

Global Economy

Under the cover of disappearing volatility, with the CBOE's VIX index nearly 30% below its long-term average, the generalized rally in risk assets continued through March. With trade discussions between the US and China continuing to develop, concerns over tariff escalation are being increasingly discounted. Current activity indicators in major economies, particularly within China as a result of recent stimulus, are showing tentative signs of stabilization. The Brexit saga refuses to end, however, with the EU having allowed for an extended "deadline" of April 12th. With Prime Minister May unable to negotiate a workable plan, the risk of a disruptive no-deal exit has UK businesses scrambling to prepare.

The Federal Open Market Committee (FOMC) met in March, and left interest rates at 2.25% - 2.50%. The Committee's statement was particularly dovish, highlighting an attitude of patience and reducing forward rate hike expectations. The "dots plot" is now pointing to no hikes in 2019, with a rare policy re-start producing a single hike in 2020. In addition, the balance sheet reduction program is set to taper off over the next six months. The market's expectations are fairly in line with the FOMC, but the futures market is suggesting the next action will be a rate cut, sometime in late 2019 or early 2020.

The third estimate of 4Q-18 GDP growth showed an annual rate of 2.2%, which was in-line with expectations. The drop from the second estimate of 2.6% was due to downward revisions in consumer spending, state and local government spending, and business fixed investments. The US economy grew 2.9% for all of 2018, the strongest full year of growth since 2005. Economists are projecting a seasonally-slower growth rate of 1.4% for 1Q-19.

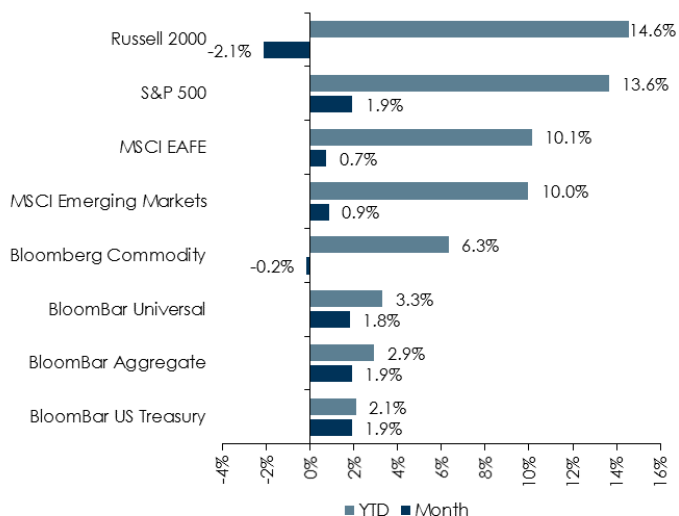
The unemployment rate remained at 3.8% in March, even as hiring rebounded more than expected and 196,000 jobs were added. The labor participation rate dropped slightly to 63.0%, and average hourly wages rose at a year-over-year pace of 3.2%. Inflation continues to be kept in check, with the Core CPI index once again remaining moderate at 2.1% year-over-year. The FOMC's preferred measure, the Core PCE index, was reported at 1.8% year-over-year through January, with February's data still not yet released due to the lingering impact of the government shutdown.

	Current	Dec-18
US GDP (%)	2.20	3.40
US Unemployment (%)	3.80	3.90
CPI (Core) (%)	2.10	2.20
Fed Funds (%)	2.25 - 2.50	2.25 - 2.50
10 Year UST Yld (%)	2.41	2.69
S&P 500 Div Yld (%)	1.94	2.15
S&P 500 P/E (Trailing)	18.69	17.12
Gold/oz.	\$1,293.00	\$1,281.30
Oil (Crude)	\$60.14	\$45.41
Gasoline (Natl Avg)	\$2.70	\$2.36
USD/Euro	\$1.12	\$1.15
USD/GBP	\$1.30	\$1.28
Yen/USD	¥110.86	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

March was somewhat a return to the "slow and steady" recovery pace of the last decade for large cap and international stocks. The S&P 500, which represents large US-based entities, was up +1.9% for the month and is now up 13.6% on the year. Most major sectors in the domestic benchmark were up materially, with IT (+4.7%) and Real Estate (+4.5%) leading the way. The Financials (-2.8%) sector was hit by yield curve inversion concerns, while Industrials (-1.2%) also trailed the full benchmark. Small cap stocks, as represented by the Russell 2000, were down for the month, with a return of -2.1%, even as year-to-date returns of +14.6% are impressive.

In the broad international developed markets, the MSCI EAFE index was modestly positive for the month at +0.7%. Strength in the US dollar detracted overall, but returns were relatively consistent across regions, with Pacific ex Japan leading at +0.9%. Sector performance was more differentiated, with Consumer Staples (+4.8%) and Real Estate (+4.5%) leading the way. Financials (-2.5%) and Consumer Discretionary (-1.4%) were notable laggards.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were once again positive, and outpaced developed international stocks with a return of +0.9%. Latin America showed weakness once again, falling -2.5%, even as Asian markets continued their growth at a pace of +1.8%. The US dollar strengthened against the diversified basket of emerging market currencies, but the impact of currency is essentially flat year-to-date.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up significantly at +3.7% during the month, and is now up +14.9% for the year. The Alerian MLP index was also up meaningfully at +3.4%, and is up +16.8% for the year. Both of these income-oriented categories tend to benefit as interest rates decline. The near-month NYMEX oil contract was up +5.1% for the month and has now advanced +32.4% in 2019. The broadly diversified Bloomberg Commodity index reversed the upward trend from January and February, retreating -0.2% for the month.

Global Markets (continued)

US Treasury (UST) yields moved decisively lower in March, an occurrence that typically contradicts the optimism being observed within risk markets. The Fed's increasingly accommodative stance has a lot to do with the recent correlation between stock and bond returns. Amid this robust environment for high-quality fixed income, the overall government bond complex returned 1.9% for the month. The commonly referenced 10-year UST yield ultimately ended 31 bps lower to finish at 2.41%. The slope of the entire yield curve remains very flat by historical standards, and it has actually inverted between six-months and five-years as the futures market now projects a >60% chance of a rate cut by the end of 2019.

The BloomBar US Aggregate Bond index responded well to falling interest rates, returning +1.9% in March. Spreads for IG corporates tightened by another 2 bps, led mostly by strong demand for BBB-rated credits. Given growing pre-payment risk, mortgage-backed securities (MBS) were the benchmark's only underperforming sub-sector relative to risk-free US Treasuries. Notable declines in both rates and spreads caused the benchmark's yield-to-worst to fall back below 3.0%.

The Bloombar 1-15-Year Municipal index returned +1.2% in March, taking 12-month returns to a very respectable +5.1%. Despite some notable flattening throughout the month, the tax-exempt yield curve remains somewhat steeper than that of US Treasuries. Comparable yield ratios out to 10-years trade historically rich given extremely strong technicals.

The Bloombar US Corporate High Yield index built upon year-to-date gains with a return of +1.0% in March. Returns were best for BB-rated issues, as investors favored higher liquidity. Overall benchmark spreads widened 12 bps, but all-in yields declined slightly to 6.4%. Global yield moves were directionally consistent with US government bonds, but US dollar strength tempered results for unhedged international bonds. Hard-dollar emerging market bonds produced solid gains, even as spreads for both sovereigns and corporate issues widened modestly. Local currency bonds continued to lag.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.09	-0.01
Germany	-0.07	0.24
France	0.32	0.71
United Kingdom	1.00	1.28
Spain	1.09	1.41
United States	2.41	2.69
Italy	2.49	2.74
Mexico	8.01	8.64
Brazil	8.97	9.24

Source: Bloomberg

Indices Report (Periods Ending March 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.94	13.65	9.50	13.51	10.91	15.92	8.57
Russell 1000	1.74	14.00	9.30	13.52	10.63	16.05	8.74
Russell 1000 Growth	2.85	16.10	12.75	16.53	13.50	17.52	9.71
Russell 1000 Value	0.64	11.93	5.67	10.45	7.72	14.52	7.63
Russell 2500	-0.82	15.82	4.48	12.56	7.79	16.23	8.88
Russell 2000	-2.09	14.58	2.05	12.92	7.05	15.36	8.04
Russell 2000 Growth	-1.35	17.14	3.85	14.87	8.41	16.52	8.71
Russell 2000 Value	-2.88	11.93	0.17	10.86	5.59	14.12	7.24
Wilshire 5000 Cap Wtd	1.50	14.11	8.93	13.59	10.52	16.00	8.77
MSCI ACWI	1.32	12.33	3.16	11.27	7.03	12.58	7.36
MSCI ACWI ex US	0.68	10.43	-3.74	8.61	3.05	9.35	6.06
MSCI EAFE	0.74	10.13	-3.22	7.80	2.81	9.47	5.59
MSCI EAFE Local Currency	1.45	10.73	3.36	9.06	6.48	10.27	6.18
MSCI EAFE Growth	1.85	12.18	-0.88	8.03	4.33	10.14	6.06
MSCI EAFE Value	-0.38	8.08	-5.56	7.54	1.24	8.74	5.05
MSCI Emerging Markets	0.86	9.95	-7.06	11.09	4.06	9.31	8.28
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.60	0.97	2.71	0.99	0.98	1.04	1.98
BloomBar US Aggregate	1.92	2.94	4.48	2.03	2.74	3.77	3.89
BloomBar Gov't Bond	1.89	2.10	4.20	1.07	2.15	2.44	3.36
BloomBar US Credit	2.44	4.87	4.89	3.48	3.61	6.22	4.66
BloomBar 10 Yr Municipal	1.48	3.15	6.32	2.76	3.88	4.82	4.49
BloomBar US Corp High Yield	0.94	7.26	5.93	8.56	4.68	11.26	7.33
FTSE World Gov't Bond	1.27	1.74	-1.57	0.95	0.59	2.20	3.00
BloomBar Global Aggregate	1.25	2.20	-0.38	1.49	1.04	3.05	3.33
BloomBar Multiverse	1.20	2.39	-0.29	1.85	1.19	3.33	3.50
Real Assets							
NCREIF Property	0.00	0.00	4.93	6.44	8.74	8.31	8.68
NFI ODCE Net	0.00	0.00	5.30	6.58	8.92	7.61	7.09
FTSE NAREIT US Real Estate	3.35	16.33	20.86	6.13	9.12	18.28	8.52
Bloomberg Commodity	-0.18	6.32	-5.25	2.22	-8.92	-2.56	-2.79
Cash and Equivalents							
US T-Bills 90 Day	0.22	0.59	2.12	1.19	0.74	0.43	1.36

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 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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