APRIL 2019

The first quarter brought welcome relief to investors after a tumultuous end to 2018. However, with the maturing of the US and global business cycles setting in as a reality, the risks of recession still remain low—but we expect volatility to persist through the rest of 2019.

CAN THE FIRST QUARTER'S RALLY CONTINUE?

The end of 2018 brought a bout of volatility on headline risk and a yield curve inversion stoking fear of a recession. While the bear clamored for attention, the bull fought back through the first quarter and on positive feedback from the ongoing US-China trade negotiations, strong job growth, low inflation, and stable interest rates, the Standard and Poor's 500 Index posted a 13.07% return and now sits within 4% of all-time highs.

A lot of the year-end fears surrounding a global slow down and looming recession were triggered by headlines concerning the ominous "yield curve inversion." In December, we shared our thoughts on the yield curve inversion and why we were not yet concerned. In March, we saw the more closely monitored (and reliable predictor of recession) 3 month to 10 year area of the yield curve invert. We remind investors that an inversion of the yield curve is not a cause of recession, but rather has only been a reliable indicator of a slow down and that a recession is on the horizon (but at this time can not by definition be any closer than two quarters away). While the economic expansion is in its later stages and is undoubtedly slowing, economic indicators are not at this time pointing to an immenent recession. While we anticipate heigtned volatility, we continue to believe that a recession is not likely until the later half of 2020 or early 2021 (and any such recession may be shallow and short-lived).

In a nutshell, as we enter the second quarter, we are not worried about recessionary fears in the short-term. We are, however, bracing for potential volatility and are watching for meaningful progress in the US-China trade negotiations, as a resolution could lift markets while further delays could stoke fears and volatility. We are also closely monitoring the Brexit saga. As of writing this piece, Theresa May's most recent withdrawal agreement was voted down in parliament and she was requesting an extension to the Brexit deadline. Brexit is an unprecedented event with an uncertain outcome and without a resolution in Parliament it could stoke fears of uncertainty around its impact on the global economy.

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Last Month's key economic data

Employment

Total employment rose by 20,000 in February after adding 311,000 (revised) new jobs in January. The unemployment rate declined to 3.8% in February. The number of unemployed persons fell to 6.2 million. The labor participation rate was unchanged at 63.2%. Average hourly earnings also increased by $0.11 to $27.66.

FOMC/Interest rates

The Federal Open Market Committee did not increase the federal funds target rate. The FOMC does not meet again until the end of April.

GDP

The third and final estimate of the fourth-quarter gross domestic product showed the economy grew at an annualized rate of 2.2%. The GDP expanded at a rate of 3.4% in the third quarter. For 2018, the GDP advanced at a rate of 2.9%.

Inflation and consumer spending

Inflationary pressures are low and consumer spending remains strong.

The *Consumer Price Index* increased 0.2% in February. Over the last 12 months, CPI rose 1.5%. Core prices, which excludes food and energy prices, rose 0.1% for the month and 2.1% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services rose 0.1% in February. Producer prices have increased 1.9% over the 12 months ended in February.

Housing

Existing home sales surged 11.8% in February. Year over year, existing sales are down 1.8%. The median price for existing homes in February was $249,500, up from $247,500 in January.

Manufacturing

Industrial production edged up 0.1% in February following a 0.4% decline in January.

Imports and exports

The latest data on international trade, dated March 27, is for January. The deficit was $51.1 billion, down $8.8 billion from December.

International markets

In Britain, PM May was unable to gain approval of the exit deal she negotiated with the EU. The EU agreed to extend the deadline for a deal to April 12, with the proviso that a further extension would be possible only if the UK agreed to hold European elections on May 23, which May does not wish to do. Negotiations between the US and China continue to drag on.

Consumer confidence

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, dropped from 131.4 to 124.1 in March.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.