Market & Investment Update

May 3, 2019

Year to Date Market Update

Markets have enjoyed a very strong start to the year with the S&P 500 returning 18.3% through April 30 and climbing to all-time highs. U.S. small cap stocks have had a strong start to year too, but Foreign and Emerging Market stocks have lagged due to weaker economic data outside the U.S. Fixed-income markets have also fared well in 2019, aided by lower interest rates and a rebound in high yield bond prices following a difficult 2018.

We are aware that we now enter into what is considered the “seasonally weak” period for stocks (May 1 to October 31). On an historical basis, the “seasonally strong” period (November 1 to April 30) has produced stronger returns than the “seasonally weak” period. Although it was volatile, the S&P 500 did manage to rise 7.50% over the past “seasonally strong” period.

In our view, investors remain focused on three primary macro factors; trade negotiations with China; the health of corporate earnings and the economy; and the actions of the Federal Reserve (the “Fed”). For the first two items, the news has been positive. China and the U.S. appear to be on the brink of inking a trade deal, unemployment is at the lowest levels in almost 50 years, and corporate earnings have been robust. The one potential area of future uncertainty is how the Fed will respond to all this good news. For a more detailed discussion on the Fed please read below.

Year-to-Date Returns (as of May 2, 2019)

Category	Representative Index	YTD 2019	2018
US Large Cap Equity	S&P 500	17.0%	-4.4%
US Small Cap Equity	Russell 2000	18.0%	-11.0%
Foreign Developed Equity	MSCI EAFE	12.8%	-13.8%
Emerging Market Equity	MSCI Emerging Markets	11.9%	-14.6%
Cash Equivalents	ICE BofAML 3 Mo Deposit	1.0%	2.1%
US Fixed Income	Barclays Aggregate Bond	2.6%	0.0%
US High Yield Fixed Income	ICE BofAML High Yield	9.2%	-2.3%

Prices (as of May 2, 2019)

Representative Index	Current	Year-End 2018
S&P 500	2,918	2,507
Dow Jones Industrial Avg.	26,308	23,327
NASDAQ	8,037	6,635
Crude Oil	$61.58	$46.49
Gold	$1,272	$1,291
2 Year Treasury	2.35%	2.48%
10 Year Treasury	2.55%	2.69%
30 Year Treasury	2.94%	3.02%

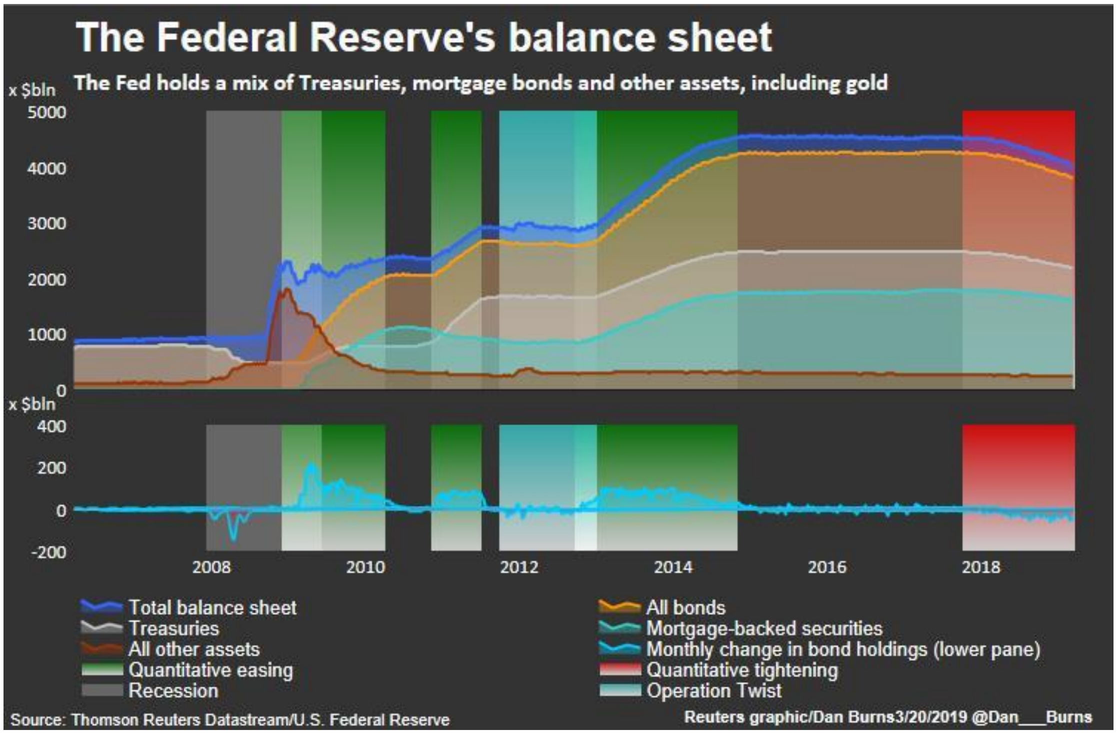
Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)

Thoughts on the Fed

Remember that markets sold off sharply in the fourth quarter after the Fed continued to raise interest rates with no indication of stopping. At year-end the Fed did a major reversal, indicating they were on pause for the foreseeable future, which has stabilized interest rates at low levels and provided a major catalyst for the markets to rally year-to-date. Some prognosticators went so far as to predict the next move would be to cut rates, causing the yield curve to go inverted in some maturities.

This Wednesday, Federal Reserve Chair, Jay Powell, indicated that the Fed had voted to hold interest rates steady at 2.25-2.50%, despite public pressure from President Trump to reduce interest rates by a full percent. Powell cited a relative lack of substantial inflation pressure in an otherwise stably growing economy as its justification for holding rates steady. In a statement, the Fed noted, "On a 12-month basis, overall inflation and inflation for items other than food and energy have declined and are running below 2%." While short-term borrowing rates often receive the most headlines, the Fed's balance sheet is also worth monitoring given its potential to impact fixed income rates and liquidity across the yield curve. At this meeting, the Committee took steps to reduce the amount of Treasury proceeds it will allow to roll off its balance sheet each month (up to $15 billion per month down from $30 billion previously). The balance sheet is currently at $3.9 billion, comprised mostly of Treasuries and mortgage-backed securities.

It will be important to monitor how the Fed responds to strong economic growth. Should inflation remain tame, the Fed will be able to maintain a patient approach which should appease markets. However, should the strong employment backdrop begin to impact broader inflationary measures, don't be surprised if the discussion shifts from the Fed potentially cutting rates to when might they begin raising rates again.



News Highlights

Jobs: US worker productivity increased at its fastest pace since 2014 during the first quarter, which may have contributed to lower labor costs and inflation pressures. The Labor Department announced on Thursday that nonfarm productivity, which measures hourly output per worker, increased at a 3.6% annualized rate in the first quarter. However, data in the fourth quarter was revised down to an annualized pace of 1.3% (from 1.9%).

On Friday, the unemployment rate fell to its lowest level in 49 years amid surprisingly strong hiring. Payrolls climbed by 263,000 in April, exceeding all estimates by economists in a Bloomberg survey.

Consumers: Pending home sales increased 3.8% in March over February, likely led by a decline in mortgage rates which made borrowing more affordable, according to the National Association of Realtors' pending home sales index. However, sales were 1.2% lower than March of 2018, which marked the 15th straight month of year-over-year declines.

Hot IPO Sizzles: Beyond Meat, the popular maker of vegan meat alternatives had its initial public offering this week. The initial price was set at $25 per share which exceeded by $2 the upper end of the initial estimated price range. When the stock began trading on Thursday, May 2, the stock surged 163% to almost $66 per share, making it the best IPO so far in 2019.

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of May 3, 2019 and are subject to change based on changes in fundamental economic or market-related data. Please contact your Financial Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.