MONTHLY MARKET UPDATE

March 2019

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Broad Economic News | March saw a continuation of the events that have occupied news headlines for the last few quarters. The United States and China have yet to come to terms on a trade agreement, the UK is struggling with terms on leaving the EU and the Fed has begun to pull back on contractionary monetary policy. Additionally, Boeing, airplane manufacturer, suffered steep declines when a second Max 8 crashed in Ethiopia. Airlines and governments around the world banned the use of MAX 8s until in-depth investigations could be conducted. After further review, the Federal Aviation Administration and domestic airlines also grounded the planes. Early projections show that if production is halted, U.S. GDP could be directly affected. With all of this, the market (as measured by the S&P 500 Index) continued in its moderate recovery after the December selloff. The S&P 500 returned 13.65% in the first quarter and 1.94% in the month of March. Mid- and small-cap stocks also performed well this quarter with returns of 14.49% and 14.58% respectively; however, returns slowed a bit in March with respective returns of 0.86% and -2.09%. International and emerging markets have a similar story, with returns this quarter of 10.13% and 9.97%, respectively; March returns were modest with a 0.74% MSCI EAFE Index return (for international developed-market stocks) and a 0.86% MSCI Emerging Markets Index return.

Tariffs and Trade | In early March, it looked as if the U.S. and China were at the cusp of an agreement as President Trump stated that the two countries were *"getting very, very close"* to a deal. The rhetoric changed throughout the month as reports surfaced that the summit between the U.S. and China was going to be delayed. On March 20th a statement from the White House expressed that the U.S. was considering maintaining the tariffs *"for a substantial period of time."* The two nations have been locked in a trade conflict since early 2018 that has impacted domestic and international economies. An agreement would be expected to have a positive impact on markets and the economy as a whole.

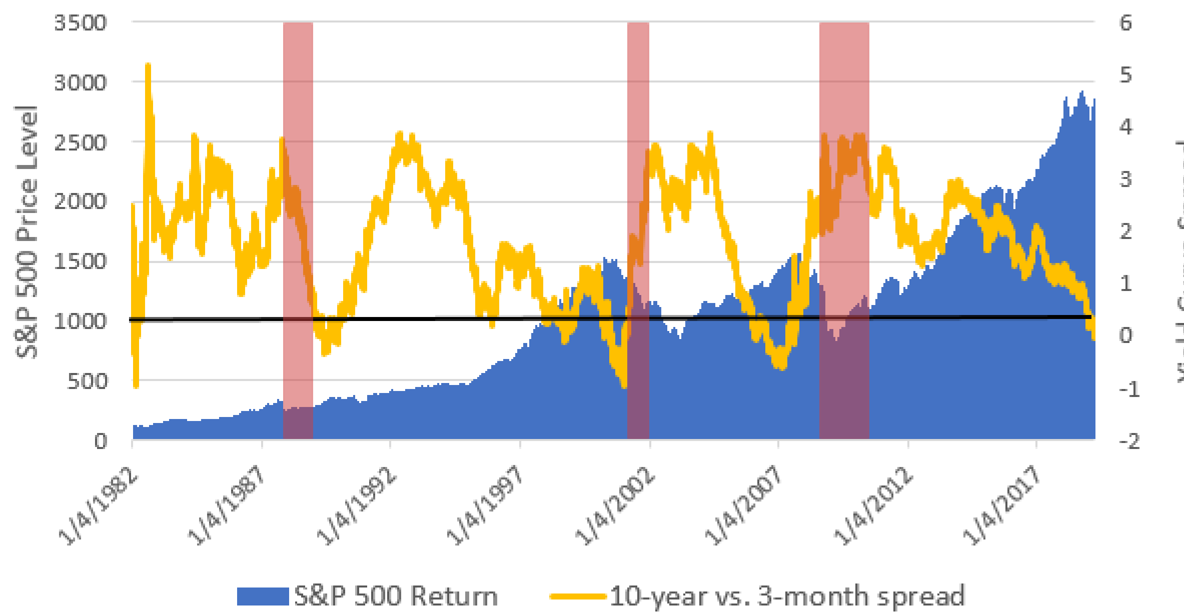
Fed Policy | This month the Federal Reserve lowered the 2019 rate-hike outlook to zero and announced it would be ending the balance-sheet reduction process. This decision was in stark contrast to Chairman Powell's comments in late 2018 when he stated that the benchmark interest rate was *"just below"* neutral. The Fed's less than encouraging statements regarding its lower 2019 outlook were followed by the arrival of a well-known recession indicator: The yield spread between 3-month and 10-year Treasuries dropped below zero, which has historically been a reliable indicator of an upcoming recession. The yield curve has inverted prior to each of the past seven recessions, and has only given off two false positives. With that noted, there is no reason for panic.

Taking the average from the past few recessions, the stock market has continued to rise an average of 14% after an initial inversion. When recession occurs, it follows an inversion by an average of 19 months. This does not mean the outcome will be the same as in the past; however, this data offers context when reading the flurry of articles in the news.

Brexit | March was slated to be an important month for Brexit developments as the impending April 12th deadline extension neared (the EU granted an extension from the original deadline of March 29th). Prime Minister Theresa May had her proposed BREXIT solution rejected by UK Parliament three times in March. This was despite her offer (on the third attempt) to resign as PM if the deal were to go through.

Prospectively UK lawmakers will be voting on alternatives after failing to approve May's deal. EU leaders will also be meeting for an emergency summit on April 10th. The prospects of a general election or another extension have both increased as a result of the recent defeat.

Yield Curve Inversion vs. S&P 500 Returns



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

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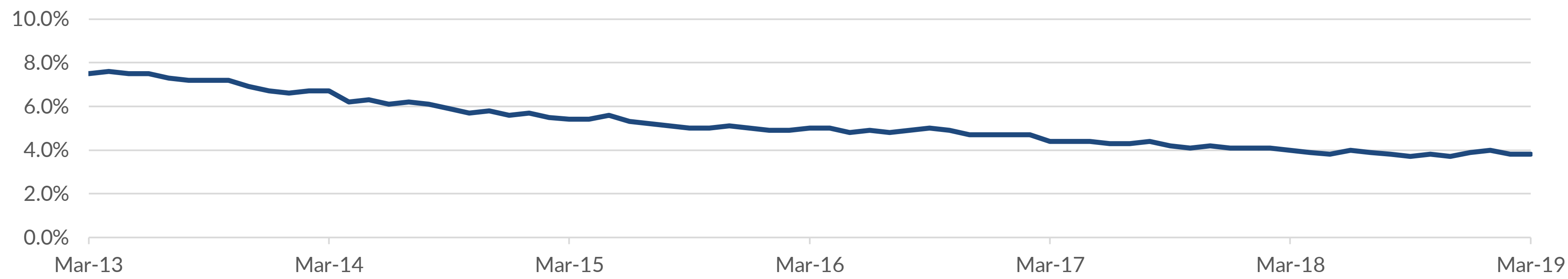
Unemployment Rate



Equities

	March Return
S&P 500 TR USD	1.94%
Russell 1000 TR USD	1.74%
Russell 2000 TR USD	-2.09%
MSCI ACWI GR USD	1.32%
MSCI EAFE GR USD	0.74%
MSCI EM GR USD	0.86%

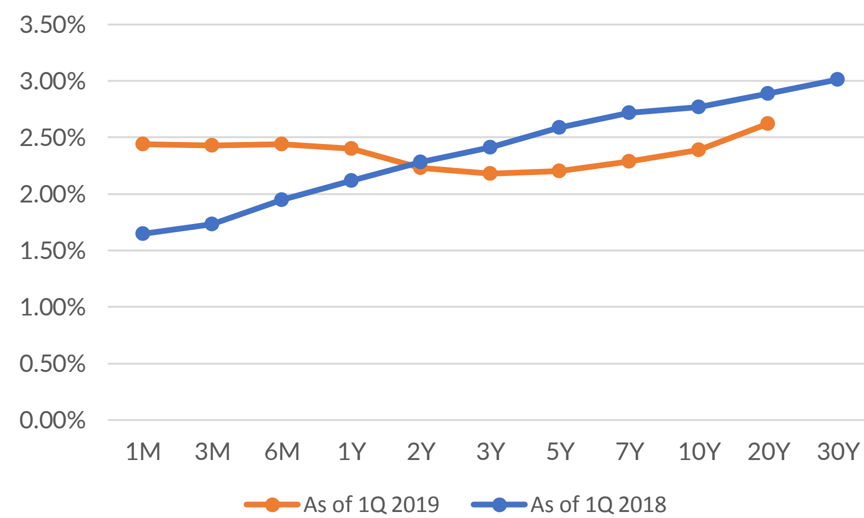
Equity Style Box

	Value	Core	Growth
Large	0.70%	2.08%	3.31%
Mid	0.50%	0.86%	1.35%
Small	-2.88%	-2.09%	-1.35%

Fixed Income

	March Return
ICE BofAML US 3M Treasury Bill	0.22%
Bloomberg Barclays US Govt/Credit 1-3 Yr	0.66%
Bloomberg Barclays US Govt Interm	1.22%
Bloomberg Barclays US Govt/Credit Interm	1.35%
Bloomberg Barclays US Govt/Credit	2.12%
Bloomberg Barclays US Agg Interm	1.39%
Bloomberg Barclays US Agg Bond	1.92%
Bloomberg Barclays Global Agg Bond	1.25%
Bloomberg Barclays US Treasury	1.91%
Bloomberg Barclays US Treasury US TIPS	1.84%
Bloomberg Barclays US Corporate IG	2.51%
Bloomberg Barclays High Yield Corporate	0.94%
Bloomberg Barclays Municipal	1.58%
Bloomberg Barclays Municipal 7 Yr 6-8	0.97%

Yield Curve



Data Source: Morningstar, Federal Reserve; LAMCO Advisory Services, Inc.

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