April 2019

Monthly Market Commentary

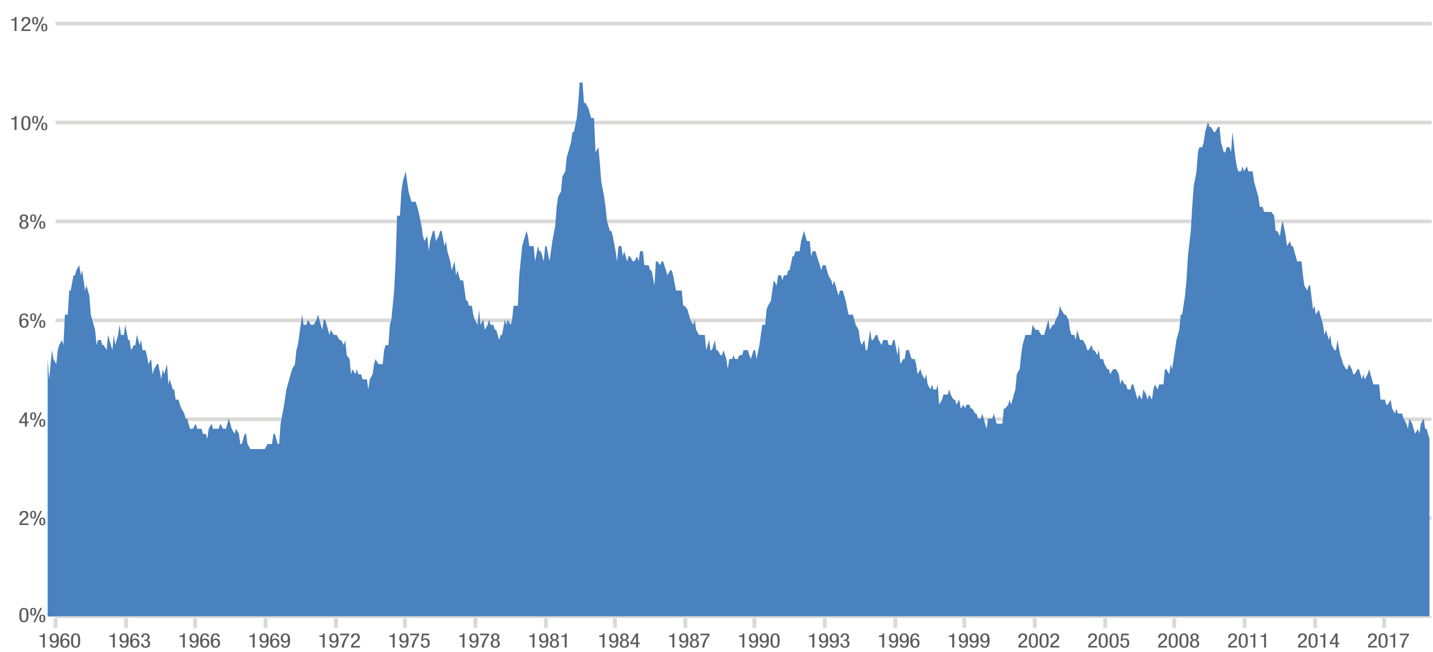
Discussion Points

- S&P 500 Index All-Time High
- Unemployment at 49-year low
- Q1 GDP Growth Exceeds Expectations

Stocks continued to show strength and post gains throughout the month of April. In fact, the S&P 500 closed at a new all-time closing high on the final day of the month to reach 2949. This drove the monthly total return for the S&P to 4.0%, and 18.2% in 2019. Year-to-date performance of equities represented by the Russell Midcap and Russell 2000 indices also increased to 20.9% and 19.0% respectively. Real GDP exceeded expectations by growing during the first quarter at an annualized rate of 3.2% compared to 2.2% in the fourth quarter. While equity performance has remained positive, some investors are questioning future economic growth potential due in part to slowing corporate earnings. Companies in the S&P 500 at the time of this writing had experienced an average earnings growth rate in the first quarter of just 1.7%. This is down considerably when comparing year-over-year growth because companies reaped the benefits of corporate tax reform last year. This change enabled many companies to provide investors a one-time boost to their bottom line.

U.S. Civilian Employment Rate SA

April 1960 - April 2019



Source: Federal Reserve

Another concern for investors arose when the ISM Manufacturing index reported for April at 52.8, missing analyst expectations of 55.0. While a reading above 50 signifies expansion in the manufacturing sector, this is the lowest level for the index in almost 2 years. When looking at the broader economy, the Conference Board Leading Economic Index (LEI) increased 0.2% reaching a level of 112.1 for April and was the third month in a row the index moved higher. LEI is closely monitored by investors because it is used to predict U.S. economic conditions over the next six months and has successfully forecasted each U.S. recession since 1970.

The nonfarm payrolls report for April easily exceeded expectations by creating 263,000 jobs compared to a consensus estimate of 180,000 jobs. Unemployment claims are now at 3.6%, which are the lowest the economy has seen since 1970, yet inflation remains benign. This has placed the Fed in a unique position. Interest rates remain substantially lower than their historical average, but the Fed stated they would be "patient" with future rate increases. They stood firm on this commitment at the April meeting as the Fed saw continued strength in the economy and maintained the Federal Funds rate at a target range of 2.25-2.50%.

Bond markets remained relatively flat as the U.S. Barclays Aggregate Bond Index increased just 0.3% for the month and is up 2.97% year-to-date.

For the year, international markets represented by the MSCI EAFE and MSCI EM benchmarks were up 13.0% and 12.2% respectively. While each have experienced weaker performance than the U.S., some of this underperformance is likely due to a strengthening U.S. dollar, which mutes the impact of international earnings. In addition, trade talks between China and the U.S. once again took a negative turn. President Trump and President Xi's negotiation talks broke down and resulted in each side raising tariffs on the other. The U.S. raised tariffs on $200 billion of Chinese exports to a rate of 25%, up from 10%. China retaliated by raising their tariffs on $60 billion of U.S. goods from 5% and 10%, up to 20% and 25% respectively. As negotiations have continued to sour, China has been using another means of leverage against the United States. According to Reuters, China remains the largest U.S. debtholder but has reduced their holdings down to $1.12 trillion, its lowest level in two years. Analysts are watching to see if this decrease in demand will raise the yield on the 10-year U.S. Treasury.

MMC-APR19 (05/19)