## Global Economy

Relative calm permeated the globe, sustaining the rally in risk assets throughout February. Ongoing trade discussions between the US and China delayed tariff escalation, and fostered hopes for a deal. Continued efforts by Prime Minster May to negotiate a workable deal/extension between the UK and the EU lowered the odds of a "hard Brexit." Broadly positive measures of the US and global economy also helped sentiment readings improve. Issues surrounding the supply of oil were the outlier from a volatility perspective. Although still below the recent peak in October 2018, prices have been influenced higher by OPEC nations, as well as other exporters such as Russia, holding firm in production cuts.

The Federal Open Market Committee (FOMC) did not meet in February, but released minutes from the January meeting. The minutes reflect discussion on the balance sheet reduction program as well as the impact of Fed actions on market conditions. The FOMC is now expected to stop its balance sheet reduction program toward the end of 2019. There was considerable discussion as to the wording of the January statement, which incorporated language regarding a "patient approach" to monetary policy. The next meeting is March 19-20, where no interest rate action is expected.

The initial release of 4Q-18 GDP growth showed an annual rate of 2.6%, which was slightly above expectations. The US economy grew 2.9% for all of 2018, the strongest full year of growth since 2005. Consumer spending was strong early in the quarter, as was business investment, but dropped in December amid volatility. A larger-than-expected inventory build may be a headwind for early 2019 growth.

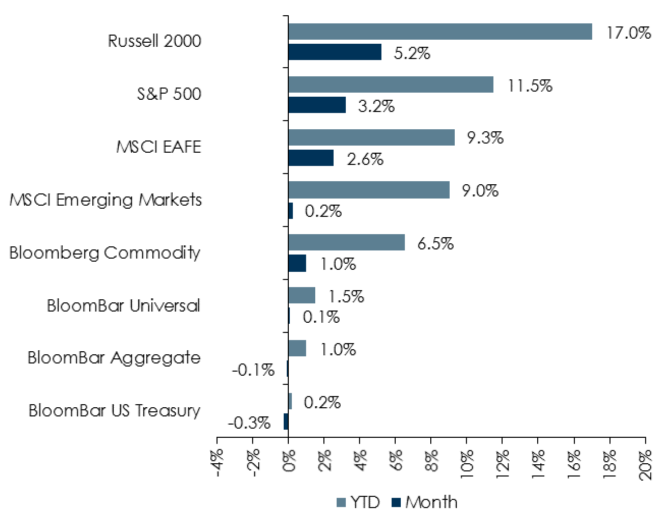
The unemployment rate declined to 3.8% in January, even with the disappointing increase of only 20,000 jobs for the month. The labor participation rate remained constant, and average hourly wages rose at a healthy year-over-year pace of 3.4%. Inflation continues to be kept in check, with the Core CPI index once again holding steady at 2.2% year-over-year. The FOMC's preferred measure, the Core PCE index, was reported at 1.9% year-over-year through December, with January's data not yet released due to the lingering impact of the government shutdown.

| | Current | Dec-18 |
|---|---|---|
| US GDP (%) | 2.60 | 3.40 |
| US Unemployment (%) | 3.80 | 3.90 |
| CPI (Core) (%) | 2.20 | 2.20 |
| Fed Funds (%) | 2.25 – 2.50 | 2.25 – 2.50 |
| 10 Year UST Yld (%) | 2.72 | 2.69 |
| S&P 500 Div Yld (%) | 1.97 | 2.15 |
| S&P 500 P/E (Trailing) | 18.35 | 17.12 |
| Gold/oz. | $1,316.10 | $1,281.30 |
| Oil (Crude) | $57.22 | $45.41 |
| Gasoline (Natl Avg) | $2.47 | $2.36 |
| USD/Euro | $1.14 | $1.15 |
| USD/GBP | $1.33 | $1.28 |
| Yen/USD | ¥111.39 | ¥109.69 |

Source: Bloomberg

## Global Markets

### Key Market Indices




Source: Bloomberg

Major market indexes followed up an explosive January with a solid February, and key US benchmarks now boast double-digit gains year-to-date. The S&P 500, which represents large US-based entities, was up +3.2% for the month. All major sectors in the domestic benchmark were up materially, with IT (+6.6%) and Industrials (+6.1%) leading the way. Relative sector laggards included Real Estate (+0.8%), Consumer Discretionary (+0.7%), and Communication Services (+0.8%). Small cap stocks, as represented by the Russell 2000, again outperformed with a return of +5.2% for the month, with Growth (+6.5%) oriented names meaningfully outperforming Value (+3.9%) for the month.

In the broad international developed markets, the MSCI EAFE index was closely behind large US stocks at +2.6%. Japan was flat for the month given weakness in the Yen, while the Pacific Ex Japan (+3.8%) and European (+3.4%) regions both outperformed their domestic counterparts. Sector performance was quite consistent, with Healthcare (+4.0%) and Financials (+3.7%) leading the way. Real estate (-0.7%) and Utilities (+0.3%) were notable laggards.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were once again positive, but lagged the other major equity markets, with a return of +0.2%. Latin America showed particular weakness, falling -3.7%, even as Asian markets (led by Taiwan and China) appreciated at a more moderate pace of +1.7%. Overall, the US dollar strengthened against the diversified basket of emerging market currencies.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down slightly at -0.1% during the month, following double-digit growth in January. The Alerian MLP index was up just slightly at +0.3%, also cooling from more than 10% gains in the first month of the year. The near-month NYMEX oil contract was up +6.4% for the month and now +26.0% for the year, amid the trade and supply concerns illustrated above. The more broadly diversified Bloomberg Commodity index continued its positive overall trend at +1.0% for the month and +6.5% year-to-date.



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## Global Markets (continued)

US Treasury (UST) yields edged modestly higher in February, but the degree of economic optimism remains tempered relative to risk markets. Confident in the Fed's accommodative bias, the futures market projects neither rate hikes nor rate cuts in 2019. Despite this benign environment for high-quality fixed income, the overall government bond complex returned -0.3% for the month. The commonly referenced 10-year UST yield ultimately ended 9 bps higher to finish at 2.72%. The slope of the yield curve remains very flat by historical standards, even as longer-dated maturities underperformed.

The BloomBar US Aggregate Bond index fared slightly better, but still lost -0.1% in February. Spreads for IG corporates tightened by another 7 bps despite higher-than-anticipated new issue supply. Given strength in the commercial real estate market, CMBS was the benchmark's best performing sub-sector relative to risk-free US Treasuries. The offsetting impact of rising rates and lower spreads caused the all-in yield for the index to remain 3.2%.

The Bloombar 1-15-Year Municipal index returned +0.5% in February, taking 12-month returns to a very respectable +4.1%. Extremely strong technicals have driven valuations to their richest level in over a decade. Still, 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 built upon year-to-date gains with a return of +1.7% in February. Returns were unusually uniform across the credit spectrum. Overall benchmark spreads tightened by 44 bps, such that all-in yields are back down to 6.5%. Global yield moves were directionally consistent with US government bonds, but US dollar strength produced losses in unhedged international bonds. Hard-dollar emerging market bonds produced solid gains, with spreads for both sovereigns and corporate, tightening back below the average levels seen over the past 15-years

### Selected Bond Yields

| 10 Year Sovereign Bond Yields (%) | | |
|---|---|---|
| | Current | Dec-18 |
| Japan | -0.03 | -0.01 |
| Germany | 0.18 | 0.24 |
| France | 0.57 | 0.71 |
| United Kingdom | 1.30 | 1.28 |
| Spain | 1.17 | 1.41 |
| United States | 2.72 | 2.69 |
| Italy | 2.75 | 2.74 |
| Mexico | 8.16 | 8.64 |
| Brazil | 9.00 | 9.24 |

Source: Bloomberg

## Indices Report (Periods Ending February 28, 2019)

| Index Name | 1 Month (%) | YTD (%) | 1 Year (%) | 3 Years (%) | 5 Years (%) | 10 Years (%) | 15 Years (%) |
|---|---|---|---|---|---|---|---|
| **Equity** | | | | | | | |
| S&P 500 | 3.21 | 11.48 | 4.68 | 15.28 | 10.67 | 16.67 | 8.32 |
| Russell 1000 | 3.39 | 12.05 | 4.99 | 15.43 | 10.39 | 16.82 | 8.51 |
| Russell 1000 Growth | 3.58 | 12.89 | 6.62 | 17.99 | 12.63 | 18.19 | 9.37 |
| Russell 1000 Value | 3.20 | 11.23 | 3.16 | 12.80 | 8.09 | 15.39 | 7.52 |
| Russell 2500 | 4.72 | 16.78 | 6.36 | 15.92 | 7.89 | 17.34 | 8.98 |
| Russell 2000 | 5.20 | 17.03 | 5.58 | 16.67 | 7.36 | 16.60 | 8.26 |
| Russell 2000 Growth | 6.46 | 18.75 | 6.70 | 18.27 | 8.16 | 17.69 | 8.85 |
| Russell 2000 Value | 3.89 | 15.25 | 4.42 | 14.95 | 6.48 | 15.43 | 7.55 |
| Wilshire 5000 Cap Wtd | 3.47 | 12.42 | 5.07 | 15.63 | 10.34 | 16.79 | 8.59 |
| MSCI ACWI | 2.72 | 10.86 | -0.30 | 13.48 | 6.85 | 13.34 | 7.23 |
| MSCI ACWI ex US | 1.97 | 9.69 | -6.00 | 11.25 | 2.97 | 10.13 | 6.05 |
| MSCI EAFE | 2.56 | 9.32 | -5.57 | 9.85 | 2.54 | 10.07 | 5.59 |
| MSCI EAFE Local Currency | 3.49 | 9.15 | -0.29 | 9.62 | 6.08 | 10.53 | 6.09 |
| MSCI EAFE Growth | 3.45 | 10.14 | -3.77 | 9.65 | 3.83 | 10.55 | 5.94 |
| MSCI EAFE Value | 1.68 | 8.49 | -7.36 | 10.02 | 1.20 | 9.53 | 5.15 |
| MSCI Emerging Markets | 0.23 | 9.02 | -9.54 | 15.46 | 4.52 | 10.70 | 8.31 |
| **Fixed Income** | | | | | | | |
| ICE BofA ML 1-3 Yr Treasury | 0.10 | 0.37 | 2.29 | 0.84 | 0.83 | 1.03 | 1.96 |
| BloomBar US Aggregate | -0.06 | 1.00 | 3.17 | 1.69 | 2.32 | 3.71 | 3.81 |
| BloomBar Gov't Bond | -0.26 | 0.21 | 3.21 | 0.50 | 1.71 | 2.43 | 3.30 |
| BloomBar US Credit | 0.22 | 2.38 | 2.72 | 3.51 | 3.13 | 5.96 | 4.56 |
| BloomBar 10 Yr Municipal | 0.55 | 1.64 | 5.13 | 2.36 | 3.56 | 4.62 | 4.35 |
| BloomBar US Corp High Yield | 1.66 | 6.26 | 4.31 | 9.81 | 4.53 | 11.50 | 7.31 |
| FTSE World Govt Bond | -0.92 | 0.47 | -1.31 | 1.41 | 0.32 | 2.33 | 3.02 |
| BloomBar Global Aggregate | -0.58 | 0.94 | -0.57 | 1.97 | 0.78 | 3.16 | 3.32 |
| BloomBar Multiverse | -0.49 | 1.18 | -0.48 | 2.41 | 0.95 | 3.45 | 3.50 |
| **Real Assets** | | | | | | | |
| FTSE NAREIT US Real Estate | 0.73 | 12.56 | 21.40 | 8.40 | 8.53 | 18.36 | 8.67 |
| FTSE EPRA/NAREIT Dev RE | -0.09 | 10.81 | 13.04 | 8.67 | 6.63 | 15.27 | 7.76 |
| Bloomberg Commodity | 1.01 | 6.51 | -5.67 | 3.57 | -8.81 | -2.19 | -2.58 |
| **Cash and Equivalents** | | | | | | | |
| US T-Bills 90 Day | 0.18 | 0.38 | 2.04 | 1.13 | 0.70 | 0.41 | 1.35 |

# Definitions

**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 compromised 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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