

**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.

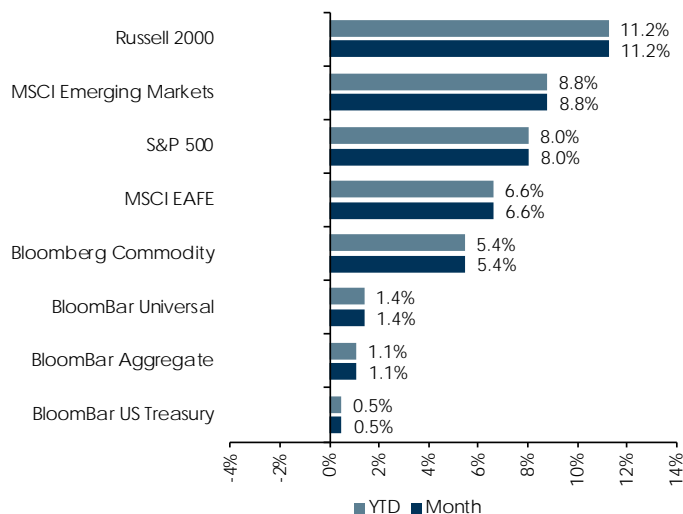
The unemployment rate increased to 4.0% in January, even with the greater-than-expected increase of 304,000 jobs for the month. The labor participation rate continued to increase, and average hourly wages rose again at a healthy year-over-year pace of 3.2%. Inflation continues to be kept in check, with 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**

**Key Market Indices**



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 (%)
<b>Equity</b>							
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
<b>Fixed Income</b>							
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 Gov't 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
<b>Real Assets</b>							
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
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.20	0.20	1.95	1.08	0.67	0.40	1.34

## Definitions

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### **Bloomberg Barclays Capital Aggregate**

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

### **Bloomberg Barclays Capital Global Aggregate Index**

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

### **Bloomberg Barclays Capital Muni 5 Yr**

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

### **Bloomberg Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### **The Bloomberg Barclays U.S. Treasury Index**

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

### **The Bloomberg Barclays Capital U.S. Universal Index**

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

### **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

### **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

### **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

### **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

### **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

### **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

### **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

### **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

### **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

### **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

### **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

### **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

### **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

### **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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