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Global Economy

The New Year brought a new attitude toward risk assets, propelling the S&P 500 to its best January since 1987 and its strongest monthly outcome in over three years. Though there is still significant concern over global growth, Brexit, China and the US government shutdown, there was enough positive sentiment to reinvigorate investors.

With the March 29th deadline approaching, there continues to be no clear predictable outcome for Brexit. The primary sticking points of the negotiations have not changed, nor has the lack of expectation that a deal is imminent. In China, the signs continue to point to an economic slowdown, which ultimately affects many other countries across the globe.

The Federal Open Market Committee (FOMC) met in January and left rates at 2.25% - 2.50%. The tone of the statements following the meeting were quite dovish, indicating the committee's willingness to be "patient" while allowing incoming data to inform the next policy move. The committee also noted that the reduction of the balance sheet via quantitative tightening may end sooner than previously indicated, resulting in a larger terminal asset portfolio. In response, US Treasury rates eased and market expectations now suggest a rate cut is slightly more likely than a hike over the next year.

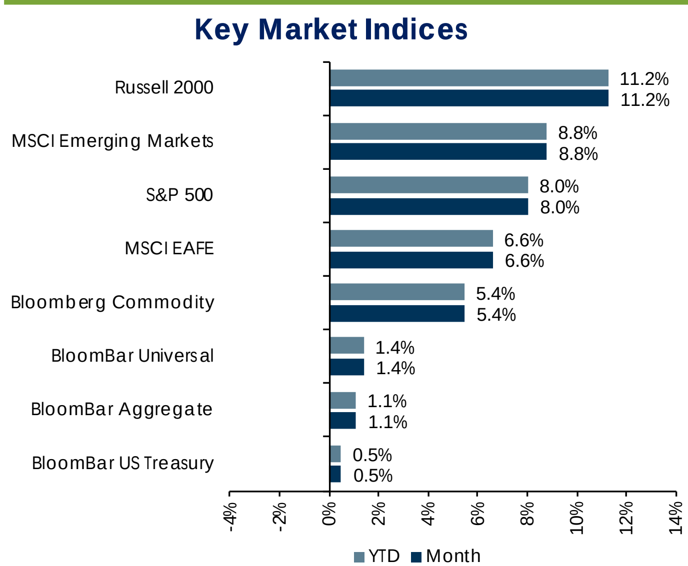
The Atlanta Fed's GDP estimate for fourth quarter GDP was revised to 2.7%, with the general range of other forecasts between 2.2% and 3.0%. The outlook for 2019 continues to be in the mid-2% range, even as business and consumer sentiment have dropped from the strong levels of last year. Important to note, the positive growth differential between the US and global counterparts is widely expected to moderate going forward.

The unemployment rate increased to 4.0% in January, even with the greater-than-expected increase of 304,000 jobs for the month. The labor participation rate continued to increase, and average hourly wages rose again at a healthy year-over-year pace of 3.2%. Inflation continues to be kept in check, with the Core CPI index at 2.2% year-over-year. The FOMC's preferred measure, the Core PCE index, was not released due to the government shutdown.

	Current	Dec-18
US GDP (%)	3.40	3.40
US Unemployment (%)	4.00	3.90
CPI (Core) (%)	2.20	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.63	2.69
S&P 500 Div Yld (%)	2.00	2.15
S&P 500 P/E (Trailing)	18.14	17.12
Gold/oz.	$1,319.70	$1,281.30
Oil (Crude)	$53.79	$45.41
Gasoline (Natl Avg)	$2.34	$2.36
USD/Euro	$1.14	$1.15
USD/GBP	$1.31	$1.28
Yen/USD	¥108.89	¥109.69

Source: Bloomberg

Global Markets



Source: Bloomberg

Major market indexes all showed significant strength in January, providing a remarkable reversal from the difficult finish to last year. The S&P 500, which represents large US-based entities, was up an impressive +8.0% for the month. All major sectors in the domestic benchmark were up materially, with Industrials (+11.4%), Energy (+11.0%), Real Estate (+10.7%), Consumer Discretionary (+10.2%) and Communication Services (+10.0%) leading the way. The Utilities sector trailed the field with its more modest gain of +3.4%. Small cap stocks, as represented by the Russell 2000, outperformed with a return of +11.2% for the month, as Growth (+11.6%) just outpaced Value (+10.9%).

In the broad international developed markets, the MSCI EAFE index did well at +6.6%. While lagging US stocks, strength was consistent across the various developed regions. The Real Estate (+10.1%), IT (+9.1%) and Materials (+9.0%) sectors were particularly strong, with Communication Services (+3.0%) being the relative laggard.

Emerging market stocks, as represented by the MSCI Emerging Markets index, started the year on a very strong note, outperforming the S&P 500 with a total return of +8.8%. Latin America showed particular strength, rising +15.0%, even as Asian markets appreciated at a more moderate pace of +7.3%. The US dollar's weakness versus the basket of emerging market currencies was again a contributor to results.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up +10.9% during the month, more than reversing the downward move in December. The Alerian MLP index was up more dramatically, growing +12.6%. The near-month NYMEX oil contract was up +18.4% for the month, amid trade and supply concerns. The more broadly diversified Bloomberg Commodity index started strong for the year at +5.4%.

Global Markets (continued)

While risk-taking generally came back in vogue, US Treasury (UST) yields continued to drift lower in January. Given the Fed's more accommodative tilt, the futures market became increasingly convinced that the monetary tightening cycle may be nearing its end. In this benign environment for high-quality fixed income, the overall government bond complex returned +0.5% in January. The commonly referenced 10-year UST yield ultimately ended 6 bps lower to finish at 2.63%. The slope of the yield curve is very flat by historical standards, and is actually inverted between 2- and 5-year maturities.

The BloomBar US Aggregate Bond index started the year on a positive note, with total returns up +1.1% in January. Spreads for IG corporates tightened by an impressive 25 bps, and despite a rebound in new issue supply, credit rebounded to once again become the benchmark's best performing sub-sector relative to risk-free US Treasuries. The decline in both rates and spreads caused the all-in yield for the index to fall back below 3.2%.

The Bloombar 1-15-Year Municipal index returned +0.9% in January, driving trailing 12-month returns to a very respectable +3.3%. Low origination and seasonally high coupons/redemptions created a strong technical. The tax-exempt yield curve is notably steeper than that of US Treasuries, providing enhanced yield and better valuations for extended maturities.

The Bloombar US Corporate High Yield index snapped-back with a return of +4.5% in January, with riskier CCC-rated credits and energy-related names leading the recovery. Overall benchmark spreads tightened by 103 bps, such that all-in yields are back down to 6.9%. Global yield moves were directionally consistent with US government bonds, such that unhedged international bonds were solidly positive. Local currency emerging market debt continued to recover with a return of 5.5% for the month, while spreads on US dollar denominated issues, both sovereigns and corporates, tightened back below the average levels witnessed over the past decade.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	0.00	-0.01
Germany	0.15	0.24
France	0.55	0.71
United Kingdom	1.22	1.28
Spain	1.19	1.41
United States	2.63	2.69
Italy	2.59	2.74
Mexico	8.40	8.64
Brazil	8.86	9.24

Source: Bloomberg

Indices Report (Periods Ending January 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	8.01	8.01	-2.31	14.02	10.96	15.00	8.19
Russell 1000	8.38	8.38	-2.17	14.14	10.68	15.17	8.37
Russell 1000 Growth	8.99	8.99	0.24	16.60	12.97	16.86	9.16
Russell 1000 Value	7.78	7.78	-4.81	11.62	8.33	13.39	7.45
Russell 2500	11.51	11.51	-2.61	14.42	7.96	15.47	8.76
Russell 2000	11.25	11.25	-3.52	14.71	7.26	14.51	7.96
Russell 2000 Growth	11.55	11.55	-2.63	15.55	7.83	15.68	8.38
Russell 2000 Value	10.94	10.94	-4.51	13.76	6.62	13.28	7.41
Wilshire 5000 Cap Wtd	8.65	8.65	-2.20	14.30	10.59	15.12	8.44
MSCI ACWI	7.93	7.93	-6.98	12.24	7.30	11.88	7.17
MSCI ACWI ex US	7.57	7.57	-12.14	10.12	3.59	8.84	6.09
MSCI EAFE	6.59	6.59	-12.07	8.27	3.14	8.61	5.57
MSCI EAFE Local Currency	5.47	5.47	-6.77	7.09	6.13	9.28	6.02
MSCI EAFE Growth	6.47	6.47	-10.95	7.80	4.24	9.11	5.83
MSCI EAFE Value	6.70	6.70	-13.20	8.72	1.98	8.06	5.23
MSCI Emerging Markets	8.76	8.76	-13.90	15.32	5.15	10.03	8.62
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.27	0.27	2.15	0.85	0.83	1.01	1.98
BloomBar US Aggregate	1.06	1.06	2.25	1.95	2.44	3.68	3.89
BloomBar Gov't Bond	0.47	0.47	2.72	0.87	1.82	2.43	3.40
BloomBar US Credit	2.16	2.16	0.94	3.72	3.31	5.75	4.64
BloomBar 10 Yr Municipal	1.09	1.09	4.11	2.20	3.71	4.48	4.43
BloomBar US Corp High Yield	4.52	4.52	1.73	9.41	4.61	10.97	7.18
FTSE World Govt Bond	1.41	1.41	-1.07	2.71	0.79	2.12	3.09
BloomBar Global Aggregate	1.52	1.52	-0.88	2.92	1.17	2.98	3.40
BloomBar Multiverse	1.68	1.68	-0.92	3.31	1.34	3.26	3.57
Real Assets							
FTSE NAREIT US Real Estate	11.75	11.75	11.23	7.99	9.43	15.54	8.75
FTSE EPRA/NAREIT Dev RE	10.91	10.91	5.62	8.88	7.51	13.22	8.02
Bloomberg Commodity	5.45	5.45	-8.23	2.66	-7.88	-2.74	-2.24
Cash and Equivalents							
US T-Bills 90 Day	0.20	0.20	1.95	1.08	0.67	0.40	1.34

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