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# MONTHLY MARKET UPDATE

February 2019

## February 2019 - Broad Economic News

The U.S. GDP report for the fourth-quarter of 2018 was recently released despite a delay created by the government shutdown. The U.S. economy grew by 2.6% for the period, according to the report. While this was better than expected, it was still a meaningful slowdown from the prior two quarters. For all of 2018, U.S. GDP was up a solid 2.9% due partially to an increase in expansionary fiscal policy and a decrease in regulations. General expectations moving forward are for the economy to slow down to a 2.0-2.5% pace during early 2019. We are starting to see this transpire in recent 'leading indicators' reports on housing, manufacturing and inventory levels—all pointing towards a slower first-quarter 2019. Employment data, a 'lagging indicator,' remained positive, and wage growth continued its gradual upward trend (see graph below). Wage growth was up 0.1% in February. Inflation remains stable, with lower expectations going forward.

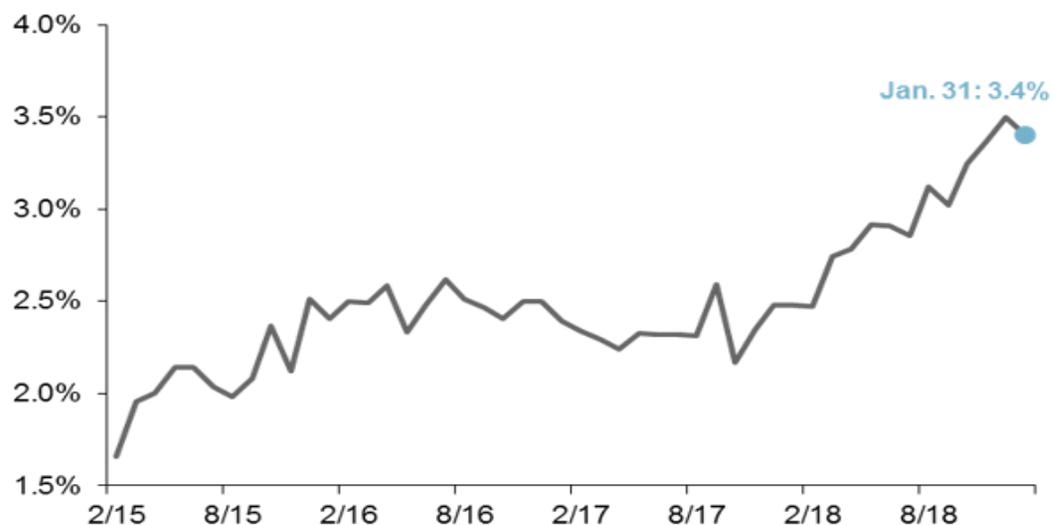
The U.S. equity market saw a strong rebound from last year's fourth-quarter selloff with double-digit year-to-date returns through February; international markets followed closely behind. Growth stocks continued their long run of outperformance over value stocks and small caps outperformed large caps by about 500 basis points. Higher-quality fixed-income returns were generally flat to positive, between one and two percent, with lower-quality bonds outperforming.

On the domestic-equity front, risk assets seem to be in a reasonable valuation range. There could be room for further upside, particularly if we see progress around trade deals and/or further accommodative Federal Reserve language and policy. Generally, long-term growth prospects remain in the international-equity space, particularly within emerging markets. A resolution around Brexit would certainly provide a tailwind to international markets. However, given the approaching deadline for a hard-exit, the outcome is expected to be rough for Britain without a last-minute resolution or a delay.

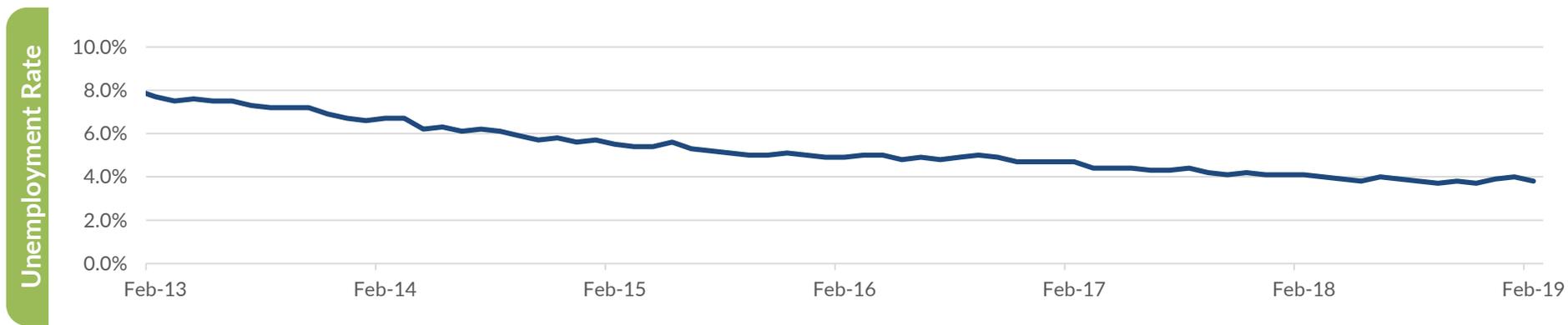
Overall, risks to U.S. and global economies remain, with trade tensions and central-bank decisions at the forefront. The interest-rate outlook for the U.S. continues along a murky path, given the change from last year's more hawkish tone to more recent dovish comments and the Fed's ambiguous statements around balance-sheet normalization. According to Fed chairman Powell's recent comments, he stated, *"We've worked out the framework of a plan that we hope to be able to announce soon, that will light the way all the way to the end of balance-sheet normalization, and that will result in the end of asset runoff sometime later this year [2019]."* Clarification of these remarks could have profound results and we will be monitoring them closely.

With overall U.S. growth 'slowing but still growing,' we think the magnitude of any further upside seems limited, particularly in light of where we are in the economic cycle and the length of the overall expansion. Neither corporate earnings nor macroeconomic measures point to a significant improvement in the outlook. This has caused us to tactically increase our defensive posture, while looking to capitalize on asset classes with attractive valuation levels, including emerging markets.

**Avg. Hourly Earnings, Private Production and Non-supervisory Workers, SA, Y/Y Growth**



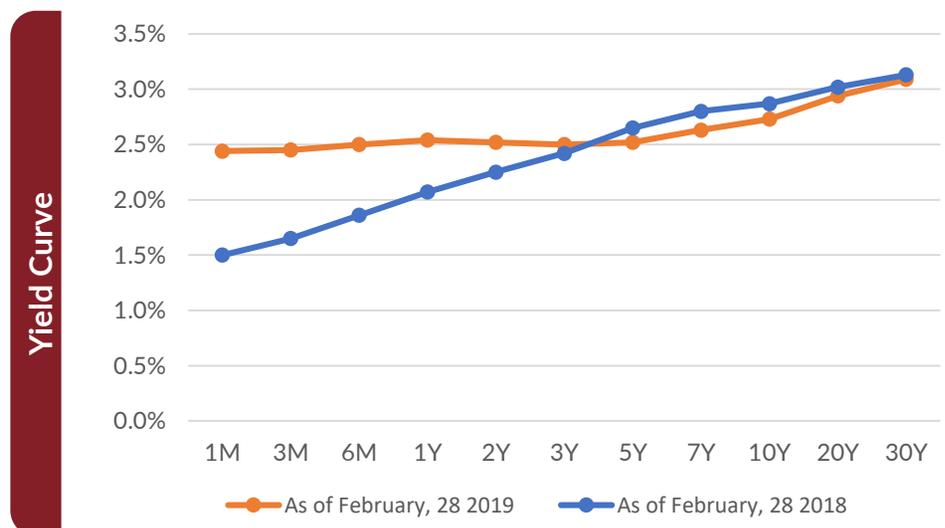
Source: BLS, FactSet, J.P. Morgan Asset Management.



Equities	February Return	
	Instrument	Return (%)
S&P 500 TR USD	3.21%	
Russell 1000 TR USD	3.39%	
Russell 2000 TR USD	5.20%	
MSCI ACWI GR USD	2.72%	
MSCI EAFE GR USD	2.56%	
MSCI EM GR USD	0.23%	

Equity Style Box	February Return		
	Value	Core	Growth
Large	3.20%	3.04%	2.89%
Mid	3.18%	4.30%	5.86%
Small	3.89%	5.20%	6.46%

Fixed Income	February Return	
	Instrument	Return (%)
ICE BofAML US 3M Treasury Bill	0.18%	
Bloomberg Barclays US Govt/Credit 1-3 Yr	0.16%	
Bloomberg Barclays US Govt Interm	-0.07%	
Bloomberg Barclays US Govt/Credit Interm	0.09%	
Bloomberg Barclays US Govt/Credit	-0.06%	
Bloomberg Barclays US Agg Interm	0.04%	
Bloomberg Barclays US Agg Bond	-0.06%	
Bloomberg Barclays Global Agg Bond	-0.58%	
Bloomberg Barclays US Treasury	-0.27%	
Bloomberg Barclays US Treasury US TIPS	-0.01%	
Bloomberg Barclays US Corporate IG	0.22%	
Bloomberg Barclays High Yield Corporate	1.66%	
Bloomberg Barclays Municipal	0.54%	
Bloomberg Barclays Municipal 7 Yr 6-8	0.56%	



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