ASSET MARKETS ON PACE

Market Review **APRIL 2019**

US large-cap stocks have made an impressive come back this year. After touching a low point last December, the price level on the S&P 500 has finally climbed back to last year's record high. Currently, the index in trading near its all-time record level.

The S&P 500 has notably been lifted by stocks listed in Technology and Communication Services sectors. Both of these sectors combined account for over 30% of the S&P 500's total market capitalization and are large constituents in the NASDAQ 100. Perhaps the S&P 500's performance can be best summarized by how well the NASDAQ 100 has performed. The NASDAQ 100 is currently trading around 2% above its own record high that was set last year.

There are other US stock indexes like the Dow Jones Industrial and Transportation averages and the Russell 2000 (small-caps) that haven't yet reclaimed their own highs of last year. Still, this year's performance on these indexes do not disappoint. All have delivered double-digit percentage gains since the turn of the year.

Strong performance in equities isn't restricted to US stocks. Many of the international indexes are also in the double-digit club this year. Investors witnessed a slip in China's primary index in the preceding four weeks. In this short period, the relative weakness in Chinese stocks seemed to coincide with a weaker economic print in Chinese growth. However, Chinese output often appears suspiciously lower in earlier parts of a given year and then is backloaded with higher rates in later quarters.

We already mentioned the observation that not all US stock indexes have participated at the same pace. Large-caps held a sizable lead over small-caps coming into April. At that time, narratives of slowing global growth and a possible earnings recession in the US filled headlines. Today, the performance lead of large-caps versus small-caps is much narrower. Coincidently, the story has changed to one of slower but stable growth and no earnings recession in clear sight.

The season for US publicly registered companies to report their earnings started in early April. Just over one-half of the companies listed in the S&P 500 are now reported. The trajectory of earnings per share or the earnings that investors share in is so far trending positively. But what seems to be missing from the discussion is the fact that earnings, before they are divided

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by share counts, are slightly dipping below the same quarter's figures of last year. It is possible that the divergence between the two measurements is a result of companies financially engineering their per share results using stock buybacks.

Another important metric for stocks is profit margins or earnings divided by sales. It appears that there is some compression happening here. Some of it can simply be explained by costs, such as wages, rising faster than sales. Another explanation is asset write-offs, which are typically viewed as one-time events. Although, there is probably another critical factor at play and that is higher interest costs from more debt being carried on balance sheets. A lot of the stock buybacks of recent years has been accomplished by issuing new debt.

Lenders extending credit to corporate borrows don't seem to mind that more debt has been placed on balance sheets. In fact, the additional costs that corporations pay over an equivalent government bond has come down for both high and low quality borrows as of late. Accordingly, corporate bond investors have seen their positions appreciate in value as some believe that more supply provides better confirmation for bond prices.

It has been an easy year to generate returns for both equity and bond investors. Global economic growth and earnings per share data appear to be trending in the right direction. Financial markets have produced quite an exciting story this year. The summer doldrums may slow some of the action down for a little while; however, it should prove interesting to see what asset markets do as the year progresses.

Market Movers

April delivered fantastic results in generally all asset categories. US equities led and provided for another month of strong relative performance. Even international equities produced respectable total returns of 2.6% to close out last month. Monthly bond returns rose as broader interest rates across global economies continued to descend. Time will change perceptions. Over the same time period last year, US equities were strongly outpacing nearly every other global asset, which brought out the critics of diversified portfolios. In contrast, diversified portfolios appear attractive on stronger asset correlations this year. Our Core Allocation portfolios are managed on a conviction in appropriate and prudent diversification. Even though things may dip in and out of trend, diversification is a powerful risk management tool and has an important place in investor portfolios.

Asset Categories	*Monthly*	*YTD*
US STOCKS	3.79%	17.70%
FOREIGN STOCKS	2.56%	13.12%
US BONDS	0.72%	4.83%
FOREIGN BONDS	0.19%	4.32%
HARD ASSETS	0.77%	14.31%
HYBRIDS	1.98%	11.23%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING APRIL 30, 2019.

US STOCKS put up impressive gains in April, which sent some indexes back to last year's record highs. Large-caps etched out a month of outperformance relative to mid-caps and small-caps. Although, the monthly performance lag of mid-caps and small-caps was not that far behind large-caps. On the year, the broader US stock category average has delivered total returns of approximately 17.7%!

FOREIGN STOCKS seemed to perform above most peoples' expectations in April. A respectable total return on the category average of 2.6% pushed up the full year's figure to 13.1%. This year's outperformance story seems to consistently show up in the category average representing mid-cap and small-cap stocks of Developed Markets. The same average has produced total returns of almost 14% this year. Surprisingly, the Emerging Market category average is a laggard this year, but not by much.

US BONDS as a whole category average were positive in April. A negligible monthly loss was seen in the category average representing US Intermediate Government bonds as market interest rates on these bonds fluctuated around their new equilibrium points. Pounding the pavement in the month and in the year are bonds of higher risk. Category averages of High-Yield bonds and Bank Loans possess respective total returns of 7.8% and 5.2%.

FOREIGN BONDS provided modest gains in April. Year-to-date performance on the broader category are not trailing far behind US bonds. Unlike equity markets, Emerging Market bonds hang on to the strongest relative-performance in the foreign bond space. For the year, the Emerging Market bond category average has produced total returns of 5.8%. Similarly, the category average of Developed bonds is up 2.9%, which is quite impressive when considering that global interest rates are once again sub-zero in some places of the developed world.

HARD ASSET categories were mixed in April, but overall finished last month with positive total returns. The category averages of Precious Metals and Global Real Estate slipped into marginal losses last month. Precious metals are one of this year's weakest performing asset classes with total returns standing around 1.4%. The category average of Energy rose substantially in April with total returns of 4.3%. Energy is 26.8% above where it started at the beginning of this year.

HYBRIDS continue to show their correlation with equities this year. The broad category average put on total returns of nearly 2.0% in April and 11.2% for the full year. The category average of Convertible Bonds is the category leader this year possessing total returns of 12.9%. The total returns on the category of Preferred Stocks are 9.6% this year.

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