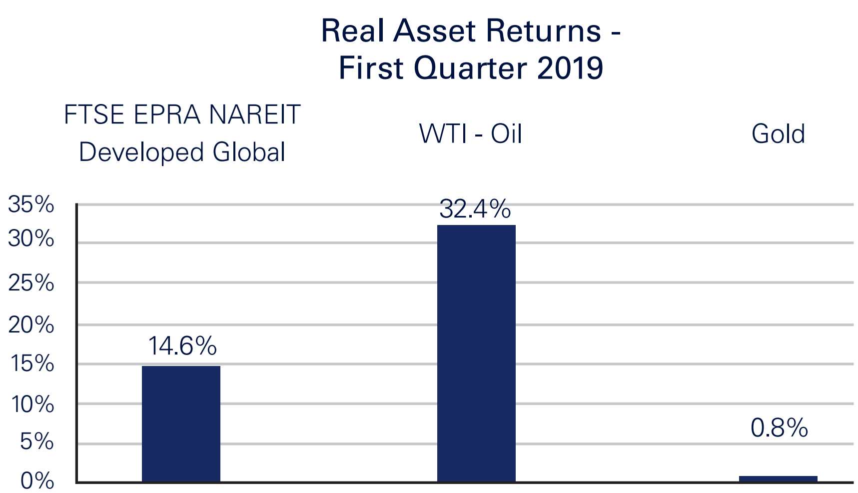
Global bond yields remain stubbornly low. Market concern over possible future Fed interest rate hikes, along with the economic slowdown and a possible future recession, led to an inverted yield curve during Q12019 (i.e., for certain maturities, short-term yields were higher than longer-term yields). Treasury yields on 10-year bonds made new lows in 2019 (below 2.4) in late March. Abroad, weaker manufacturing data sent the 10-year German Bund below zero during the quarter. Similarly, Japan's 10-year government bond yield also remains negative. As interest rates fell for the first quarter, the Bloomberg Barclays U.S. Aggregate Bond Index (representing investment-grade U.S. bonds) increased 2.9%. High-yield bonds and emerging market bonds outperformed government equivalents amid a healthy environment for risk and posted a 7.3% gain and 5.4% gain respectively for the quarter.




Source: Bloomberg as of 3/31/19.

## Real Assets

Oil, as measured by the West Texas Intermediate index, rebounded 32.4% in the first quarter largely due to supply concerns. The broad commodity market also performed well, led primarily by crude oil. As investor risk appetite returned and the Fed held rates steady, interest rate sensitive global REITs soared as well and posted a gain of 14.6%. Finally, gold, often considered a hedge during periods of volatility, was flat as risk appetite increased amid a strong equity rally.




Source: Bloomberg as of 3/31/19.

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## Definitions

- All indexes are unmanaged, and an individual cannot invest directly in an index. Index returns do not include fees or expenses.
- The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.
- Russell 2000 The Russell 2000 Index is a small-cap stock market index of the bottom 2000 stocks in the Russell 3000 Index. The Russell 2000 is by far the most common benchmark for mutual funds that identify themselves as "small-cap".
- The NASDAQ Composite is a stock market index of common stocks and similar securities (e.g. ADRs, tracking stocks, and limited partnership interests) listed on the NASDAQ stock market. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed indices in US stock markets.
- The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.
- The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.
- The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).
- The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.
- The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency emerging markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.
- The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
- West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.
- The Gold Spot Price is the current market price at which an asset is bought or sold for immediate payment and delivery.
- The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar.
- The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.
- Jobless claims refer to the number of people who are filing or have filed to receive unemployment insurance

benefits, as reported by the U.S. Department of Labor.

- The federal funds rate is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other.
- The "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
- The U.S. consumer confidence index (CCI) is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

## Disclosures

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