

DeMarche Dashboard

Data and Commentary for Periods Ended 2/28/2019

Global Overview

- **Markets** – The story of February was the advancement in trade negotiations between the world’s two largest economies. Reports of the possibility that both the U.S. and China will lift import tariffs boosted equity markets worldwide, as the MSCI All Country World Index returned 2.7% in February despite slowing global growth and some weak economic data out of Europe and Asia. Commodities gained in the month as crude oil prices maintained price stability in the low-to-mid \$50 range. Corporate issues, particularly high yield bond issues, provided fixed income investors with positive results relative to treasury/sovereign bondholders.
- **Developed markets** – Both the S&P 500 Index and the MSCI EAFE Index gained over 2.5% in February, marking the second straight month of positive returns. U.S. earnings continued to come in strong with 68% of S&P 500 companies beating expectations. European financials bolstered market performance as the ECB announced plans for the restructuring of long-term refinancing options, which will in turn offer more affordable loans for banks. Small cap companies have led large caps in both U.S. and developed non-U.S. markets to begin the year. Bond investors preferred the U.S. over non-U.S. markets, though neither were able to muster positive results in the month.
- **Emerging Markets** – Both emerging market stocks and bonds delivered positive, yet marginal returns for investors in the second month of 2019. The MSCI Emerging Markets Index, subdued by the strengthening U.S. dollar and slowing GDP growth data, was unable to maintain its upward trajectory as the Index finished the month flat. Local currency emerging market debt provided investors with a 0.7% return as spreads tightened modestly. The Bloomberg Barclays Emerging Market Aggregate (Hard Currency) Index has provided investors with a 5.2% return in the past three months.

U.S. Economy and Markets

- The S&P 500 Index continued its climb, up 3.2% in the month and 11.5% year-to-date, marking one of the best two-month periods to begin a year since the 1980’s. Large U.S. companies reacted positively to advanced trade talks and continued strength in the labor market after a strong January jobs report.
 - All 11 S&P 500 sectors produced positive results in February, as information technology (+6.9%) and industrials (+6.4%) led the way. Each of the sectors have returned over 6% year-to-date.
- Consistent with the first month of the year, small cap stocks were the darling of U.S. markets as the Russell 2000 Index grew 5.2% in February. A belief that small cap stocks were oversold in the final months of 2018 may be a factor in the strong performance of those securities spectrum to begin 2019.
 - All sectors of the small cap market were positive in February, with information technology (+7.6%), telecommunication (+7.2%), and health care (+6.4%) generated the strongest results.
- The 10-year U.S. Treasury yield rose by approximately 10 basis points in February, steepening the yield curve marginally. The 2-to-10-year treasury spread widened from 18 basis points to 21 basis points. Treasury and agency bond returns were predominately flat for the month. High yield credit continued to be the best performing segment of the bond market as the BofA Merrill Lynch High Yield Index gained 1.7% in February, due in part to continued spread tightening in the utilities and energy sectors. Bank loans also provided investors with similar returns to high yield credit.

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- The growth style continues to outpace the value style in both U.S. large cap and small cap stocks, with the first two months of 2019 being no exception. The strong performance of the information technology and health care sectors over the past number of years, driven chiefly by innovation and technological advancements, has turned investor's interests towards growth securities that may be experiencing momentum, or the notion that stock prices that are rising will continue to rise. The momentum factor is often spoken about in regard to companies categorized as growth stocks, though the major distinction between the two is that the term growth refers to some tangible expectation of above average [earnings] growth, while momentum is purely a reflection of continued stock price appreciation. Investors will be curious to see how growth stocks keep up versus their value counterparts if there becomes sustained price momentum to the downside. The broad market hasn't experienced a sustained bear market in nearly 10 years.
- Following an exceptionally strong jobs report in January, the Bureau of Labor Statistics released the weakest payroll data since September 2017 as U.S. payrolls grew just 20,000 in February versus an expected 180,000. Unemployment ticked down to a 50 year low of 3.8%, while year-over-year wage growth rose to 3.4%. The drop in unemployment rate and lack job growth can be partially attributed to the effects of the government shutdown as furloughed workers returned to their jobs. The number of involuntary part-time workers dropped due to the furlough, affecting employment in construction which saw a decline of 31,000. Investors expect the Fed to hold rate policy at current levels while the Federal Reserve Board looks for more of a clear picture on the direction of the labor market.

International Markets

- The MSCI EAFE Index continued to climb in February (+2.6%) despite a number of headwinds facing some of the largest constituents of the Index, most of which centered on the lower expectations for growth. Out of the 21 countries included Index, only three did not provide positive results in February. Japan (-0.0%), the largest constituent in the Index, has been hampered by the lack of inflation, lack of manufacturing activity, and tepid earnings. Hong Kong (+5.9%), France (+4.1%), and Switzerland (+4.2%) contributed to the positive result for the broad Index.
- The MSCI Emerging Markets Index (USD) slowed down after three months of strong gains, finishing flat (+0.2%) in February. After leading the Index through 2018 and the first month of 2019, Brazil gave back 4.5% in the month due to a weaker than expected GDP figure, though despite government reforms set to alleviate Brazil's surplus of government debt. China, the largest constituent in the Index, returned 3.5% on the prospect of improving trade conditions, accommodative monetary and fiscal policy, and increased lending. However, Chinese exports declined 21% year-over-year in February, a real sign that tariffs were negatively impacting the overall health of the Chinese market, hence the need for government intervention. Chinese A-Shares, which are shares of Chinese companies denominated in Renminbi that trade 'onshore' in Shanghai and Shenzhen, have returned over 25% to begin 2019.
- Investors have poured approximately \$86 billion into emerging market assets to begin 2019 as optimism that a trade agreement will be reached has boosted investor enthusiasm in emerging market companies. After hitting a peak in January 2018, MSCI Emerging Markets Index declined throughout the rest of 2018 before finally stabilizing in late November to December, at which time they were trading near their 5-year lows in valuations (trailing P/E) and below that of other major indices like the S&P 500 and the MSCI EAFE Index. Investors have taken advantage of attractive valuations to begin 2019 in hopes the Index will jump on positive trade news.



Looking Ahead

- After the U.K. Parliament rejected British Prime Minister Theresa May's proposal of an EU withdrawal deal by a historic 230 vote margin during January, eyes turned to a British parliament debate that would take place on February 14th. The members of parliament were set to discuss and vote on any amendments to the original proposal, which May has been drafting with EU officials for 18 months, before going back to an official vote in the U.K. on March 29th. Theresa May faced yet another defeat in the House of Commons in mid-February as members from her own Conservative party, who voted in favor of May's strategy in January, abstained from voting due to issues surrounding the treatment of the Northern Ireland border with the EU. May now has to scramble to revise her latest draft and find enough votes to pass a proposal on March 29th or face the possibility of a "no-deal" exit, which would see the U.K leave the EU without a withdrawal agreement, or face another delay, possibly into December 2020. The Wall Street Journal gives the likelihood of a no-deal 10%, the likelihood of May's withdrawal agreement passing about a 30%, and the likelihood of an extension a 60% chance. Why should investors care? The impacts from a no-deal on March 29th could shell-shock U.K. financial markets and leave the nation with no legal arrangements surrounding trade with its neighbors, possibly leading to bottlenecks that can bring food and drug shortages. Investors with European exposure will be observing the vote on March 29th, as impacts on assets may be felt globally.
- 2019 could be remembered in some circles as the year of technology 'unicorn' IPOs, as household names such as Uber, Lyft, Airbnb, WeWork, and a list of others may potentially go public this year. If these companies do in fact go public, 2019's IPO market could raise upwards of \$100 billion (given 15% float), the largest in history. Stalwarts may wince at the idea that a company like Uber is receiving a \$120 billion private market valuation (similar size to Nike or Honeywell) while never turning a profit, so investors will be paying close attention to valuations placed on these businesses at the time they are set to go public, especially after the run-up of the 'FAANG' stocks in the past three years. Investors will be eyeing if there will be enough demand for the potential supply at these valuations after all of the growth in technology stocks since 2016.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation ² <i>(Most recently available)</i>
	Latest	2019 ¹	2020 ¹			Current	1 Year Ago	
United States	2.60	2.72	2.13	4.00	2.73	-	-	2.15
China	6.40	6.30	6.02	3.80	3.20	6.71	6.35	1.91
Japan	0.00	0.96	0.68	2.40	0.00	110.70	106.96	0.30
United Kingdom	1.30	1.41	1.14	4.00	1.32	1.31	1.39	2.00
Euro Area	1.20	1.60	1.50	7.90	0.25	1.13	1.23	0.98
Germany	0.60	1.61	1.37	3.30	0.13	1.13	1.23	1.72
France	0.90	1.60	1.47	9.10	0.70	1.13	1.23	1.21
Italy	0.10	0.93	0.94	10.30	2.98	1.13	1.23	1.42
Canada	2.10	2.19	1.89	5.80	1.95	1.32	1.27	1.41
India	7.10	7.25	7.36	7.10	6.75	71.24	64.43	5.24
Mexico	1.70	2.53	2.80	3.50	8.71	19.13	18.65	4.37
Brazil	1.30	2.13	2.41	12.00	6.50	3.74	3.26	3.75

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



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	3.01	2.58	11.02	0.43	12.64	6.53	13.05
	BBgBarc US Agg Bond TR USD	(0.06)	2.86	1.00	3.17	1.69	2.32	3.71
	Russell 3000 TR USD	3.52	1.94	12.40	5.05	15.53	10.15	16.81
	DJ Industrial Average TR USD	4.03	2.03	11.62	5.95	19.04	12.38	16.84
	NASDAQ Composite PR USD	3.44	2.76	13.52	3.57	18.23	11.82	18.52
	MSCI EAFE NR USD	2.55	3.98	9.29	(6.04)	9.32	2.07	9.56
	FTSE Treasury Bill 3 Mon USD	0.19	0.59	0.39	2.04	1.11	0.68	0.39
Bloomberg Commodity TR USD	1.01	(0.82)	6.51	(5.67)	3.57	(8.81)	(2.19)	
Domestic Equities	S&P 500 TR USD	3.21	1.42	11.48	4.68	15.28	10.67	16.67
	S&P MidCap 400 TR	4.24	2.11	15.14	4.14	14.53	8.49	17.36
	S&P SmallCap 600 TR USD	4.35	1.52	15.45	7.20	16.86	9.34	18.32
	Russell 1000 TR USD	3.39	1.84	12.05	4.99	15.43	10.39	16.82
	Russell 1000 Growth TR USD	3.58	3.18	12.89	6.62	17.99	12.63	18.19
	Russell 1000 Value TR USD	3.20	0.55	11.23	3.16	12.80	8.09	15.39
	Russell Mid Cap TR USD	4.30	4.09	15.55	5.63	14.46	8.56	17.81
	Russell Mid Cap Growth TR USD	5.86	7.32	18.03	9.85	17.20	10.18	18.52
	Russell Mid Cap Value TR USD	3.18	1.86	13.81	2.63	12.58	7.44	17.31
	Russell 2000 TR USD	5.20	3.13	17.03	5.58	16.67	7.36	16.60
	Russell 2000 Growth TR USD	6.46	4.88	18.75	6.70	18.27	8.16	17.69
Russell 2000 Value TR USD	3.89	1.32	15.25	4.42	14.95	6.48	15.43	
International Equities	MSCI ACWI Ex USA NR USD	1.95	4.69	9.66	(6.46)	10.72	2.50	9.63
	MSCI EAFE NR USD	2.55	3.98	9.29	(6.04)	9.32	2.07	9.56
	MSCI EAFE Growth NR USD	3.44	4.81	10.11	(4.17)	9.23	3.44	10.15
	MSCI EAFE Value NR USD	1.66	3.16	8.47	(7.92)	9.38	0.65	8.92
	MSCI Japan NR USD	(0.03)	(1.02)	6.07	(10.29)	9.53	5.22	8.12
	MSCI AC Asia Ex Japan NR USD	2.09	6.58	9.55	(8.22)	15.28	6.31	12.48
	MSCI Europe NR USD	3.36	5.08	10.17	(5.46)	8.52	0.71	9.61
	MSCI United Kingdom NR USD	3.39	6.53	10.72	(1.46)	7.62	(0.17)	9.56
	MSCI EAFE Small Cap NR USD	2.24	3.35	10.48	(10.53)	10.24	4.33	13.45
	MSCI EM NR USD	0.22	6.11	9.01	(9.89)	15.04	4.13	10.32
Fixed Income	BBgBarc US Govt/Credit TR USD	(0.06)	3.00	1.12	2.98	1.81	2.33	3.82
	BBgBarc US Govt/Credit Interm TR USD	0.09	2.30	0.95	3.22	1.44	1.78	3.10
	BBgBarc US Govt/Credit Long TR USD	(0.55)	5.43	1.67	2.17	3.13	4.54	6.92
	ICE BofAML US High Yield TR USD	1.69	4.03	6.36	4.26	9.91	4.54	11.49
	Credit Suisse HY USD	1.65	3.76	6.18	3.89	9.97	4.33	10.89
	S&P/LSTA Leveraged Loan TR	1.59	1.53	4.18	3.44	6.69	3.73	8.15
	FTSE WGBI NonUSD USD	(1.31)	3.19	0.63	(3.65)	1.87	(0.24)	2.20
	BBgBarc Gbl Agg Ex USD TR USD	(1.04)	3.03	0.80	(3.45)	2.08	(0.40)	2.68
REITs	FTSE Nareit All REITs TR	0.50	3.32	11.97	19.35	10.04	9.03	18.29
	Wilshire US REIT TR USD	0.86	3.02	12.42	20.38	7.85	8.51	18.69

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

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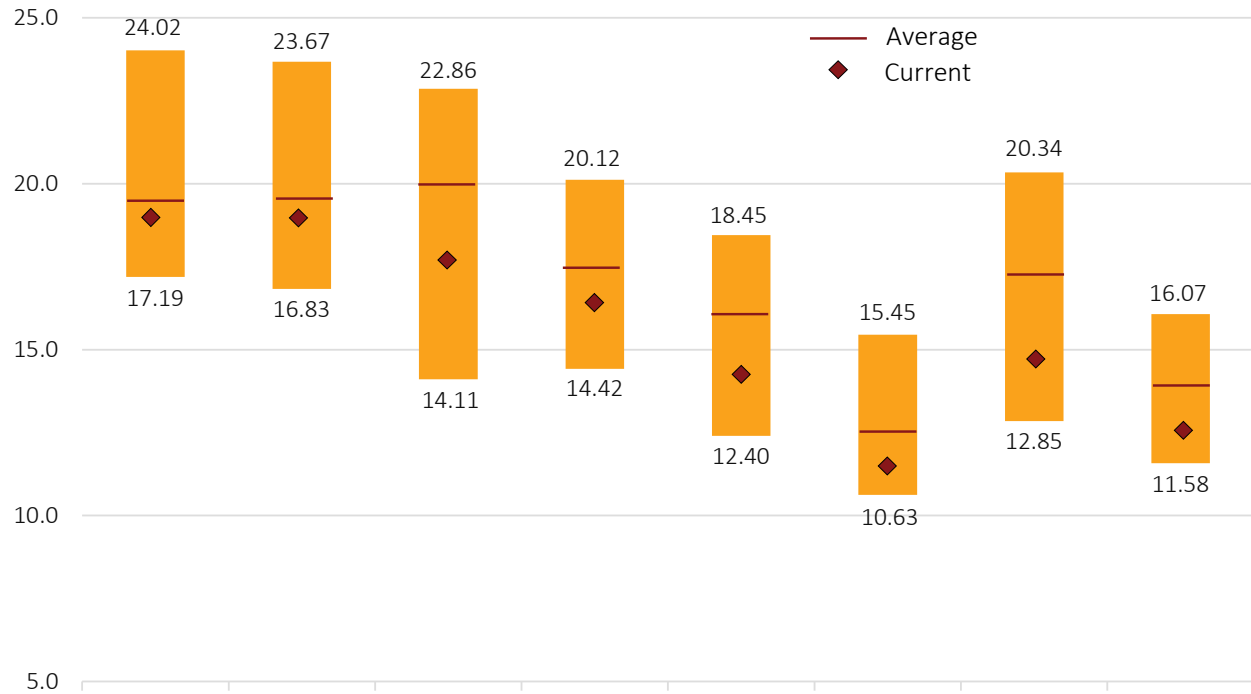
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S&P 500 Price Level



Source: Standard & Poors

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

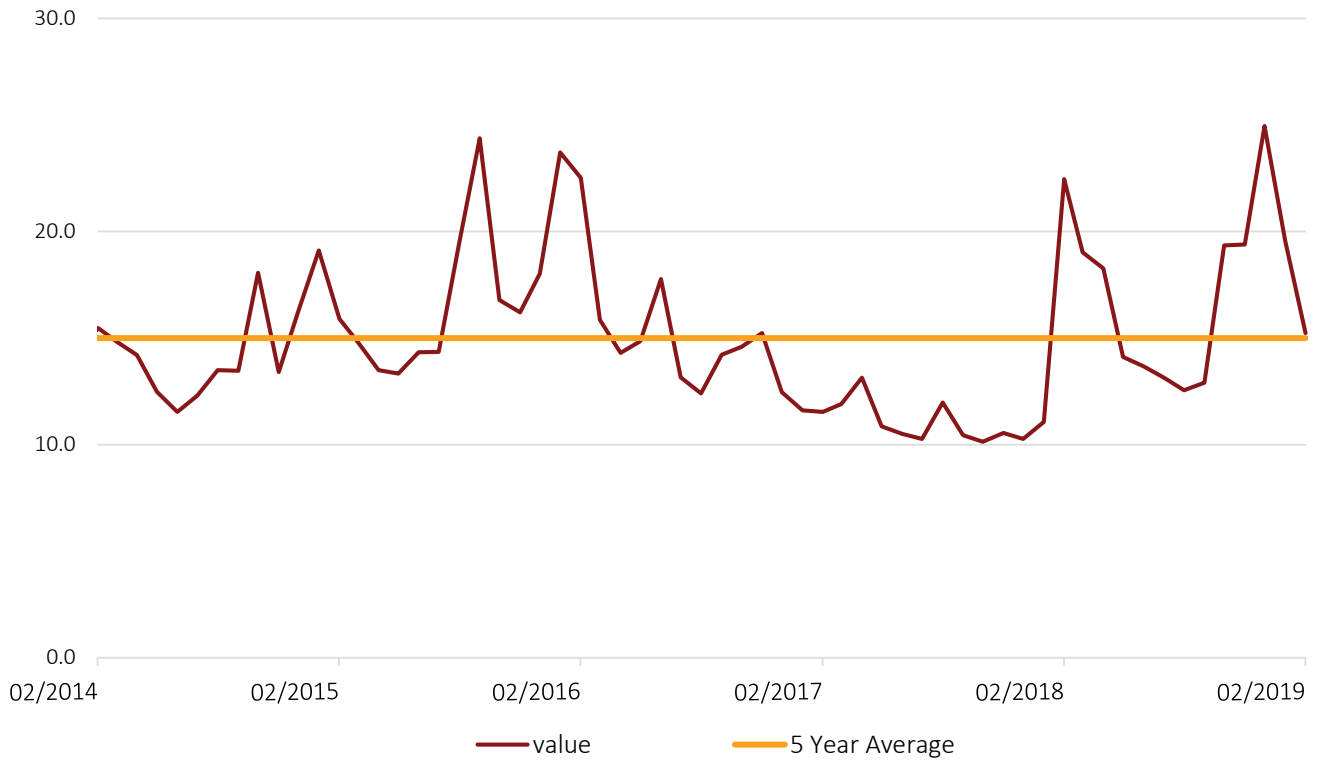
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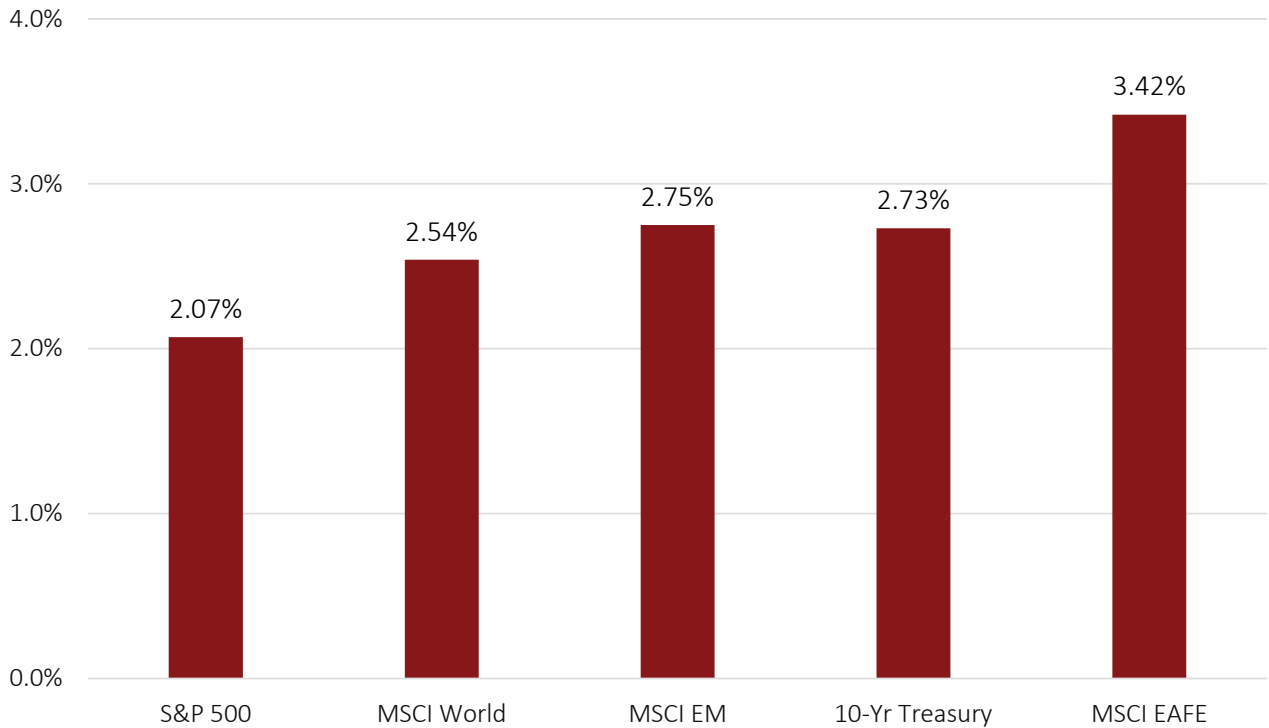
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CBOE Volatility Index: VIX



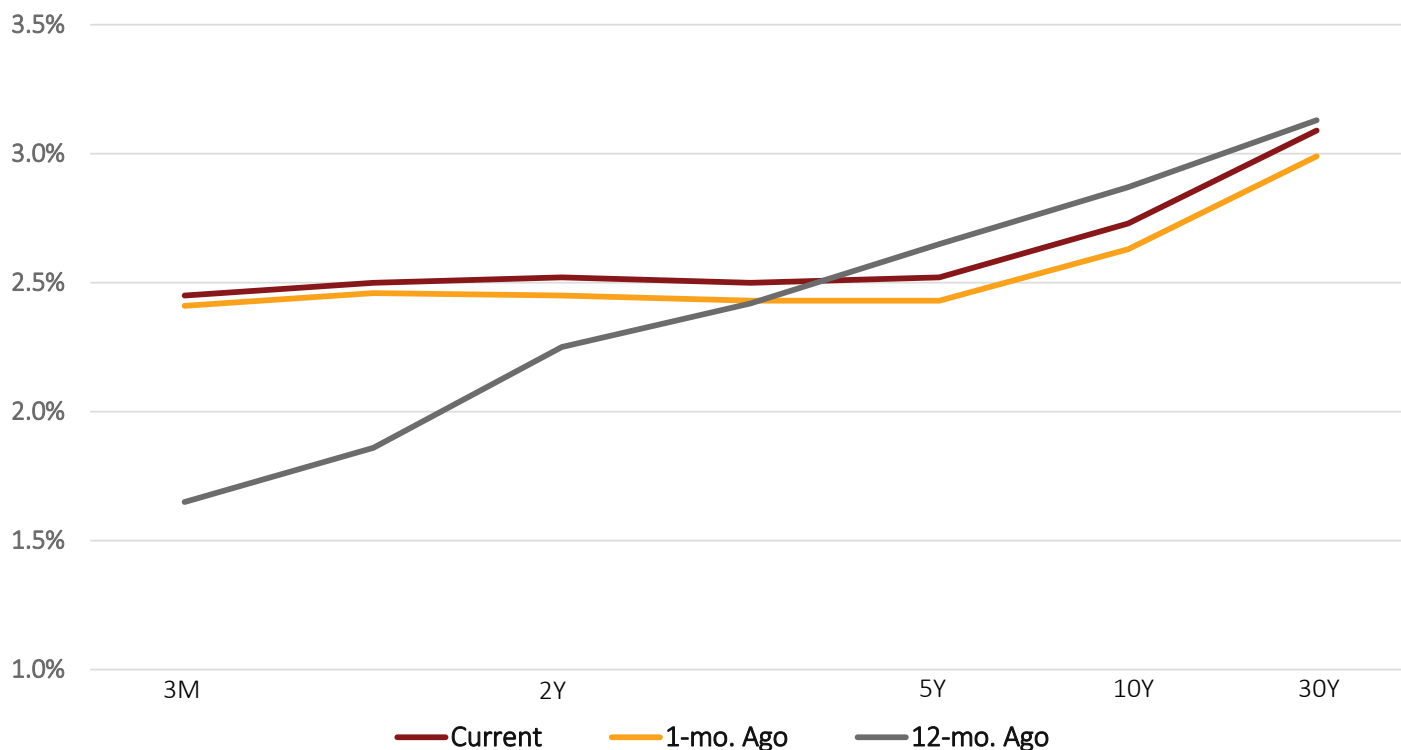
Source: CBOE Global Markets, Inc.

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	2.45	2.41	1.65
6-mo. Treasury	2.50	2.46	1.86
2-yr. Treasury	2.52	2.45	2.25
3-yr. Treasury	2.50	2.43	2.42
5-yr. Treasury	2.52	2.43	2.65
10-yr. Treasury	2.73	2.63	2.87
30-yr. Treasury	3.09	2.99	3.13

Source: Federal Reserve Bank of St. Louis

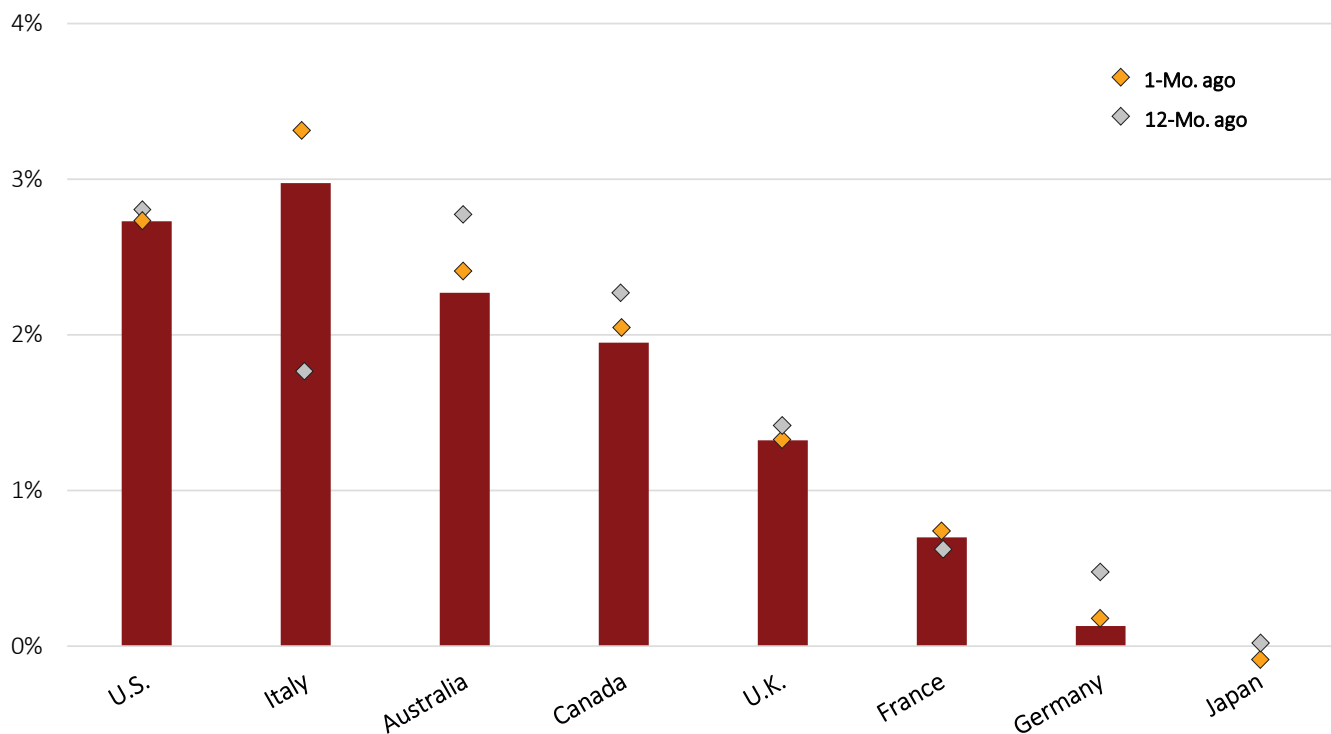
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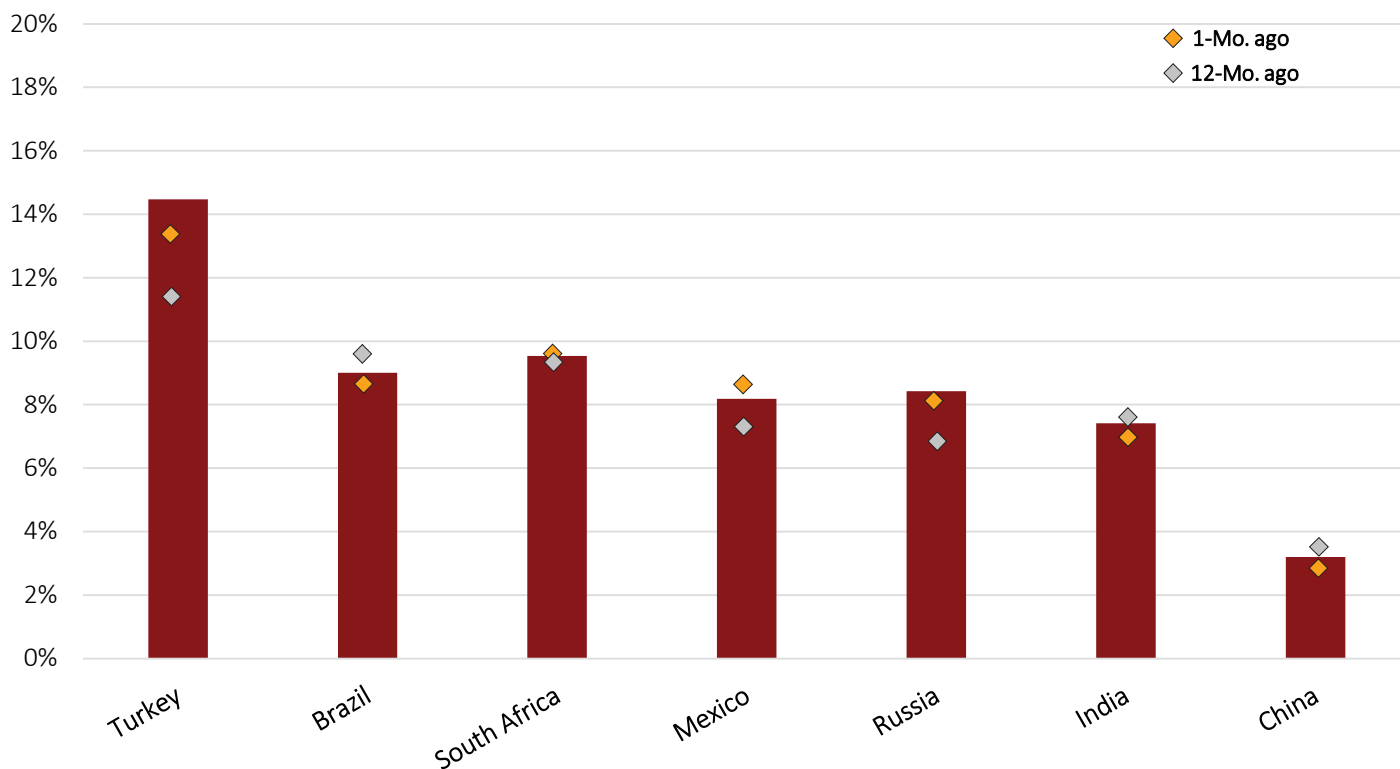
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Developed Markets 10 Year Sovereign Yields



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

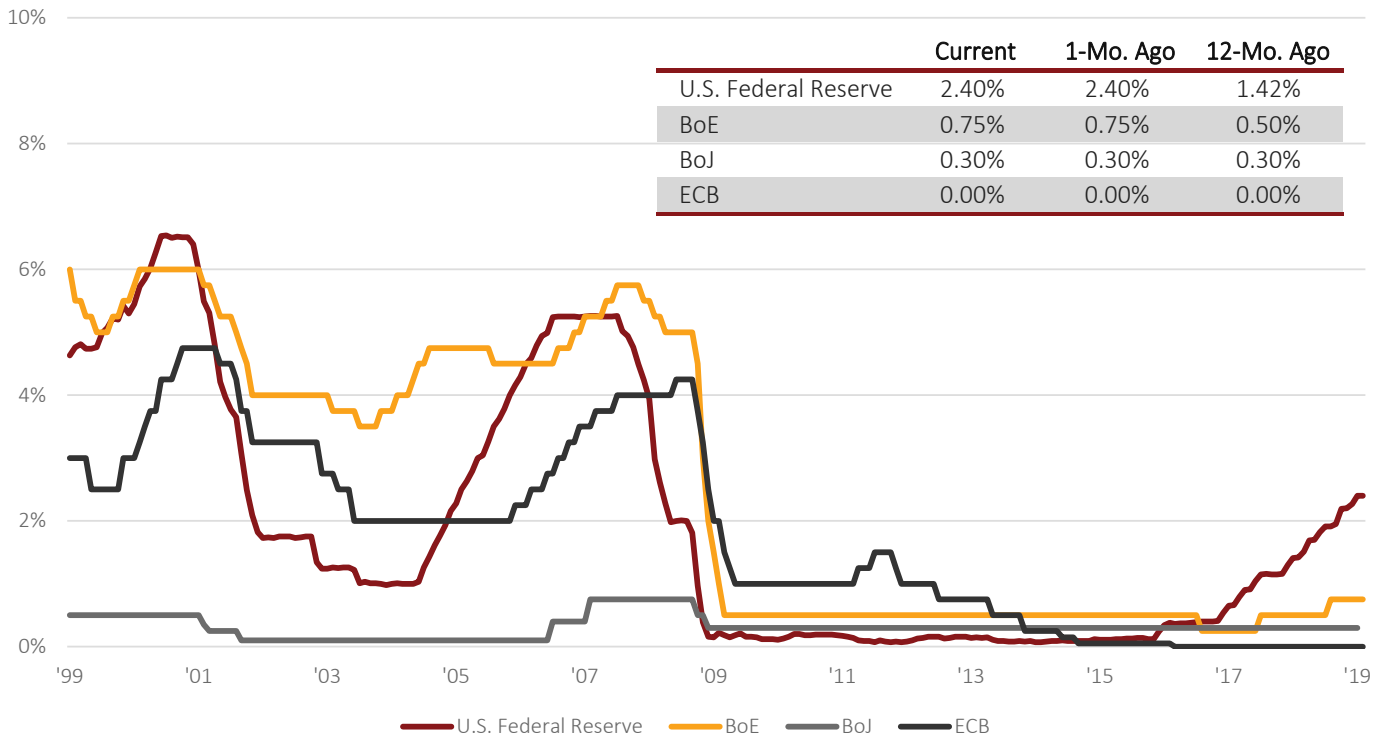
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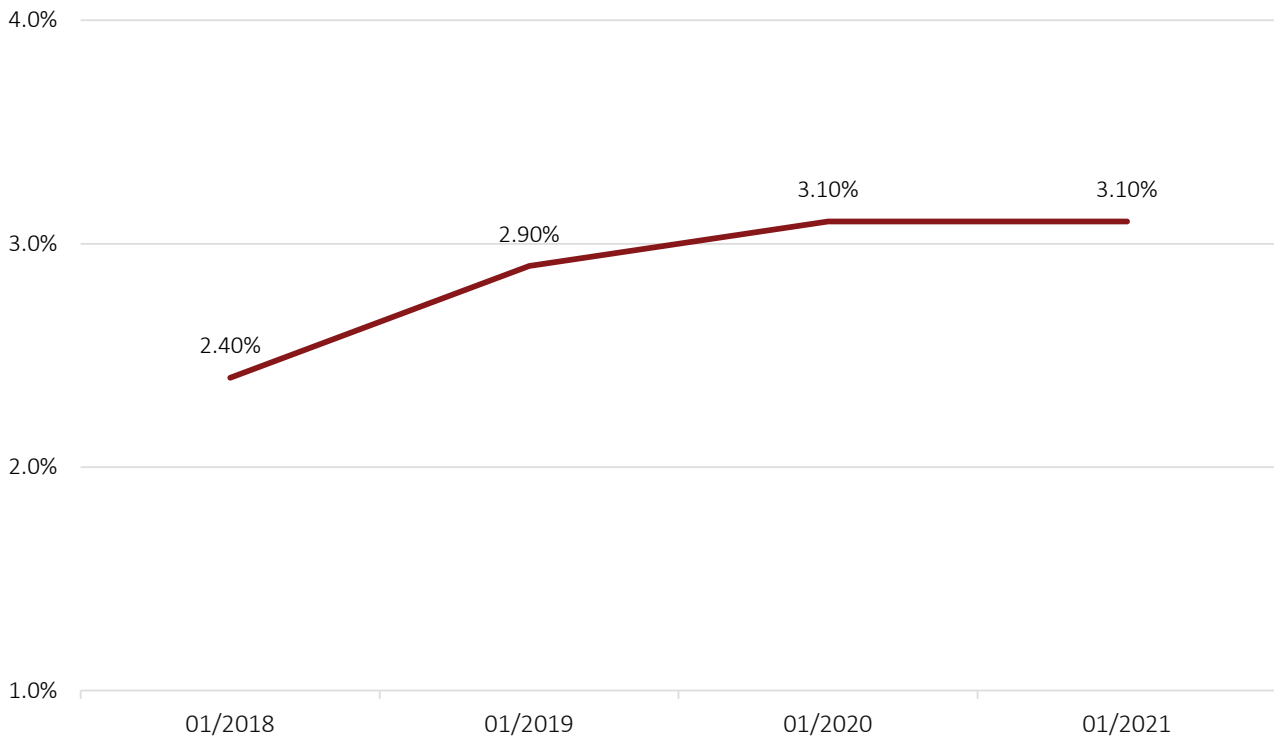
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Central Bank Policy Rates



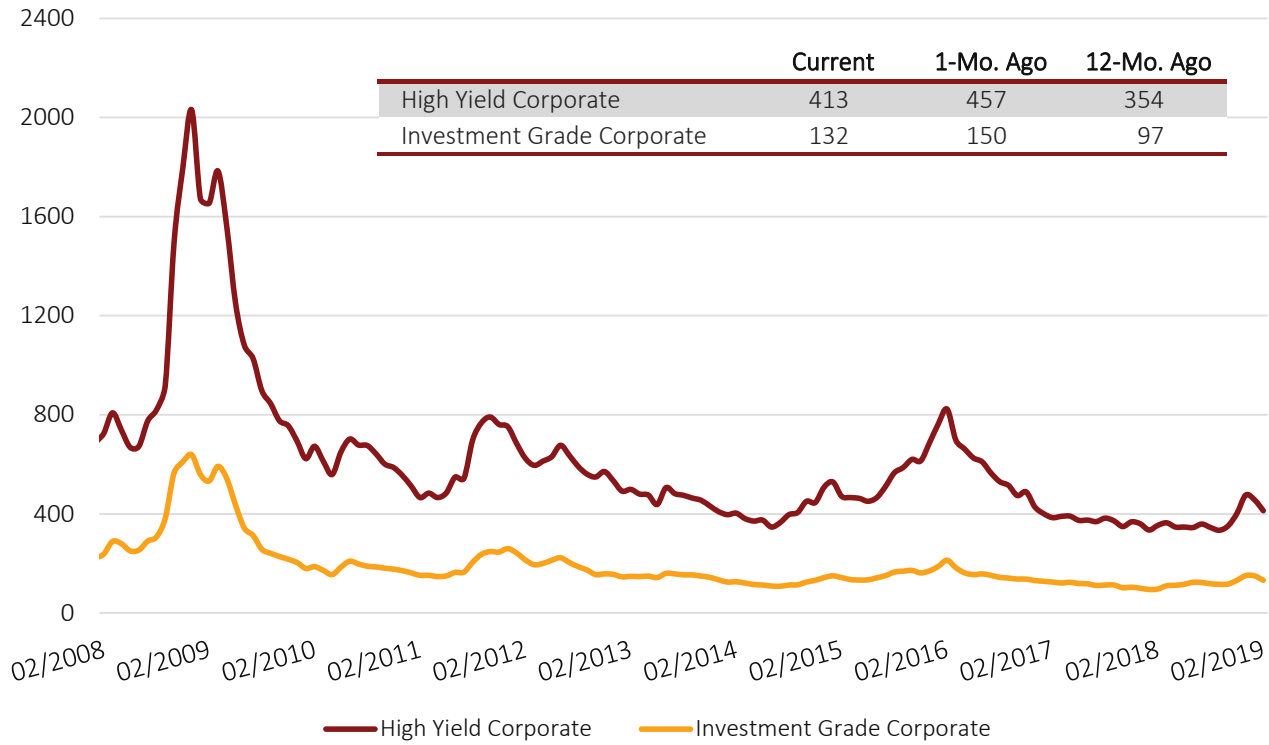
Source: Federal Reserve Bank, Bank of England, European Central Bank

Summary of Economic Projections of Federal Funds Rate



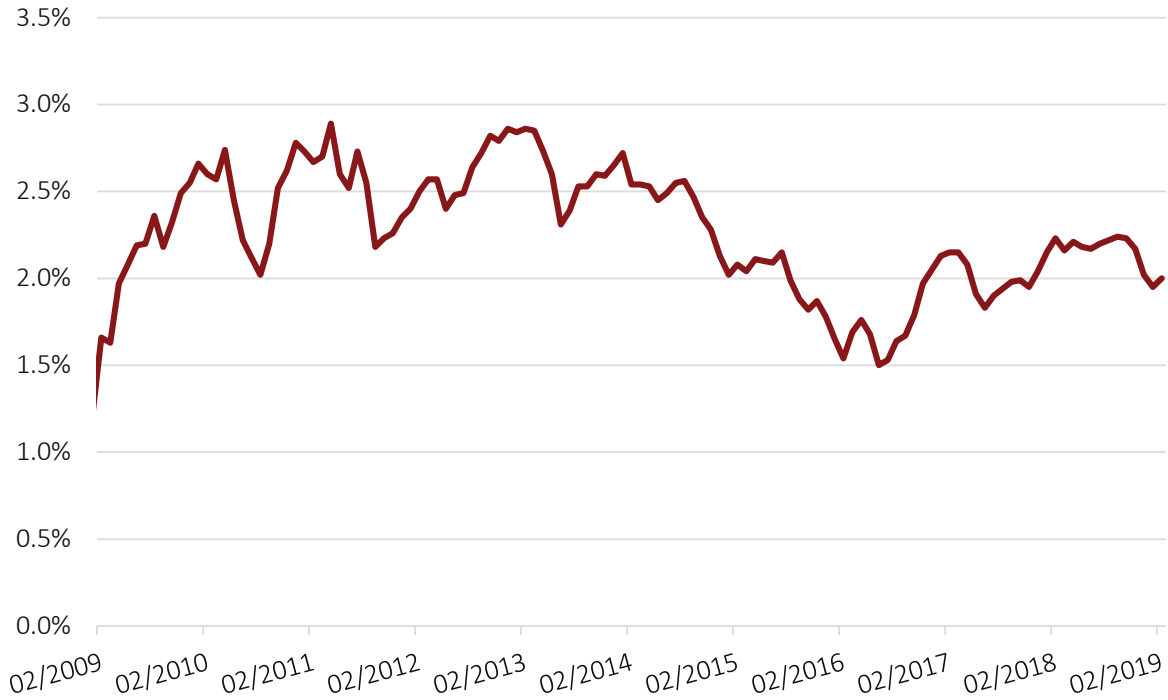
Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).
Represents the median value of the range forecast of the federal funds rate established by the FOMC.

Corporate Bond Average Spread (bps)



Source: Bank of America

5-Year Forward Inflation Expectation Rate



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