Monthly Market Review

"Are we in the eye of the storm or has it already passed?"

Economic Highlights

- Following the widespread market volatility late last year, 2019 year-to-date is much rosier: equity markets have rebounded strongly across the board; volatility is back to normal for stocks and bonds and fixed income credit spreads have returned to last October's levels.
- Federal Reserve (Fed) Chair Jay Powell did his part to calm the markets. He commented in recent statements that the Fed will employ a "wait and see" approach, stressing patience on rate guidance. Others may see the return to stability as a parallel to the Federal government's return to stability after Congress and President Trump agreed to a funding plan in advance of the February 15 expiration of stopgap spending authority. In any event, the wild ride of fourth quarter 2018 is in the rearview mirror, at least for now.
- Fourth quarter 2018 U.S. Gross Domestic Product (GDP) surprised to the upside in registering a preliminary reading of 2.6%, but a decline from the stronger pace of the prior two quarters.
- While the outlook for domestic growth is moderate, headwinds loom across the pond as political uncertainties, slowing trade and growing debt burdens have raised risks in Europe and globally. In its latest update, the Organization for Economic Cooperation and Development downgraded their global growth forecast.
- The employment report for February was truly a mixed bag. The economy added only 20,000 new jobs, far below estimates, but the unemployment rate fell back to 3.8%. At the same time, wages rose 3.4% over the past year, the strongest reading of the recovery.
- The U.S. housing market remains weak. Although mortgage rates have declined of late, existing home sales fell to the weakest pace in more than three years. The weakness in sales translated into slowing growth for home prices, as prices in the 20 largest U.S. cities increased in December at the slowest pace since late 2012.
- After cruising to multi-year highs, consumer confidence and sentiment indices dipped, largely the result of government shutdown effects. Both indices reversed course in February, however, on the heels of the strong equity market rebound and a funding agreement that reopened the U.S. government.

Bond Markets

- U.S. Treasury yields have remained within a narrow range so far in 2019. In February, the curve steepened slightly, bucking a three-month flattening trend. While yields on maturities less than two years generally increased three to five basis points (bps) over the month, the longer end of the curve (maturities greater than five years) increased by seven to 10 bps.
- As a result, most fixed income maturities and sectors produced modest positive returns for the year to date. In general, returns for Treasuries of any specific duration were bested by comparable sectors like corporate bonds that provide incremental income.

Equity Markets

- Following a strong start to the year, U.S. equities continued their ascent, with the S&P 500 Index (S&P) advancing an additional 3.2% in February, pushing the year-to-date total return figure to 11.3%. International equity indices generated gains as well, but were unable to keep pace with domestic equity indices.
- Sector performance within the S&P during the month of February was positive in all 11 sectors. The Information Technology and Industrials sectors performed best, returning 6.9% and 6.4% respectively. Consumer Discretionary and Communication Services lagged during the month, returning 0.8% and 0.8% respectively.

PFM Outlook

- As a result of the outlook for slower economic growth we continue to recommend strategies that maintain diversification among investment grade sectors with a tilt toward higher grade corporate bonds given their income-producing potential.
- The Fed's new emphasis on patience with regard to monetary policy changes leads us to recommend maintaining duration comparable to that of benchmarks. Our efforts remain focused on safely maximizing income in this environment.
- Federal agency spreads remain very narrow and in some instances specific issues are at yields equal to or less than similar maturity Treasuries. While new issuance has been subdued, Fannie Mae and the Federal Home Loan Bank came to market with new issue five-year benchmark in February. These new issues offered attractive entry points to add allocations back to the sector after months of reductions.
- The supranational sector has not experienced the usual seasonal uptick in supply that we anticipated. Analysts attribute the diminished supply to global rate conditions and the preference to issue debt in alternate currencies, like Eurodollars, this year.
- Investment grade credit spreads have largely reversed the widening experienced in late 2018. Total return investors reaped the benefits as returns this year have largely recovered the losses in the fourth quarter of 2018. Although spreads are back to October levels, they are in line with longer-term, post-recession historical averages.
- Mortgage-backed securities (MBS) have also performed well year-to-date, nearly offsetting the underperformance in the previous quarter. While there appears to be a bit more room to run, the sector continues to face headwinds from uncertainty around the Fed's balance sheet wind-down. As the Fed explores a new strategy for managing its balance sheet, opportunities may improve for well-structured MBS.
- While the steady rise in overnight rates over the past two years may have reached the end of the cycle, money market investors continue to reap the benefits of the highest level of short-term rates in over a decade.

U.S. Treasury Yields

Maturity	Feb 28, 2018	Jan 31, 2019	Feb 28, 2019	Monthly Change
3-Month	1.66%	2.39%	2.44%	0.05%
6-Month	1.85%	2.46%	2.50%	0.04%
2-Year	2.25%	2.46%	2.52%	0.06%
5-Year	2.64%	2.44%	2.51%	0.07%
10-Year	2.86%	2.63%	2.72%	0.09%
30-Year	3.13%	3.00%	3.08%	0.08%

Yields by Sector and Maturity as of February 28, 2019

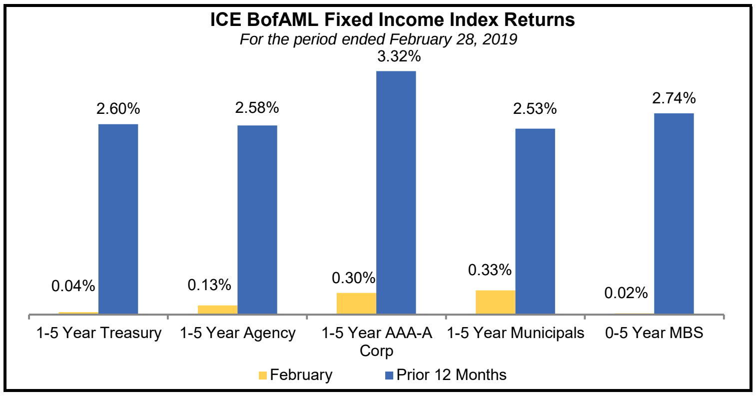
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	2.44%	2.40%	2.58%	-
6-Month	2.50%	2.45%	2.63%	-
2-Year	2.52%	2.55%	2.88%	1.65%
5-Year	2.51%	2.65%	3.06%	1.85%
10-Year	2.72%	3.05%	3.48%	2.35%
30-Year	3.08%	3.42%	4.21%	3.06%

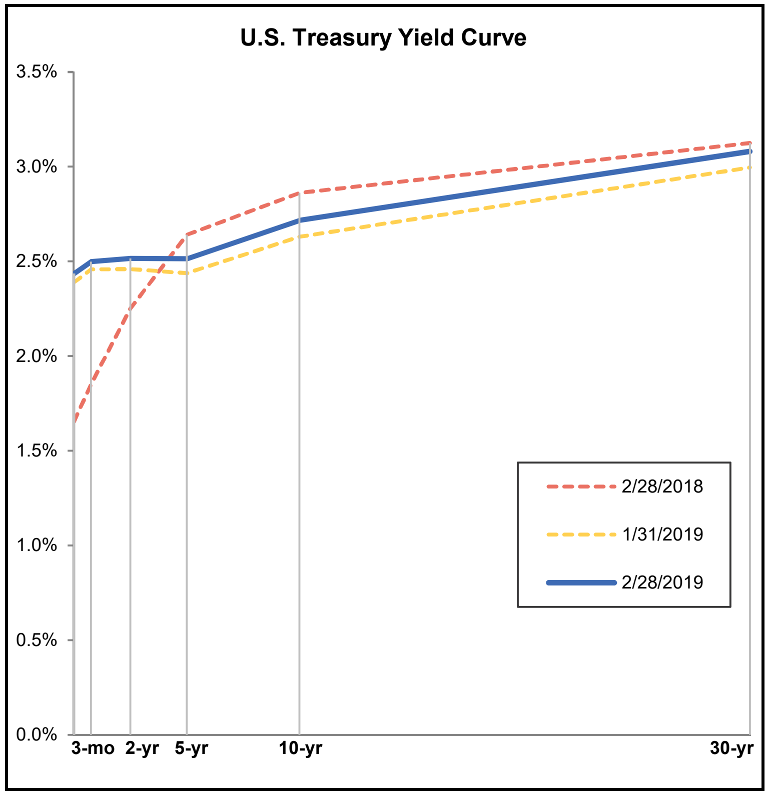
Spot Prices and Benchmark Rates

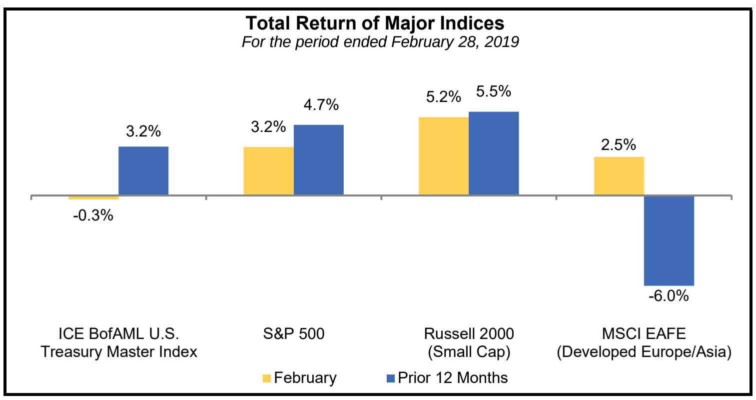
Index	Feb 28, 2018	Jan 31, 2019	Feb 28, 2019	Monthly Change
1-Month LIBOR	1.67%	2.51%	2.49%	-0.02%
3-Month LIBOR	2.02%	2.74%	2.62%	-0.12%
Effective Fed Funds Rate	1.35%	2.40%	2.40%	0.00%
Fed Funds Target Rate	1.50%	2.50%	2.50%	0.00%
Gold ($/oz)	$1,318	$1,320	$1,316	-$4
Crude Oil ($/Barrel)	$61.64	$53.79	$57.22	$3.43
US Dollars per Euro	$1.22	$1.14	$1.14	$0.00

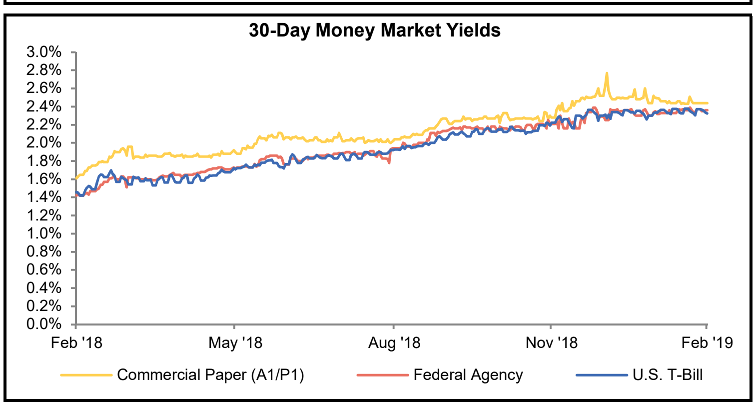
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Consumer Confidence	26-Feb	Feb	131.4	124.9
GDP Annualized QoQ	28-Feb	4Q ADV	2.6%	2.2%
ISM Manufacturing	1-Mar	Feb	54.2	55.8
New Home Sales MoM	5-Mar	Dec	3.70%	-8.70%
Nonfarm Payrolls	8-Mar	Feb	20k	180k
Retail Sales MoM	11-Mar	Jan	0.2%	0.0%
CPI ExFood&Energy YoY	12-Mar	Feb	2.1%	2.2%









Source: Bloomberg. Data as of February 28, 2019, unless otherwise noted.