FINANCIAL MARKET SNAPSHOT

Historic Start to the Year

March 5, 2019

Stocks logged another month of positive results, pushing January and February returns for the S&P 500 Index toward historic levels.

We maintain that while the market rebound is a welcome sight so far, bouts of unsettling market volatility are more likely than not.

Further equity market gains in February topped off what has been the fifth best two-month start to the year ever for the S&P 500 Index. The Index rose 3.21% for the month of February and has posted a 11.48% gain year-to-date. Equity returns were less robust in markets outside the U.S. Signs the U.S. and China were successfully advancing their trade talks and a newly-patient Federal Reserve were keys to the equity gains in February. In what was widely viewed as a positive, the U.S. pushed back its plan to levy additional tariffs on goods imported from China. The deadline, originally set at March 1, was nullified due to the progress the two sides were making in coming to some type of trade accord.

Meanwhile, minutes of the January Federal Open Market Committee meeting confirmed the Federal Reserve was pulling back on its monetary tightening bias in favor of a go-slow, data dependent approach. In fact, the word "patient" was used liberally throughout the Fed meeting minutes. The minutes also included discussion about the Fed's move to maintain a larger balance sheet and end the process of quantitative tightening by the end of the year.

Table 1: Global Equity Market Returns - December '18 through February '19

Source: Bloomberg

	Dec '18	Jan '19	Feb '19	2019 YTD
S&P 500 Index	-9.03%	8.01%	3.21%	11.48%
MSCI EAFE Index	-4.83%	6.61%	2.58%	9.36%
MSCI Emerging Markets Index	-2.81%	8.76%	0.22%	8.99%

The near-record bullish activity to start the year stands in stark contrast to the fourth quarter market tumult, and the about-face has left many market participants surprised. While steps toward a U.S./China trade deal and a policy shift from the Fed have keyed the rally, we believe the pace of the advance has been a bit overdone. The exuberance, coupled with little regard for what has been some softening fundamentals leaves us cautious that a portion of the recent gains could be given back. That is, investors should not overestimate the rally as we now seem overdue for some selling pressure. In that regard, we have stopped short of going all-in, given that the market's attention may soon turn to evidence that suggests fundamental and economic circumstances could face some headwinds in 2019. With this in mind, our model portfolios are holding a bit more cash than usual as trend conditions, while improved, still have not been completely repaired following the Q4 drawdown.

Q4 GDP Favorable; Outlook Less So

U.S. GDP for the fourth quarter came in a bit stronger than expected at +3.1% on a year-over-year basis and +2.6% annualized versus the third quarter. Nonresidential fixed investment (+6.2%) helped lead the advance and was higher than expected. Consumer spending grew +2.8, but came in just shy of consensus expectations. Trade was a minor drag while inventory growth was additive.

Looking ahead, GDP estimates for Q1 have been coming down over the last few weeks and may have to come down further after government shutdown and trade impacts are fully assessed. Clearly the trajectory of growth (Figure 1) is expected to be down relative to 2018 as tax-cut-fueled economic growth dissipates. Most forecasters, however, have a low probability for recession. Using a model that tracks Treasury yield spreads, the New York Federal Reserve has estimated he probability of recession at 23% through January 2020.

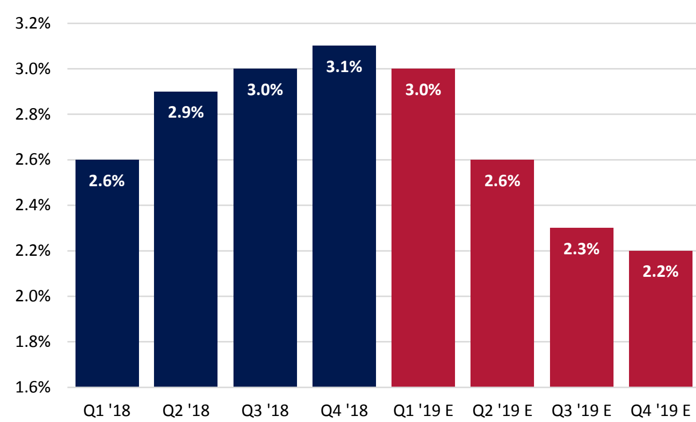
Our base case is that investors will begin to discount slower economic and earnings growth as we move through the year, which could limit equity upside. In addition, we believe the prospects for a U.S. China trade deal are fully priced-in. With few fundamental upside surprises expected domestically, further indications of slower growth in China, and a Eurozone region with little momentum, investors should step lightly when comes to taking equity risk.

The trajectory of U.S. GDP is not expected to be the catalyst it was during early 2018.

In fact the realization of waning fundamentals may make investors reassess the equity gains we have already seen.

Figure 1: U.S. Real GDP - YoY % Change by Quarter

Source: Bureau of Economic Analysis; Bloomberg



Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

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