



Economic Review and Outlook, 1Q19

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Market Performance During the First Quarter

Economic Review and Outlook, 1Q19

❖ Equity markets rebounded in the first quarter, recouping most of the losses from the previous quarter.

❖ Drivers of improved market sentiment included:

- The Fed indicated rate hikes are on hold for 2019, and balance sheet reductions would be curtailed.
- Labor market growth remained strong while inflation remained below the Fed's 2% target.
- Prospects for a U.S./China trade deal improved.
- Higher oil prices on production cuts and U.S. sanctions against Venezuela.
- On average, fourth quarter earnings were running ahead of estimates and about half of the companies were also beating revenue estimates.

	1Q19 Return
S&P 500	13.65%
Russell 2000	14.58%
MSCI EAFE	9.98%
MSCI EM	9.91%
BBgBarc US Aggregate	2.94%
FTSE NAREIT	16.33%
S&P GSCI	14.97%

❖ Lower interest rates and a brief inversion of the yield curve led to increased fixed income demand, especially for corporate and high yield bonds.

- The 10-year Treasury ended the quarter around 2.40%, falling from 3.24% at the end of last year.

Economic Factors to Consider

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- ❖ U.S. economic data improved at the end of the quarter, but consensus expectations are for slower global growth for 2019:
 - Despite an exceptionally weak report in February, March non-farm payrolls snapped back 196,000 additional workers. Unemployment remained at 3.8%.
 - Manufacturing data, including industrial production and factory orders, were lower.
 - Consumer data was weaker earlier in the quarter, but retail sales showed strength in March. Housing data was mixed despite lower mortgage rates.
 - Business spending improved at the end of the quarter, but business confidence was lower due to the extended government shutdown and softness in business exports.
- ❖ Federal Reserve Bank projections also indicated slower economic growth (GDP: 2.1% in 2019 and 1.9% in 2020) and near-stable interest rates into 2020.
 - About half of the economists surveyed think the next recession will begin in 2020*.
- ❖ EU growth estimates were lowered to 1.1%. EU business activity slowed as Germany's manufacturing PMI was at a six year low. The ECB continued to hold interest rates at zero and moved out its guidance for a rate hike until 2020.
- ❖ Meanwhile, China's first quarter GDP was 6.4% (y-o-y), and manufacturing PMI rose in March, reversing a four-month trend lower. Industrial production and employment numbers also improved.

Update: First quarter GDP surpassed all estimates at 3.2%. While net exports and inventory building contributed strongly to growth, this data is expected to be reversed in future quarters. Elevated government spending also appeared to be temporary.

*Source: The Wall Street Journal, April 1, 2019; survey average of 76 economists

- ❖ Slower, yet stable growth is anticipated for 2019.
- ❖ While U.S. growth will be below 2018 levels, an improved outlook for trade, low interest rates for the foreseeable future, and steady consumer confidence/spending could result in a 2019 U.S. GDP growth of about 2.2%.
 - Most analysts see corporate earnings, while positive, in single digits for 2019.
- ❖ Recent improvements in China's data suggest stimulus measures are taking hold, as the government tries to reverse some of the slowdown that was self-inflicted. An improved outlook for trade policies with the U.S. is also helping China's exports.
 - China growth is anticipated to be 6.0-6.2% while the remaining emerging economies could see a combined average of around 4.9%.
 - Lower oil prices compared to 2018 should result in lower business expenses in China and Europe.
 - Emerging market countries will also benefit if both interest rates and the U.S. dollar remain stable.
- ❖ Risks: lingering geopolitical uncertainty could weigh on business spending.
 - Failure to reach a Brexit agreement in the U.K. parliament resulted in a last-minute extension to October 31, 2019. Analysts still are factoring in an orderly exit process.
 - The economic outlook would be threatened if U.S./China trade negotiations dissolve.

Global Economic Growth

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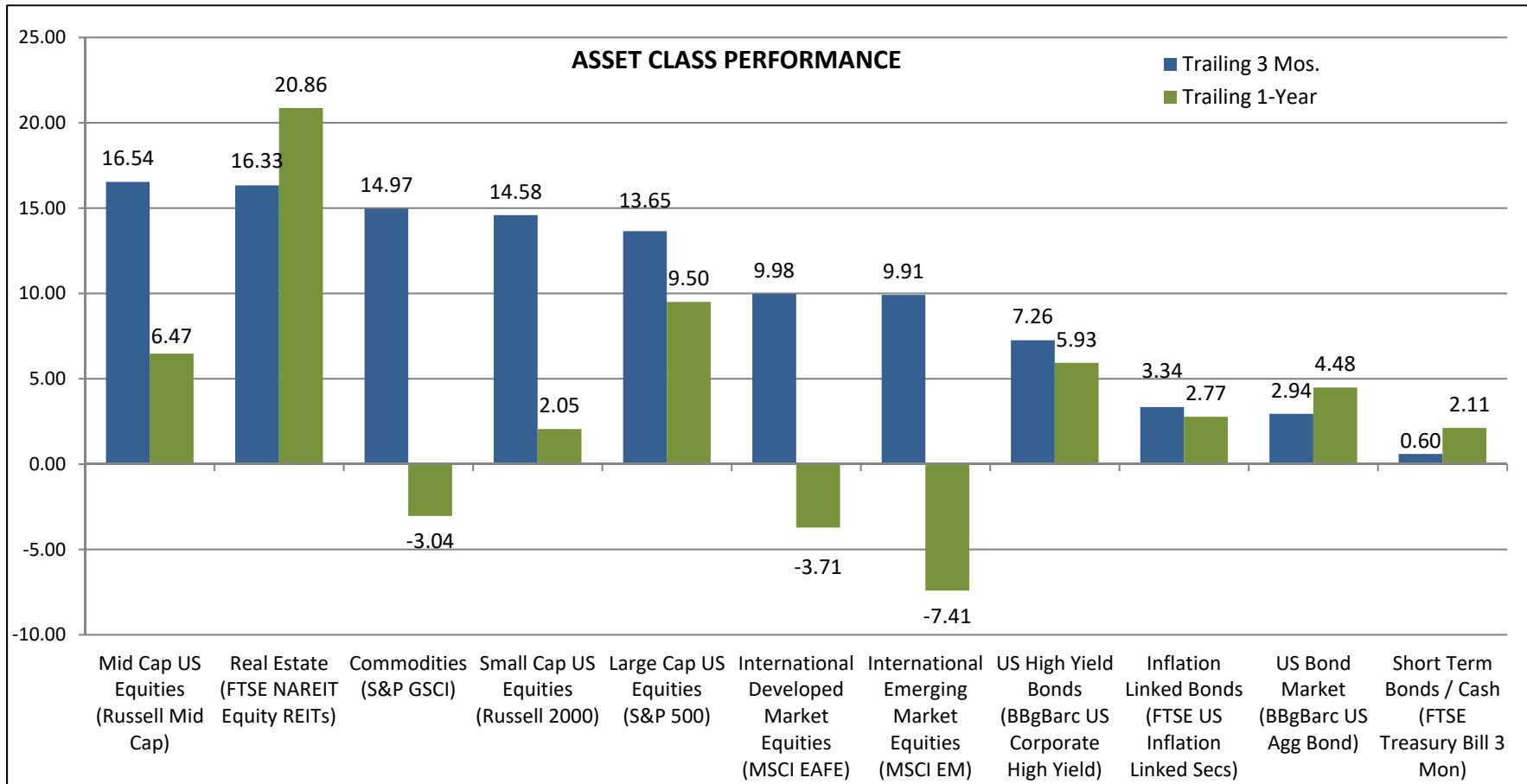
❖ Based on manufacturing surveys, the outlook for global growth softened in the first quarter:

Global Purchasing Managers' Index for Manufacturing

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
JPM Global	52.8	53.2	53.3	53.5	54.1	54.5	54.4	54.1	53.4	53.5	53.4	53	52.7	52.6	52.2	52.1	52	51.4	50.7	50.6	50.6
Developed	54	54.2	54.6	55.2	55.8	56.3	56	55.7	54.9	54.6	54.7	54.4	54	53.8	53.6	53.2	52.8	52.3	51.5	50.4	50
Emerging	51	51.7	51.4	51.2	51.7	52.2	52	51.9	51.3	51.2	51.1	51.2	51	50.8	50.3	50.5	50.8	50.3	50	50.6	51
US	53.3	52.8	53.1	54.6	53.9	55.1	55.3	55.3	55.6	56.4	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53	52.4
Canada	55.5	54.6	55	54.3	54.4	54.7	55.6	55.6	55.7	56.2	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53	52.6	50.5
Japan	52.1	52.2	52.9	52.8	53.6	54	54.1	54.1	53.1	52.8	52.8	53	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2
UK	55.3	56.8	56.1	56.3	58.2	56.3	54.9	55	55.1	54.3	54.3	54.4	54	53	53.6	51.1	53.6	54.2	52.8	52.1	55.1
Euro Area	56.6	57.4	58.1	58.5	60.1	60.6	58.6	58.6	56.6	55.5	55.5	54.9	55	54.6	53.2	52	51.8	51.4	50.5	49.3	47.5
Germany	58.1	59.3	60.6	60.6	62.5	63.3	60.6	60.6	58.2	56.9	56.9	55.9	57	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1
France	54.9	55.8	56.1	56.1	57.7	58.8	55.9	55.9	53.7	54.4	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7
Italy	55.1	56.3	56.3	57.8	58.3	57.4	56.8	56.8	55.1	52.7	52.7	53.3	51.3	50.1	50	49.2	48.6	49.2	47.8	47.7	47.4
Spain	54	52.4	54.3	55.8	56.1	55.8	56	56	54.8	53.4	53.4	53.4	52.9	53	51.4	51.8	52.6	51.1	52.4	49.9	50.9
China	51.1	51.6	51	51	50.8	51.5	51.6	51.6	51	51.1	51.1	51	50.8	50.6	50	50.1	50.2	49.7	48.3	49.9	50.8
India	47.9	51.2	51.2	50.3	52.6	54.7	52.1	52.1	51	51.2	51.2	53.1	52.3	51.7	52.2	53.1	54	53.2	53.9	54.3	52.6
Brazil	50	50.9	50.9	51.2	53.5	52.4	53.2	53.2	53.4	50.7	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8
Mexico	51.2	52.2	52.8	49.2	52.4	51.7	51.6	51.6	52.4	51	51	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8
Russia	52.7	51.6	51.9	51.1	51.5	52	50.2	50.2	50.6	49.8	49.8	49.5	48.1	48.9	50	51.3	52.6	51.7	50.9	50.1	52.8

Financial Market Performance

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Financial Market Performance

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Data as of 3/31/19

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	DJ Industrial Average	11.81	11.81	10.09	16.37	12.21	15.97
Broad Market	S&P 500	13.65	13.65	9.50	13.51	10.91	15.92
	NASDAQ Composite	16.81	16.81	10.63	17.97	14.29	18.93
	Wilshire 5000 Total Market	14.11	14.11	8.93	13.59	10.52	16.00
Large Cap	Russell 1000	14.00	14.00	9.30	13.52	10.63	16.05
	Russell 1000 Growth	16.10	16.10	12.75	16.53	13.50	17.52
	Russell 1000 Value	11.93	11.93	5.67	10.45	7.72	14.52
Mid Cap	Russell Mid Cap	16.54	16.54	6.47	11.82	8.81	16.88
	Russell Mid Cap Growth	19.62	19.62	11.51	15.06	10.89	17.60
	Russell Mid Cap Value	14.37	14.37	2.89	9.50	7.22	16.39
Small Cap	Russell 2000	14.58	14.58	2.05	12.92	7.05	15.36
	Russell 2000 Growth	17.14	17.14	3.85	14.87	8.41	16.52
	Russell 2000 Value	11.93	11.93	0.17	10.86	5.59	14.12

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	MSCI ACWI	12.18	12.18	2.60	10.67	6.45	11.98
	MSCI ACWI Ex USA	10.31	10.31	-4.22	8.09	2.57	8.85
Developed	MSCI EAFE	9.98	9.98	-3.71	7.27	2.33	8.96
	MSCI EAFE Growth	12.04	12.04	-1.30	7.61	3.93	9.74
	MSCI EAFE Value	7.92	7.92	-6.13	6.90	0.67	8.12
	MSCI EAFE Small Cap	10.65	10.65	-9.36	7.50	4.47	12.76
	MSCI Europe	10.84	10.84	-3.72	6.56	1.04	8.95
	MSCI Europe Ex UK	10.45	10.45	-5.09	6.66	1.18	8.75
	MSCI Pacific Free	8.53	8.53	-3.86	8.82	4.96	9.12
	MSCI Pacific Free Ex Japan	12.24	12.24	4.59	10.32	3.88	11.42
Emerging	MSCI Japan	6.66	6.66	-7.84	8.06	5.61	7.96
	MSCI EM	9.91	9.91	-7.41	10.68	3.68	8.94
	MSCI BRIC	14.01	14.01	-3.45	15.68	6.32	8.54
	MSCI EM Latin America	7.85	7.85	-6.72	11.10	-0.30	5.27
	MSCI EM Europe	7.78	7.78	-7.13	7.85	-1.75	6.04
	MSCI EM Asia	11.11	11.11	-6.84	11.79	6.21	10.80

Source: Morningstar

FIXED INCOME

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	BBgBarc US Agg Bond	2.94	2.94	4.48	2.03	2.74	3.77
	BBgBarc US Government	2.10	2.10	4.20	1.07	2.15	2.44
	BBgBarc US Credit	4.87	4.87	4.89	3.48	3.61	6.22
	BBgBarc US Govt/Credit Interm	2.32	2.32	4.24	1.66	2.12	3.14
	BBgBarc US Govt/Credit Long	6.45	6.45	5.24	3.75	5.35	7.23
	FTSE US Inflation Linked Secs	3.34	3.34	2.77	1.75	2.08	3.50
	BBgBarc EM USD Aggregate	5.43	5.43	4.38	5.36	4.75	8.54
	BBgBarc ABS	1.48	1.48	3.68	1.83	1.89	3.95
	BBgBarc US MBS	2.17	2.17	4.42	1.77	2.65	3.11
	FTSE Treasury Bill 3 Mon	0.60	0.60	2.11	1.17	0.72	0.41
	ICE BofAML 1-3Y US Trsy	0.98	0.98	2.72	0.99	0.98	1.04
	BBgBarc US Corp Aaa	5.01	5.01	6.13	3.14	4.13	4.77
	BBgBarc US Corp A	4.70	4.70	4.78	2.90	3.55	6.25
	BBgBarc US Corp Baa	5.73	5.73	4.97	4.51	3.90	7.72
	BBgBarc US Corporate High Yield	7.26	7.26	5.93	8.56	4.68	11.26
	BBgBarc US HY Caa	7.15	7.15	2.73	12.95	4.69	14.13

Source: Morningstar

STABLE VALUE & MONEY MARKET

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	Median Taxable Money Market Fund	0.61	0.61	2.13	1.14	0.73	0.48
	Median Stable Value Fund	0.59	0.59	2.31	2.05	1.92	2.22
	Consumer Price Index	0.40	0.40	0.84	1.86	1.27	1.70

Source: PEI

REAL ASSETS

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	FTSE NAREIT Equity REITs	16.33	16.33	20.86	6.13	9.12	18.28
	Bloomberg Commodity	6.32	6.32	-5.25	2.22	-8.92	-2.56
	S&P GSCI	14.97	14.97	-3.04	6.18	-12.61	-3.37

Source: Morningstar

Survey Data: Outlook and Forecasts

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	Second Quarter, 2019*	Third Quarter, 2019*
U.S. GDP	2.5%	2.2%
Unemployment	3.7%	3.7%
CPI	1.8%	-
Fed Funds	2.25-2.50%	2.25-2.50%

"The current forecast envisages that global growth will level off in the first half of 2019 and firm up after that"

-International Monetary Fund, April 1, 2019

Other Projections as of April 17, 2019

	1Q19 U.S. GDP	2Q19 U.S. GDP	2019 U.S. GDP	2019 Global GDP
<i>Atlanta Federal Reserve Bank</i>	2.4%	-	-	-
<i>New York Federal Reserve Bank</i>	1.4%	2.0%	-	-
<i>International Monetary Fund</i>			2.3%	3.3%

*Source: The Wall Street Journal, April 1, 2019; survey average of 76 economists