Economic Summary

The first quarter of 2019 saw one of the strongest periods in equity markets (Chart 1) in decades. Investors returned to stocks after a turbulent fourth quarter in 2018 that was induced by concerns of U.S. monetary policy/government shutdown, China slowdown/trade war and the EU economic slowdown/Brexit, just to name a few. But sometimes stocks climb a wall of worry (Chart 2) as times of uncertainty often precede periods of outperformance (Chart 3), as was the case in the first quarter. The overall domestic economy looks to be in good shape. Leading economic indicators are slightly off all-time highs but remain in expansionary territory (Chart 4).

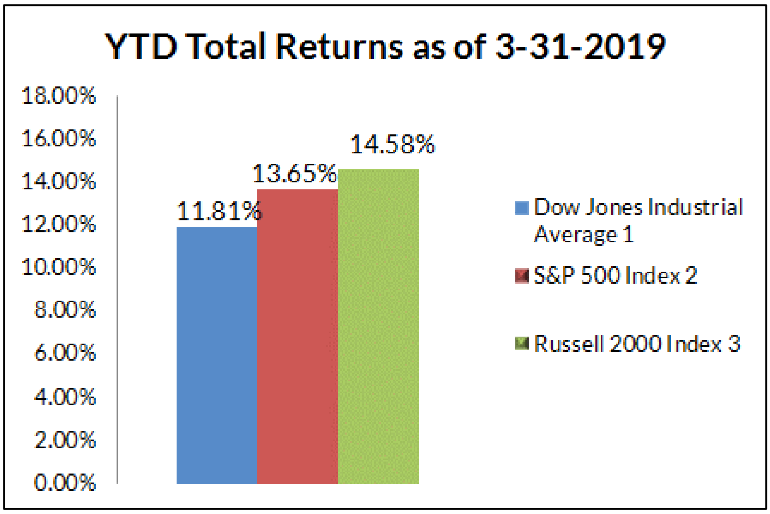

Chart 1
Source: Morningstar Direct

Unemployment is currently at 3.8%, a 50-year low. Real GDP growth is near 3% year-over-year, and wages are up 3.2% from a year ago. The Fed remains frustrated by its inability to hold inflation at its 2% target. (It's odd that the Fed which fought off inflation for decades now embraces it.) As for the rest of the world, Europe, specifically Germany, has been showing signs of slowing down and the European Central Bank has responded by keeping monetary policy easy. China is in a slowdown, as the trade dispute with the U.S. remains unresolved and stimulus added to their economy has yet to take hold.

Chart 2
Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/19

Given the strength of the U.S. economy, the Fed had been on a path of gradually tightening monetary policy. That ended in December when the market reacted badly to some remarks about future monetary tightening made by Chairman Powell. For now, the Fed seems to be firmly

[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. [2] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. [3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. You cannot invest directly in an index.
Past performance does not guarantee future results.

Economic Summary (continued)

convinced that there's no need to either raise or lower interest rates. This rapid turnabout would seem to suggest that perhaps the Fed is a little less "data dependent" and more "market dependent" than previously thought.

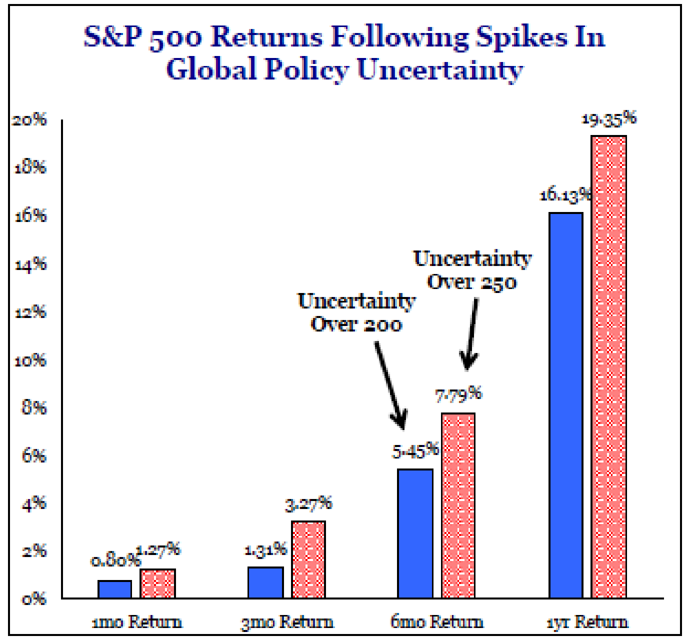

Chart 3
Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/19

The Stock Market

For the quarter, growth stocks continued to outperform their value peers (Chart 5), as the growth-heavy technology sector outperformed and the value-laden financial sector underperformed the general market. Companies continue to return cash to shareholders in dividends and share buybacks, which are on track to exceed last year's record for buybacks (Chart 6). In 2019, according to FactSet, S&P 500 companies are expected to grow earnings around 4%. That's on the heels of last year's astonishing +20% clip that was aided by tax cuts enacted in late 2017. Currently, stock valuations remain in line with historical averages.

The Bond Market

In the quarter, longer dated bonds increased in price as interest rates decreased, so much that the yield curve became inverted (Chart 7). This happens when bonds with shorter maturities yield more than longer maturities. This action is often seen when investors believe interest rates will be lower in the future and is often the case before an economic slowdown. Typically, credit spreads widen as the economy slows, pushing down the prices of lower quality credits. That was certainly not the case in the first quarter as spreads tightened and riskier bonds outperformed. This action has some believing that the inversion of the yield curve might not be the harbinger of a slowdown like it once was. Regardless, investors are receiving little incremented compensation for owning riskier bonds. As always, we like high-quality issues.

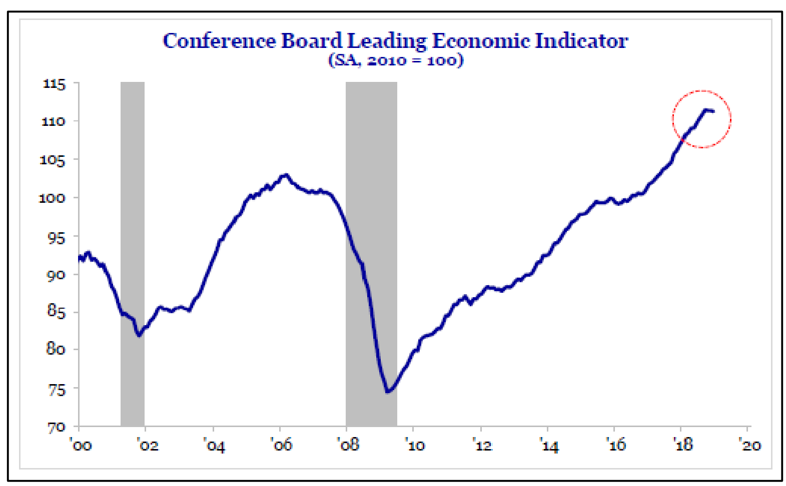

Chart 4
Source: Strategas Research Partners, "Quarterly Review in Charts", 4/1/19

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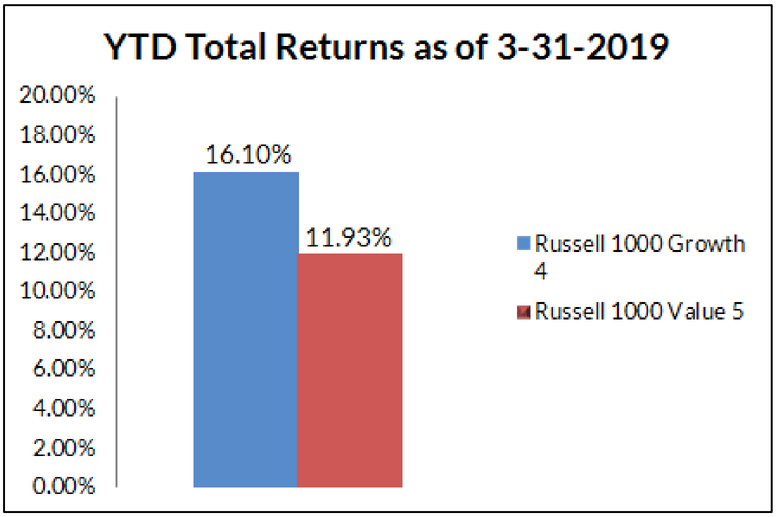

Chart 5
Source: Morningstar Direct

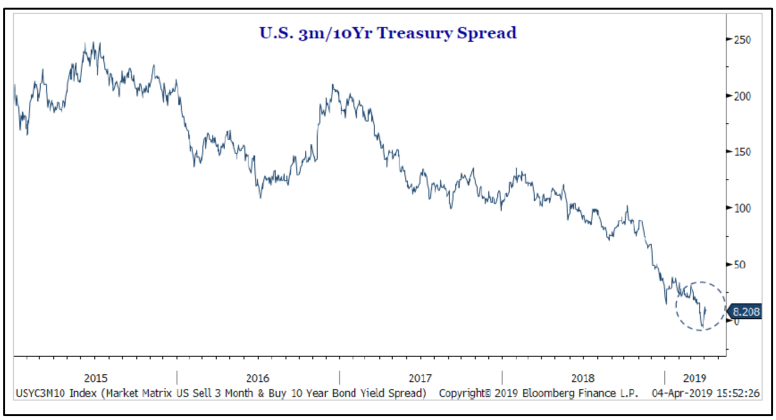

Chart 7
Source: Strategas Research Partners, "Weekend Reader", 4/6/19

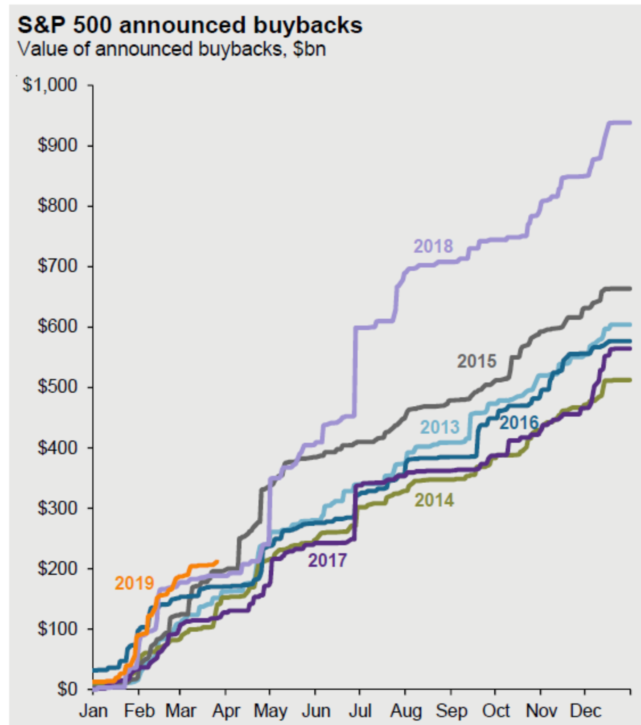

Chart 6
Source: J.P. Morgan Asset Management, "Guide to the Markets", 3/31/19

[4]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 values. [5]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 values. You cannot invest directly in an index.
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