Markets At A Glance

Period	S&P 500	DJIA	INT'L (EAFE)	Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
1st Quarter	13.7%	11.8%	10.0%	9.9%	2.3%	2.5%	0.2%
12 Months	9.5%	10.1%	-3.7%	-7.4%	4.2%	5.1%	1.5%

Equity markets bounced back strongly in the first quarter as interest rate fears faded and trade talks with China appeared to be making progress. Markets across the globe rallied, with the S&P 500 index gaining 21% off the lows in late December. Bonds provided solid returns as interest rates fell in reaction to weakening global growth and lower inflation expectations.

With the U.S. economy decelerating and no signs of emerging inflation concerns, the Fed pulled back on plans for additional rate hikes in 2019. They also announced they would slow the pace of balance sheet reduction, stopping sooner and maintaining bond holdings at a higher level than previously thought. Intermediate and long-term rates fell, resulting in a very flat U.S. Treasury yield curve. In some spots the curve is inverted, leading to much discussion over whether a recession is imminent. Although an inverted yield curve has been an early recession indicator in the past, the timing is very uncertain. Other leading indicators of economic activity are not yet signaling that we are approaching a recession. At this time, the important point is that the bond markets are pricing in slow growth and mild inflation for the foreseeable future.

U.S. economic data were mixed and more difficult to interpret as the impact of the government shutdown caused distortions. Most economists are calling for a return to moderate growth in the U.S. over the rest of the year. Low unemployment and rising incomes are positives for the consumer sector. Housing markets continue to struggle, but lower mortgage rates may help going forward. Growth outside the U.S. has slowed even more as uncertainty related to tariffs and trade disputes is hurting global trade.

Although market volatility feels much better on the upside, the large swings over the last two quarters are cause for concern. In the past, an environment of low interest rates, tame inflation, cheap oil, tight credit spreads and a stable U.S. dollar has been positive for the global economy. Trade disputes and political uncertainty are clearly having a negative impact. In last quarter's newsletter we spelled out bull and bear cases for this year. The bulls won the first quarter, but the full year outcome will be determined by whether the markets are correct that economic growth and corporate earnings will recover as expected.