DeMarche Dashboard

Data and Commentary for Periods Ended 3/31/2019

Global Overview

- Markets – Investors enjoyed one of the best quarters since the great recession, as broad equity markets ended March with a return of 10% or more year-to-date. The sharp reversal from the quarter prior could be attributed to progress on trade negotiations, easing monetary policy, and continued strength in labor markets. REITs were among the best performing asset classes during the quarter and finished above 16%. Cyclical sectors, such as consumer discretionary, information technology, and energy led equity markets, particularly in non-U.S. markets. Corporate bonds performed well in March as spreads tightened. The Bloomberg Commodity Index was not able to post positive results in March, though remains above 6% year-to-date as a result of stabilizing oil prices.

- Developed Markets – Both U.S. and developed non-U.S. stock markets were up 10% in the quarter. U.K. markets persevered despite another Brexit delay and performed well in March. Small cap U.S. and small cap non-U.S. stocks lagged large caps in the month, though remain positive year-to-date. Credit outperformed government bonds in March as credit spreads tightened to some of the lowest levels seen in the past two years (particularly on the long-end).

- Emerging Markets – Emerging market stocks ended the month positive and finished the quarter up 10%, while hard currency emerging market debt finished the quarter up 4.9%. A stable U.S. dollar and central bank policy rates remaining at their current levels have been positive factors for emerging market debt investors. EM currencies have strengthened against both the USD and the Euro. China and India led EM equity markets by a wide margin.

U.S. Economy and Markets

- The S&P 500 Index gained 1.9% in the month and posted a return of 13.7% in the first quarter of 2019, offsetting losses seen in the fourth quarter of 2018. The first quarter's gain was the largest for the S&P 500 Index since 2009.
    - Nine out of eleven S&P 500 sectors produced positive results in March. REITs (+4.9%), information technology (+4.8) and consumer discretionary (+4.1%) led the way, while financials (-2.6%) and industrials (-1.1%) lagged.
- Small cap equity markets diverged from large caps, as the Russell 2000 Index returned -2.1% in the month. Small caps finished the quarter up 14.6%, as strong returns in the first two months of the year negated poor results in March. The Russell Midcap Index returned 16.5% in the first quarter, as it was among the best performing broad asset classes for U.S. investors.
    - All but two Russell 2000 sectors produced negative results in March. Small cap value underperformed small cap growth due to poor results from the financial sector, which makes up a large portion of the Russell 2000 Value Index. Utilities (+2.5%) and energy (+1.1%) were the only positive sectors.
- The 10-year U.S. Treasury yield fell 32 basis points in March and now sits at 2.41%. The 2-to-10 year treasury spread tightened to 14 basis points, and certain points in the yield curve inverted for consecutive days. The drop in yields provided a positive return environment for bond investors, as the Bloomberg Barclays U.S. Aggregate Index posted a 1.9% return in the month. High yield bonds delivered a 1.0% of return in March as investors remain continue to find yield through lower credit quality investments. The ICE BofA ML US High Yield Index has returned 7.4% year-to-date.

DeMarche

PARTNER

- Employers added 196,000 jobs in March, slightly edging out expectations. Monthly job growth averaged 180,000 in the first quarter of 2019, less than the 2018 average of 223,000 but still strong by historical standards. Unemployment remains at 3.8%, while year-over-year wage growth remains low at 3.2%. The Fed reinforced statements about patience, as most projections point to no interest rate hikes in 2019. Some economists are predicting a rate cut towards the end of 2019, though it appears unlikely. Wage growth has been stubbornly low since the recession as wages have only marginally outpaced the cost of living since 2009. The positive effect of low wage growth is that it has diffused inflation worries and allows corporations to maintain higher operating margins. Building data, typically a leading economic indicator, was weak again as February data (reported in March) showed a decline in new homes being built. Consumer confidence fell in March after rebounding in February, showcasing uncertainty amongst consumers. Economic data has been somewhat conflicted over the last few months, increasing the importance investors will place on the upcoming earnings season as it relates to the fundamental strength of the U.S. economy.

International Markets

- The MSCI EAFE Index (USD) finished marginally positive in the month (+0.6%) and provided a return of 10.0% during the first quarter of 2019. Despite another delay with Brexit, the British markets provided positive results in March, as the MSCI U.K. Index was up 1.1% and is up nearly 12% year-to-date. The EU and the U.K. agreed to delay the terms of the withdrawal until October 2019 to allow time to ratify the agreement before passing it through the British Parliament once again. Of the remaining large constituents in the EAFE Index, Japan (+0.7%), France (+0.5%), and Switzerland (+2.6%) were positive while Germany (-1.5%) and Spain (-1.6%) finished with negative results in March. The European Central Bank left the overnight deposit rate unchanged at -0.4%, and stated they would not raise rates until at least 2020. The ECB is trying to balance rate changes with the discontinuation of quantitative easing.

- Italy announced they will join China's One Belt, One Road initiative designed to connect major marketplaces from China to Europe to Africa. China has established key areas of cooperation between those involved, including forging infrastructure and facilities networks and strengthening trade relations. Italy was the first G-7 major economy to officially sign up for the project, siding against their European allies in the EU. The European Union opposes the initiative, citing unfair trade practices and lack of free competition with the Chinese government. Italy's decision to join the Belt and Road initiative could spell trouble for the EU's relationship with China as leaders in Beijing plan to expand their initiative to the more 'core' EU economies, such as Germany and France. Italy is now the third EU nation to join China in the initiative and hopes to benefit from new infrastructure investment and increased exports.

- The MSCI Emerging Markets Index (USD) gained 0.8% in March on its way to a 9.9% return in the first quarter. Brazil (-3.8%) continued to fall in March while India (+9.2%) was the best performer among emerging market counties. Indian equities ended March near all-time highs on the strength of the rupee, easing monetary policy, and business-friendly economic reforms. India, the world's fastest growing major economy, is set for an intense election cycle beginning in mid-April as nearly 900 million people will be eligible to head to the polls to determine if the incumbent BJP (conservative party) will remain in power. Chinese markets continued their strong start to 2019, as the MSCI China Index finished the quarter up 17.7%. Cyclical sectors are leading the way in emerging markets as consumer discretionary and information technology closed out the quarter up 20.8% and 12.9%, respectively.

PARTNER

Looking Ahead

- The graphical depiction U.S. Treasury bond yields, commonly referred to as the yield curve, was inverted for five consecutive days during the last half of March. Inversion, or when shorter-dated bond yields are greater than longer-dated bond yields, has long been a predictor of an upcoming recession. Traditional studies suggest that when long-dated bonds have higher yields than short-dated bonds, market participants feel there will be continued growth in markets. An inversion in the yield curve is said to explain that investors would prefer short-dated bonds and enjoy the greater liquidity because they are not expecting economic growth. A sustained inversion between the 3-month and 10-year treasury yields has historically been an indicator of an impending recession within the next 12-18 months. The yield curve's inversion comes at a curious time; however, as equity markets have jumped off to one of the quickest starts to a year since the great financial crisis, the labor market remains relatively strong, and corporate earnings strength is still present. The counter-argument to traditional yield curve inversion theory is that since the U.S. capital markets were flooded with liquidity after the recession via quantitative easing (government buying back bonds to increase money supply), and an inversion in the curve does not have as much explanatory power because there is less of a liquidity premium for long bonds. Investors will be mindful of bond yields and other signals, one direction or the other, that may reinforce forecasts of continued strength or an upcoming recession.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates *per US $*		Inflation[2]
	Latest	2019[1]	2020[1]		*Sovereign Bonds, 10 Year*	Current	1 Year Ago	*(Most recently available)*
United States	3.00	2.71	2.13	3.80	2.41	-	-	2.08
China	6.40	6.30	6.02	3.80	3.10	6.71	6.35	1.74
Japan	0.30	0.96	0.68	2.30	-0.02	110.70	106.96	0.20
United Kingdom	1.40	1.41	1.14	3.90	1.31	1.31	1.39	1.82
Euro Area	1.10	1.60	1.50	7.80	0.25	1.13	1.23	1.09
Germany	0.60	1.61	1.37	3.10	0.06	1.13	1.23	1.37
France	1.00	1.60	1.47	8.80	0.70	1.13	1.23	1.28
Italy	0.00	0.93	0.94	10.70	2.98	1.13	1.23	1.42
Canada	1.60	2.19	1.89	5.80	1.91	1.32	1.27	1.25
India	6.60	7.25	7.36	6.70	6.75	71.24	64.43	6.60
Mexico	1.70	2.53	2.80	3.40	9.11	19.13	18.65	4.37
Brazil	1.10	2.13	2.40	12.40	6.58	3.74	3.26	3.78

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data from The World Bank, all other data from OECD

2. In terms of CPI All Items

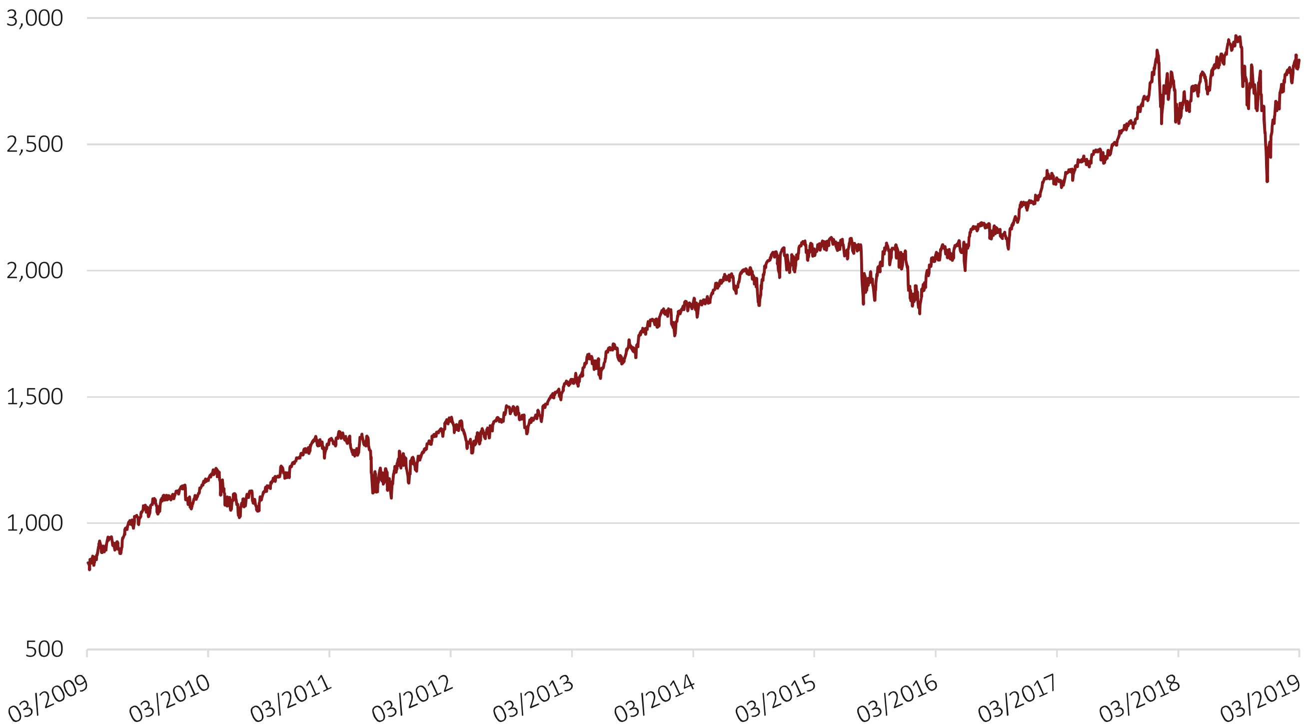
OBJECTIVE

Capital Markets Overview

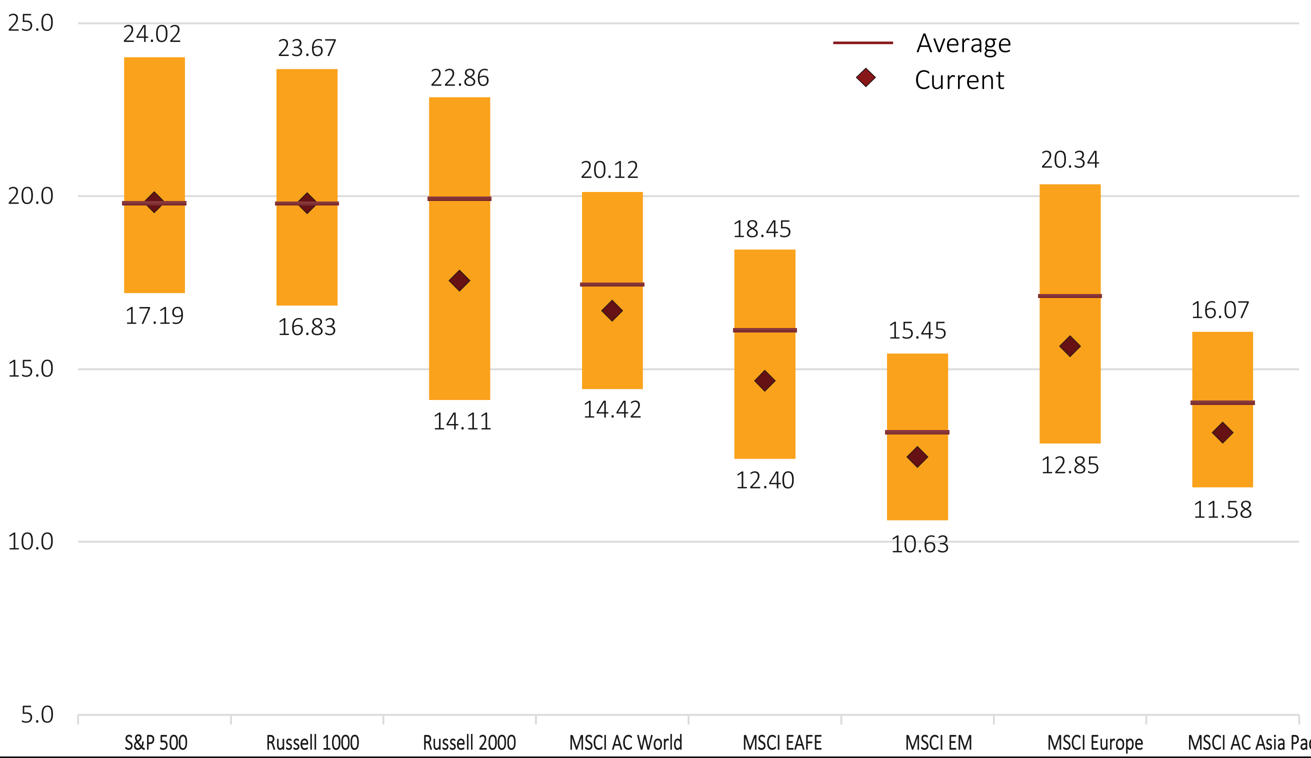
		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	1.31	12.48	12.48	4.01	10.68	6.78	12.38
	BBgBarc US Agg Bond TR USD	1.92	2.94	2.94	4.48	2.03	2.74	3.77
	Russell 3000 TR USD	1.46	14.04	14.04	8.77	13.48	10.36	16.00
	DJ Industrial Average TR USD	0.17	11.81	11.81	10.09	16.37	12.21	15.97
	NASDAQ Composite PR USD	2.61	16.49	16.49	9.41	16.65	12.98	17.59
	MSCI EAFE NR USD	0.63	9.98	9.98	(3.71)	7.27	2.33	8.96
	FTSE Treasury Bill 3 Mon USD	0.21	0.60	0.60	2.11	1.17	0.72	0.41
	Bloomberg Commodity TR USD	(0.18)	6.32	6.32	(5.25)	2.22	(8.92)	(2.56)
Domestic Equities	S&P 500 TR USD	1.94	13.65	13.65	9.50	13.51	10.91	15.92
	S&P MidCap 400 TR	(0.57)	14.49	14.49	2.59	11.24	8.29	16.28
	S&P SmallCap 600 TR USD	(3.33)	11.61	11.61	1.57	12.55	8.45	17.00
	Russell 1000 TR USD	1.74	14.00	14.00	9.30	13.52	10.63	16.05
	Russell 1000 Growth TR USD	2.85	16.10	16.10	12.75	16.53	13.50	17.52
	Russell 1000 Value TR USD	0.64	11.93	11.93	5.67	10.45	7.72	14.52
	Russell Mid Cap TR USD	0.86	16.54	16.54	6.47	11.82	8.81	16.88
	Russell Mid Cap Growth TR USD	1.35	19.62	19.62	11.51	15.06	10.89	17.60
	Russell Mid Cap Value TR USD	0.50	14.37	14.37	2.89	9.50	7.22	16.39
	Russell 2000 TR USD	(2.09)	14.58	14.58	2.05	12.92	7.05	15.36
	Russell 2000 Growth TR USD	(1.35)	17.14	17.14	3.85	14.87	8.41	16.52
	Russell 2000 Value TR USD	(2.88)	11.93	11.93	0.17	10.86	5.59	14.12
International Equities	MSCI ACWI Ex USA NR USD	0.60	10.31	10.31	(4.22)	8.09	2.57	8.85
	MSCI EAFE NR USD	0.63	9.98	9.98	(3.71)	7.27	2.33	8.96
	MSCI EAFE Growth NR USD	1.75	12.04	12.04	(1.30)	7.61	3.93	9.74
	MSCI EAFE Value NR USD	(0.51)	7.92	7.92	(6.13)	6.90	0.67	8.12
	MSCI Japan NR USD	0.57	6.66	6.66	(7.84)	8.06	5.61	7.96
	MSCI AC Asia Ex Japan NR USD	1.72	11.43	11.43	(5.22)	11.89	6.46	11.22
	MSCI Europe NR USD	0.61	10.84	10.84	(3.72)	6.56	1.04	8.95
	MSCI United Kingdom NR USD	1.06	11.89	11.89	(0.07)	6.31	0.69	9.27
	MSCI EAFE Small Cap NR USD	0.16	10.65	10.65	(9.36)	7.50	4.47	12.76
	MSCI EM NR USD	0.84	9.91	9.91	(7.42)	10.68	3.68	8.94
Fixed Income	BBgBarc US Govt/Credit TR USD	2.12	3.26	3.26	4.48	2.12	2.78	3.92
	BBgBarc US Govt/Credit Interm TR USD	1.35	2.32	2.32	4.24	1.66	2.12	3.14
	BBgBarc US Govt/Credit Long TR USD	4.70	6.45	6.45	5.24	3.75	5.35	7.23
	ICE BofAML US High Yield TR USD	0.98	7.40	7.40	5.94	8.69	4.70	11.24
	Credit Suisse HY USD	0.97	7.22	7.22	5.57	8.72	4.48	10.78
	S&P/LSTA Leveraged Loan TR	(0.17)	4.00	4.00	2.97	5.67	3.62	7.98
	FTSE WGBI NonUSD USD	0.89	1.52	1.52	(4.55)	0.87	(0.06)	2.02
	BBgBarc Gbl Agg Ex USD TR USD	0.71	1.52	1.52	(4.13)	0.96	(0.26)	2.46
REITs	FTSE Nareit All REITs TR	4.22	16.70	16.70	19.90	8.08	9.87	18.27
	Wilshire US REIT TR USD	3.20	16.02	16.02	19.34	5.45	9.00	18.69

USD - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

S&P 500 Price Level



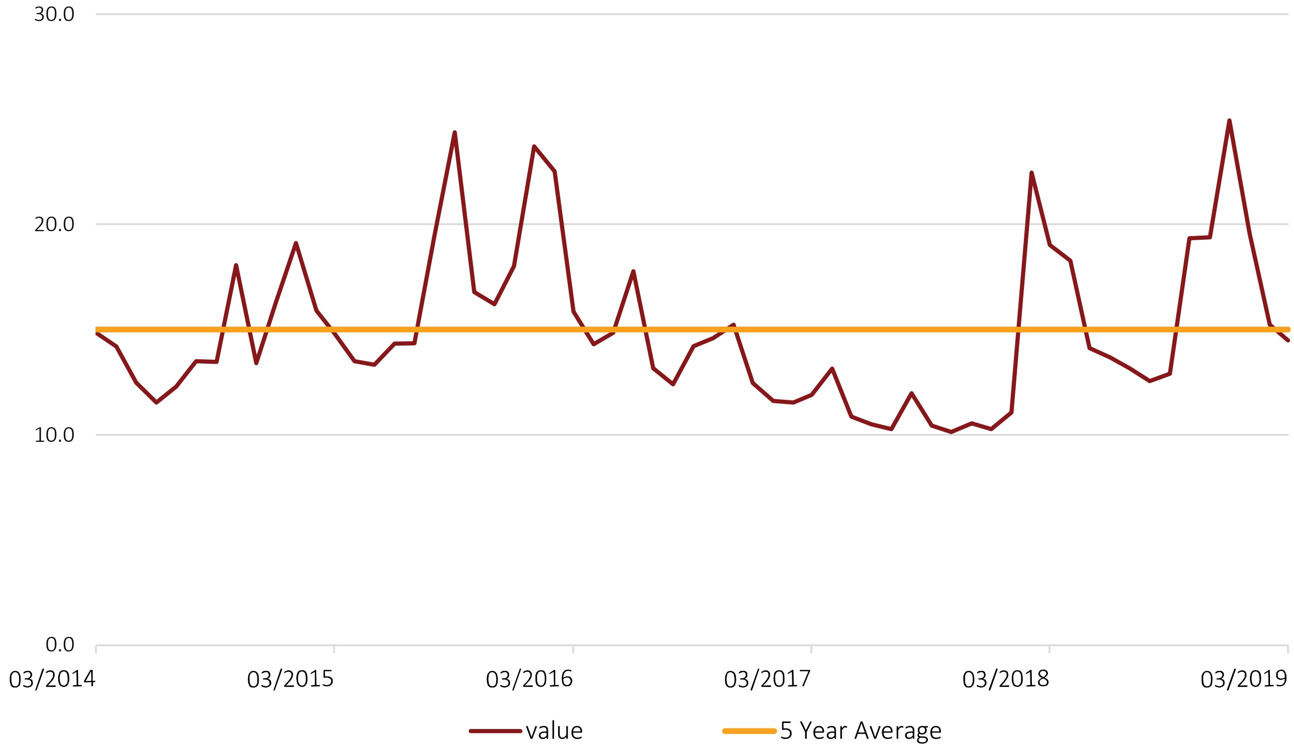
Current P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Date	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

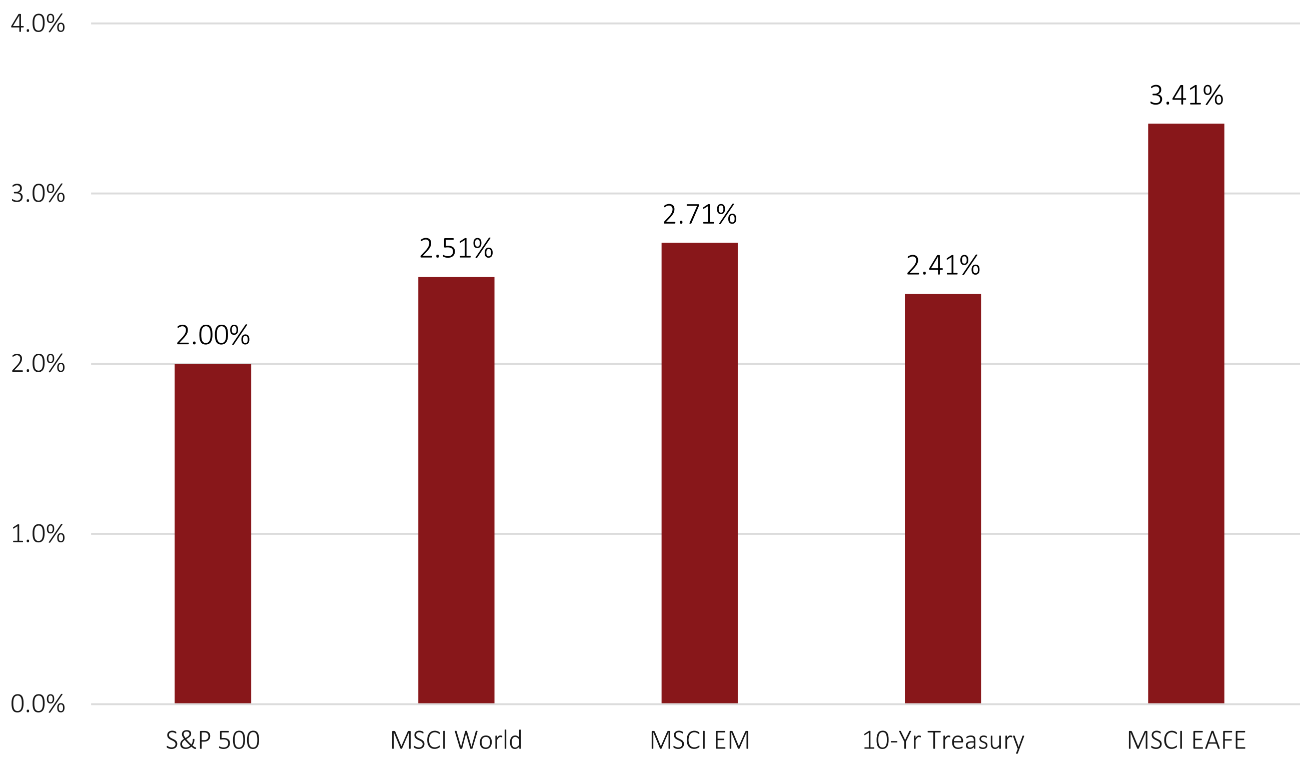
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX



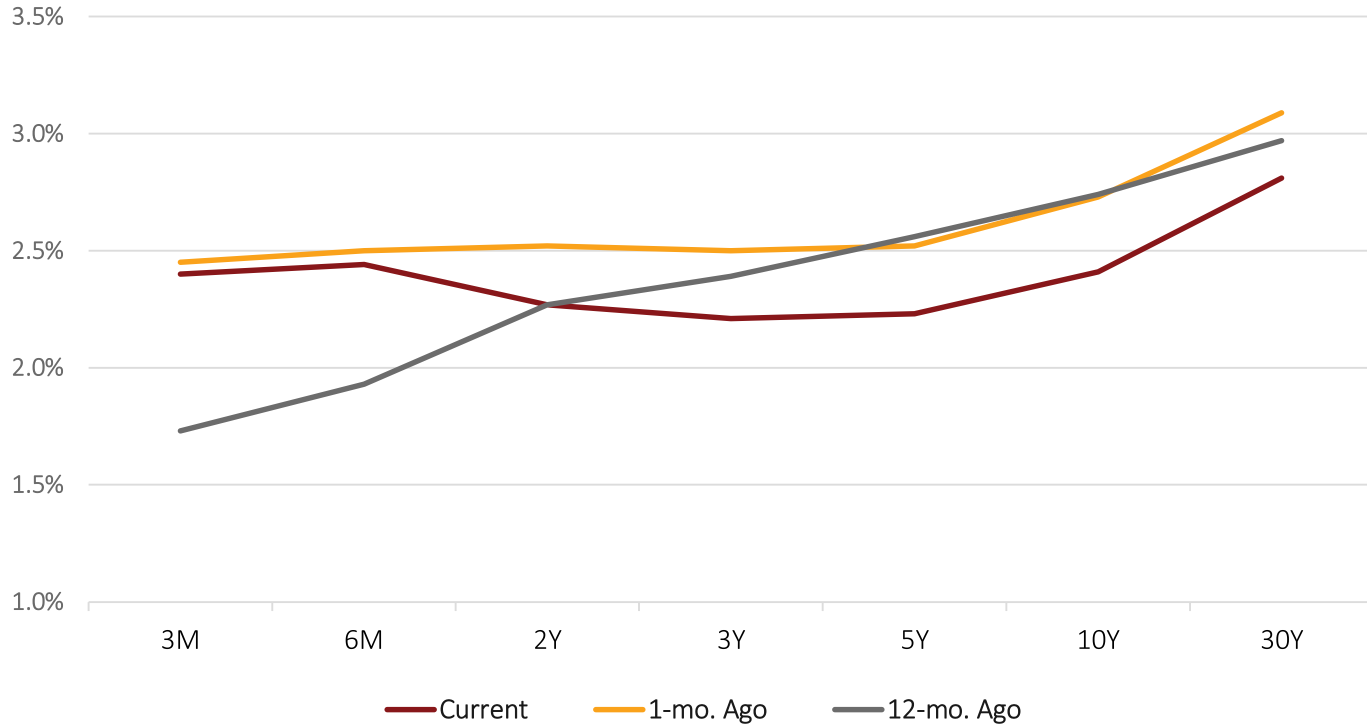
Source: CBOE Global Markets, Inc.

Current Yields



Source: Federal Reserve Bank of St. Louis, Standard & Poors, MSCI

U.S Treasury Yield Curves



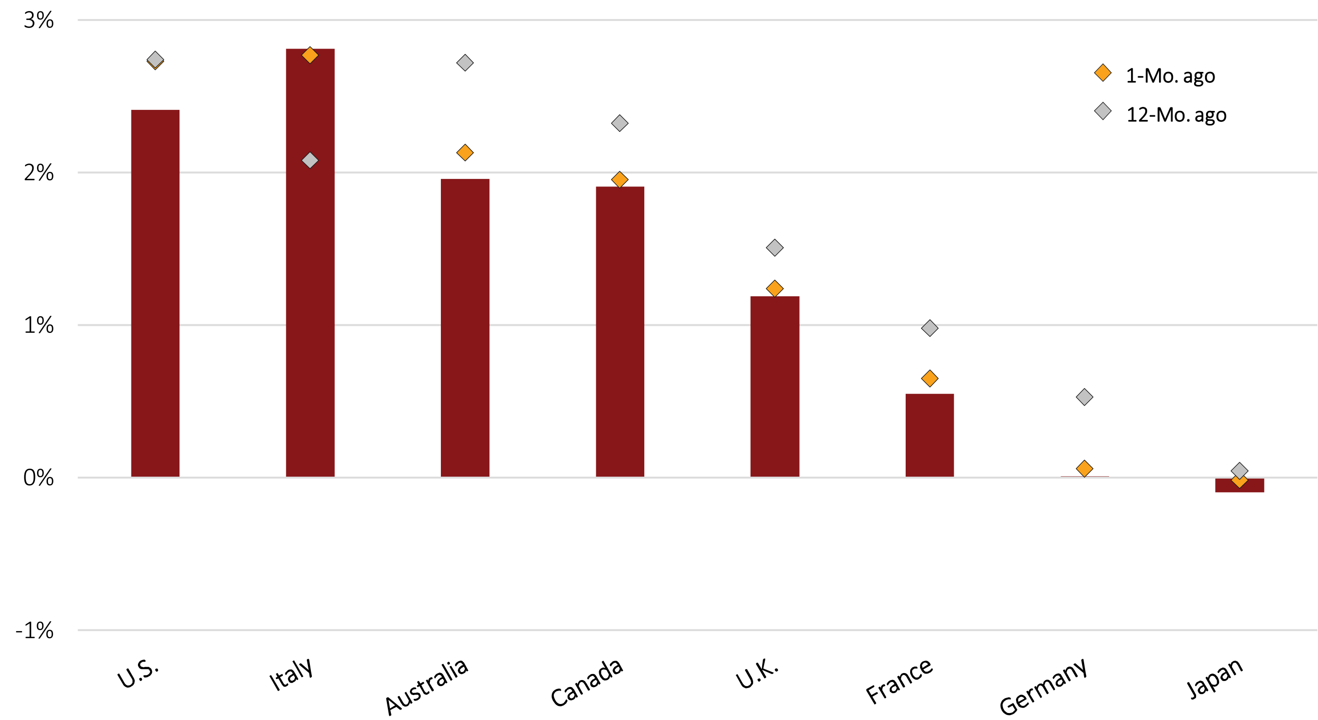
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo.Ago
3-mo. Treasury	2.40	2.45	1.73
6-mo. Treasury	2.44	2.50	1.93
2-yr. Treasury	2.27	2.52	2.27
3-yr. Treasury	2.21	2.50	2.39
5-yr. Treasury	2.23	2.52	2.56
10-yr. Treasury	2.41	2.73	2.74
30-yr. Treasury	2.81	3.09	2.97

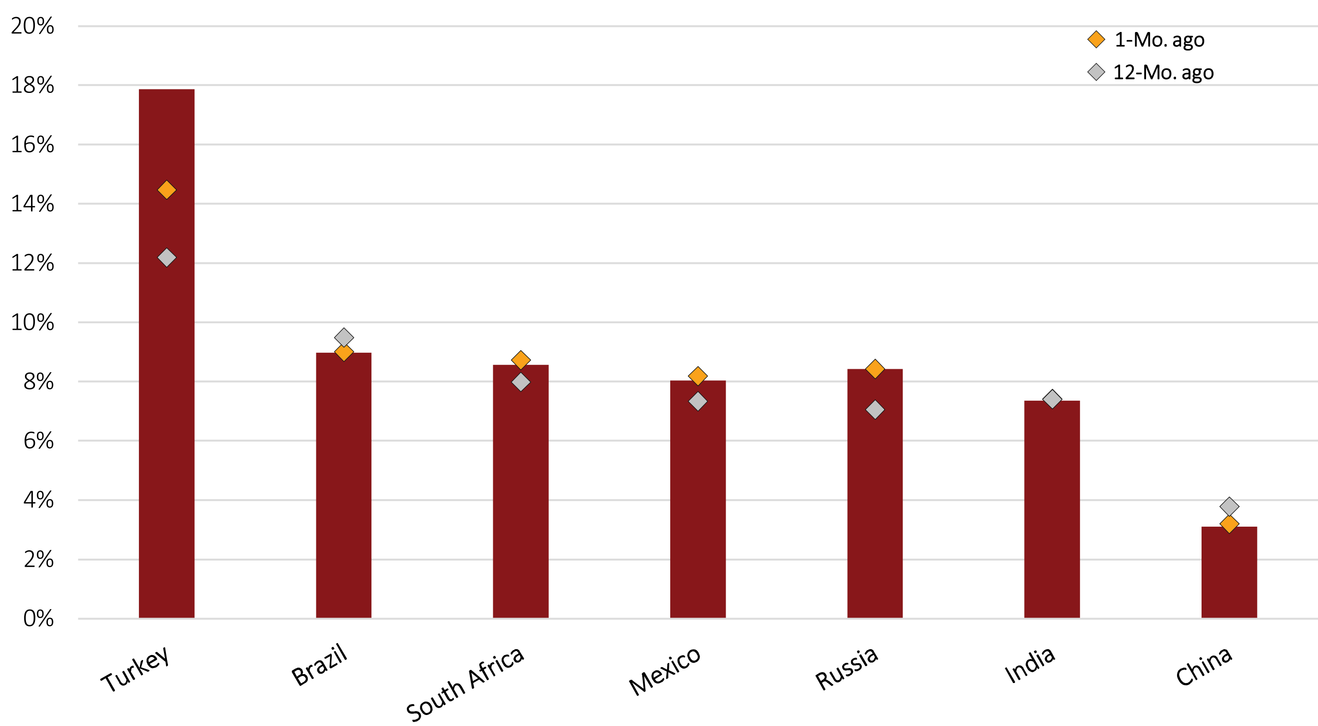
Source: Federal Reserve Bank of St. Louis

Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg

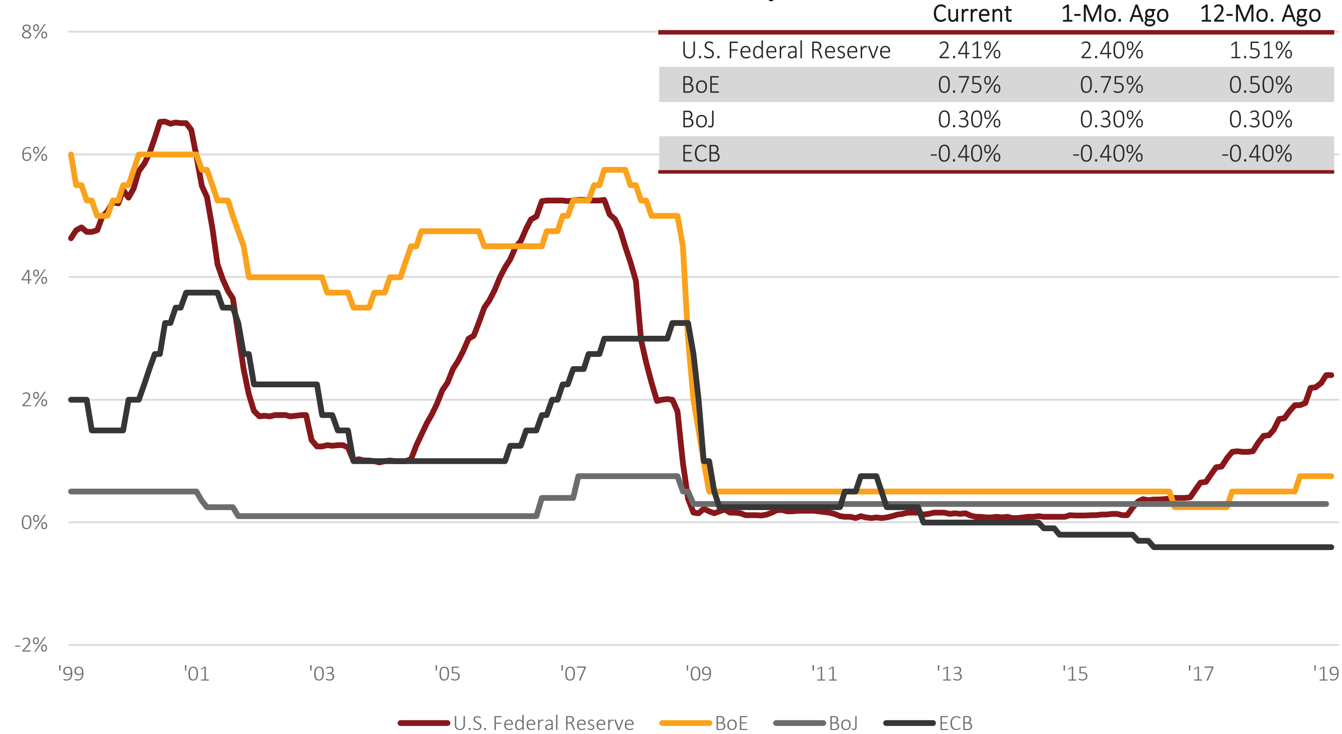
Emerging Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg, Wall Street Journal

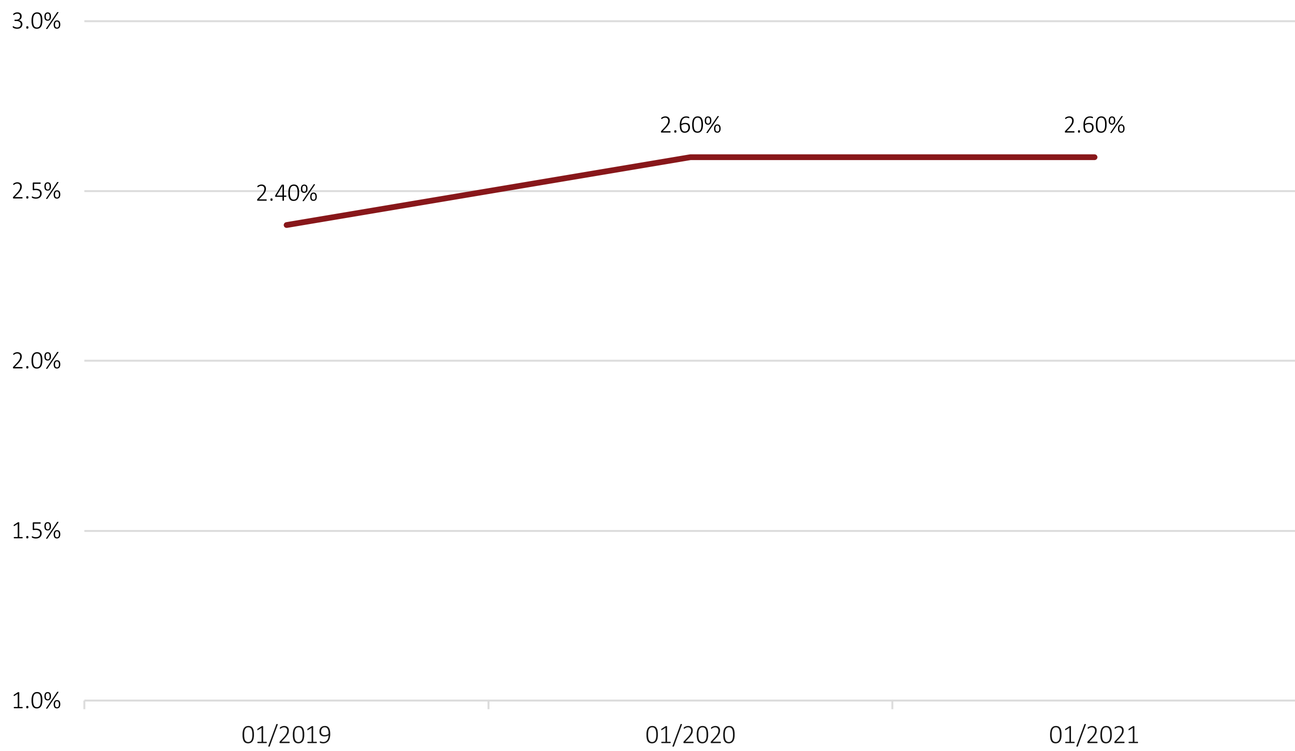
Central Bank Policy Rates

	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	2.41%	2.40%	1.51%
BoE	0.75%	0.75%	0.50%
BoJ	0.30%	0.30%	0.30%
ECB	-0.40%	-0.40%	-0.40%



Source: Federal Reserve Bank, Bank of England, European Central Bank

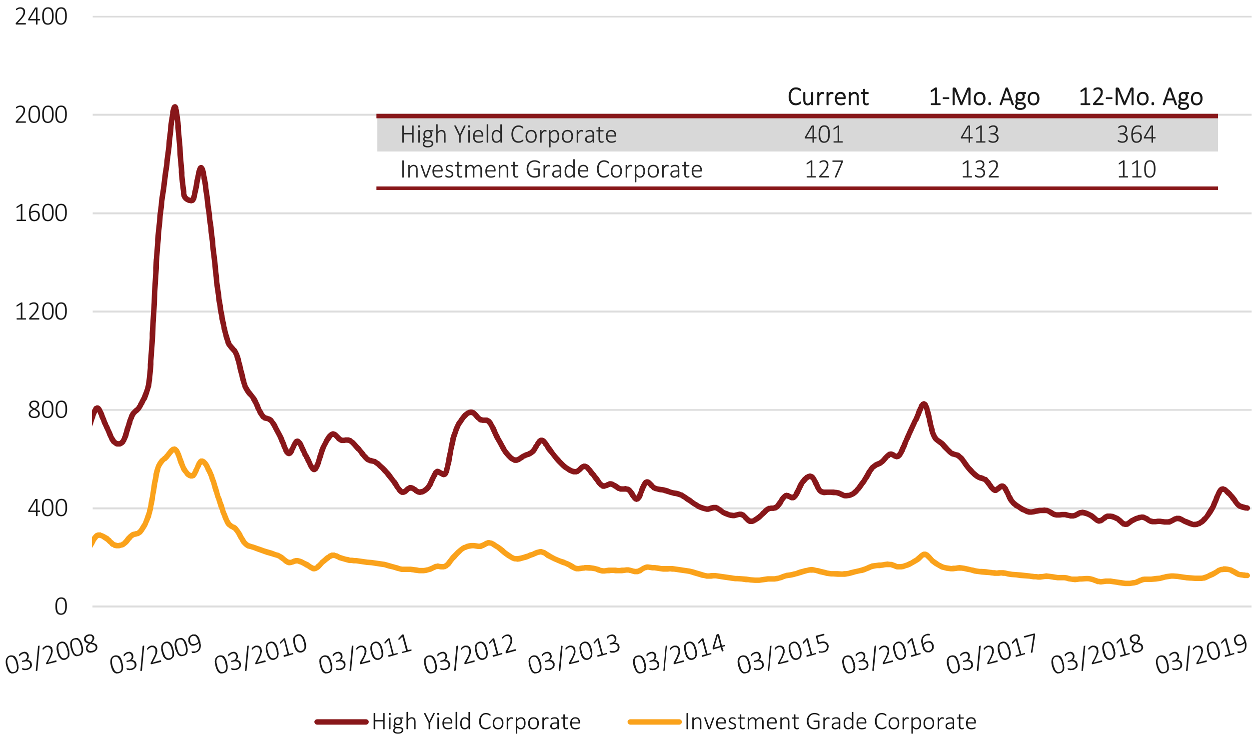
Summary of Economic Projections of Federal Funds Rate



Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).

Represents the median value of the range forecast of the federal funds rate established by the FOMC.

Corporate Bond Average Spread (bps)



	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	401	413	364
Investment Grade Corporate	127	132	110

Source: Bank of America

5-Year Forward Inflation Expection Rate

Source: Federal Reserve Bank of St. Louis. Measure of expected inflation, on average, over the next five year period.