Market review and outlook

Risk assets experienced a strong rebound in the first quarter of 2019. It was a sharp reversal from what investors experienced in the fourth quarter of 2018, with areas of the market that struggled the most last year outperforming to start 2019. The Federal Reserve (Fed) presented a more dovish stance with a decision to not raise interest rates at their March meeting. Positive signals also came forth with a softening stance between the US and China trade negotiations. US economic data releases have been mixed, but still lean positive.

The S&P 500 Index was up 13.7% for the quarter, its best start since 1991. All sectors ended the quarter in positive territory, led by information technology (+18.7%) and real estate (+17.5%). Energy (+16.6%) also fared well as oil prices rebounded throughout the quarter. Financials (+8.2%) struggled in March as the flattening yield curve created concerns over revenue growth. The healthcare (+6.6%) sector also faces headwinds stemming from political risks as we move closer to the 2020 campaign season. For the quarter, mid cap equities outperformed large and small cap equities and growth outpaced value across all market capitalizations.

International developed equities, as measured by the MSCI EAFE Index, gained 10.1% in the first quarter, lagging US equities. The European Central Bank moved to a more dovish stance, pushing their next projected rate hike from this summer to at least next year. Uncertainty surrounding Brexit continued as a clear path has yet to be determined for the UK to exit the European Union. The MSCI Emerging Markets Index gained 10.0% during the quarter. A path forward for the US/China trade talks and increased stimulus within China, key drivers for emerging market indices, should help to boost growth in the region.

Fixed income also had a relatively strong start to the year. The Bloomberg Barclays US Aggregate Index was up 2.9% for the first quarter. The 10-year Treasury yield declined 33 basis points in March, ending the quarter at 2.4%. The shape of the yield curve remained distorted, with the short-end of the curve further inverting, but the spread between 10-year and 2-year Treasury notes is still slightly positive. Credit spreads steadily contracted from the highs reached in December, generating strong positive returns for both the investment grade and high yield sectors. Municipals performed in line with taxable counterparts.

As we continue moving through the business cycle, we still find several factors supportive of the economy and markets; however, we remain cognizant of the risks. In the short-term, a number of factors are adding to global uncertainty and increasing the likelihood of additional volatility.

The following factors should provide support to the economy and markets over the near term:

- **US economic growth:** We may see a moderation of US economic growth as the benefits of tax reform begin to fade in 2019. However, fundamentals remain solid and we see continued strength in the labor market.
- **Solid US earnings growth continues:** The outlook for corporate earnings growth remains favorable. Earnings estimates have declined, providing opportunity for upside surprises.
- **Fed pause:** The Fed has backed off their tightening stance with recent dovish statements. There is no expectation for a rate hike in 2019 as they forecast lower growth and show little concern about inflation.

However, risks facing the economy and markets include:

- **Global policy uncertainty:** The development of tariffs and other restrictive trade policies have led to tensions between the US and its global trading partners. Rising populism and political turmoil have increased the possibility for global geopolitical missteps.
- **Interest rate environment/yield curve:** Yields on longer-term Treasuries have fallen as investors

may expect slower economic growth, but another likely contributor is the relative value offered in US Treasuries compared to yields on other developed market sovereign debt. We saw a brief inversion of the 10-year/3-month measure of the yield curve, but the 10-year/2-year measure remains positively sloped. We will continue to watch for a further inversion in the curve, as this has been a reliable recession warning in the past.

- **Potential for higher inflation:** Inflation is manageable at current levels and inflation expectations remain muted. Should inflation move meaningfully higher, the Fed may be forced to shift back to a more aggressive tightening stance.

Despite the recent heightened volatility, we believe the weight of the evidence leans positive. US economic growth, while moderating, is still positive helped by a strong labor market, elevated consumer confidence, solid corporate earnings growth, and muted levels of inflation. Credit conditions are still supportive. Global policies and actions of governments and central banks may lead to higher volatility, but our view on risk assets remains positive over the intermediate-term. The higher volatility should result in wider dispersion of returns across and within asset classes, an attractive environment for our diversified, active investment approach.

Brinker Capital Market Barometer

The weight of the evidence still leans positive which argues for a modest overweight to risk across portfolios

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum still strong
Trend	→			●	Global equity market indices above 200-day moving averages
Investor sentiment			●		Survey data in optimism territory; equity fund flows neutral
Seasonality	→			●	Seasonality more supportive in second quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Fiscal stimulus in 2019; watching trade
Monetary policy	→			●	Fed on an extended pause and will end balance sheet reduction
Inflation			●		Few signs of broad-based inflation
Interest rate environment					Longer-term rates have fallen; yield curve inversion at short end
Macroeconomic				●	Global growth moderating but still positive; strong US labor market
Business sentiment			●		Decline in CEO confidence; small business confidence off record high
Consumer sentiment				●	Measures slightly higher in February; levels still supportive
Corporate earnings				●	US earnings growth still solid; softer outside US
Credit environment				●	Credit spreads still behaved; few signs of credit market stress

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle				●	Long recovery but has been muted; few signs point to recession
Demographics			●		Mixed (US and emerging markets positive; developed intl negative)

Information as of April 1, 2019..

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