



Notable 1Q 2019 Market Performance

	S&P 500	MSCI EAFE	MSCI Emerging Markets	Barclays Aggregate	10-Year Treasury	HFRI Hedge Fund Composite	USD	WTI Crude Oil
1Q Return	13.65%	10.13%	9.97%	2.94%	3.08%	5.88%	1.16%	30.16%
1 Year Return	9.50%	-3.22%	-7.06%	4.48%	5.60%	0.90%	8.12%	-4.87%

1Q 2019 Market Commentary

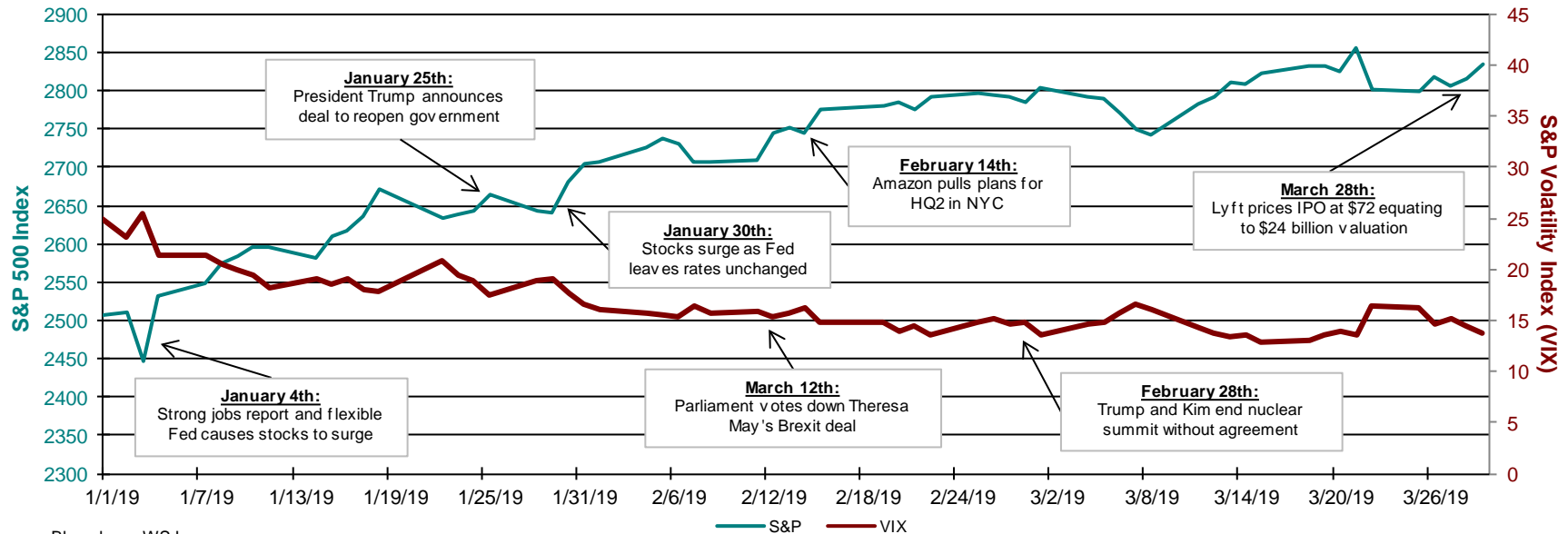
Following its worst year since 2008, the market roared back in the first three months of 2019, delivering its best quarter in nearly ten years. Fittingly, on the last day of trading the Lyft IPO priced at the top of its range with strong investor demand and, for the third time, the UK Parliament voted down the proposed Brexit plan. These countervailing notes of optimistic froth and continued global concern highlight the tension that investors face. Likewise, the prospect of a less vigilant Fed has buoyed the market but also points to the reality of slowing growth here and elsewhere around the globe. A recession may not be imminent but with business activity ratcheting down and trade relations still chilly, it is not difficult to envision a moderate contraction sometime in 2020 or 2021. A recent brief inversion of the yield curve is another reminder that we may be approaching the final stage of this current business cycle. If and when that happens, monetary policy may not have the punch to combat a recession unless interest rates are at much higher levels than they are today.

The primary drivers of recent market performance revolve around 1) the oversold condition of the stock market at the end of 2018, 2) a pivot away from headwind-inducing tightening by global policy makers, 3) strong investor demand for yield, 4) a growing presumption that trade issues will be resolved and that China will help reflate emerging markets and 5) a more positive view on an uncertain Europe.

Unfortunately, each of these performance drivers has a dark side which could result in disappointing returns in the next several quarters. So, for example, P/E valuations that were beaten down in Q4 2018 are back to their October highs as a result of the run up in stock prices during this year's first quarter. Also, the thirst for yield has resulted in an explosion of private lending and relatively low spreads between corporate and government bonds. As for trade, even if the US and China resolve some of their issues and ease tensions, there are other trading partners with whom the US has imbalances (e.g., Mexico, Japan and Germany), and they may be drawn into a series of trade "discussions". Meanwhile Europe faces significant challenges including those tied to Brexit, Italy and the German banking sector.

Given the late cycle nature of the economy, and the run-up in market valuations since the beginning of the year, risk-sensitive investors should begin to lighten up on high beta, growth assets if they haven't done so already. For long-term investors there is still potential for profits but in the tautology of greed and fear, we believe positioning a few steps away from greed is now called for.

S&P 500 and VIX Performance – 1Q 2019



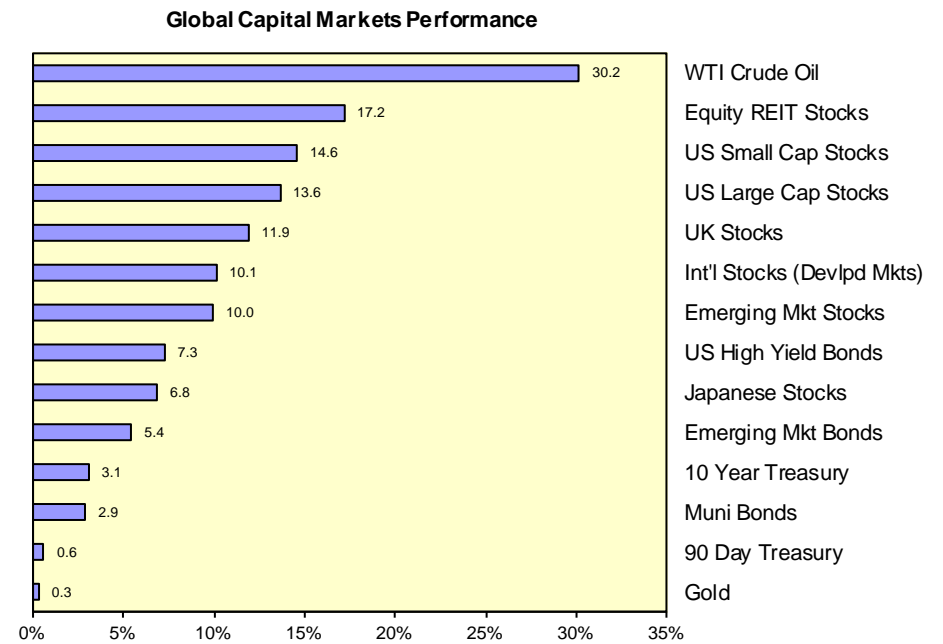
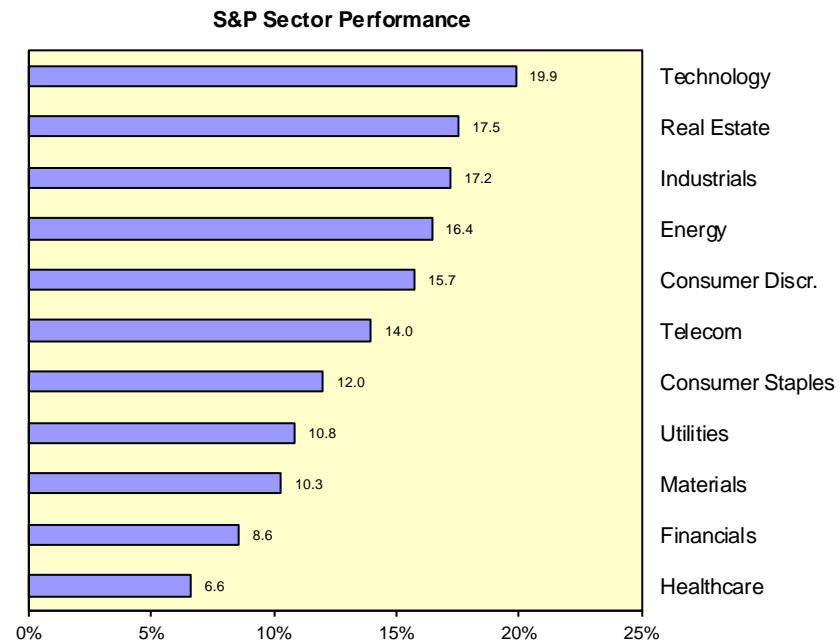
Source: Bloomberg, WSJ.com.

Global Capital Markets Performance – 1Q 2019

	Top Sectors			Bottom Sectors						
	U.S. Equity			U.S. Fixed Income			Global Equity			Global Fixed Income
	Value	Blend	Growth	Short Term	Intermediate	Long Term	Value	Blend	Growth	Intermediate
Large Cap	11.93	14.00	16.10	0.99	1.59	4.67	11.93	14.04	16.18	4.18
Mid Cap	14.37	16.54	19.62	1.68	3.55	7.86	8.08	10.13	12.18	4.15
Small Cap	11.93	14.58	17.14	N/A	7.12	10.07	7.90	9.95	12.07	6.33

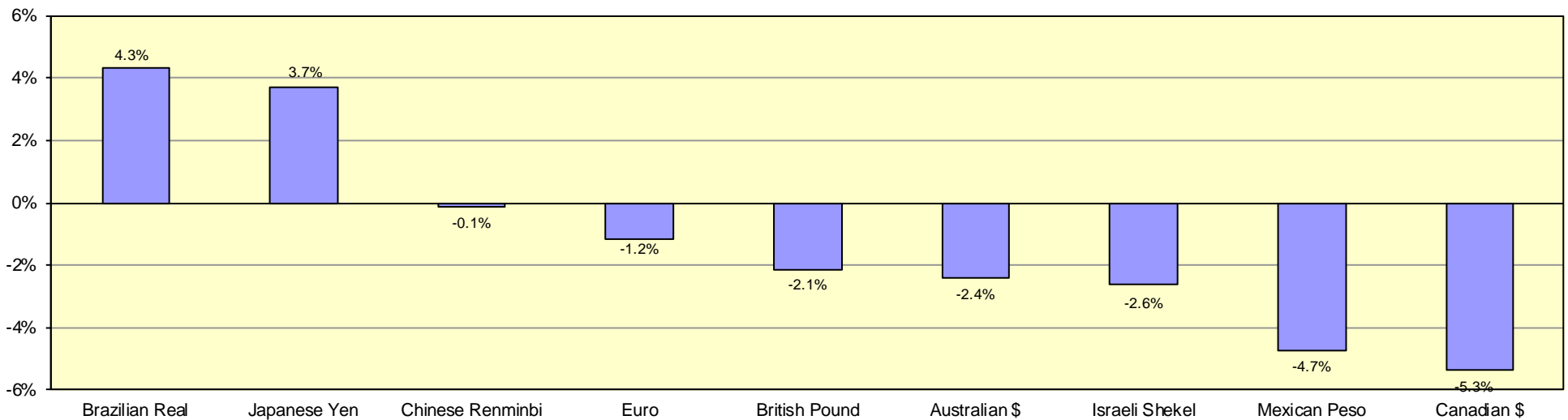
Source: Bloomberg.

Global Capital Markets and Sector Performance – 1Q 2019



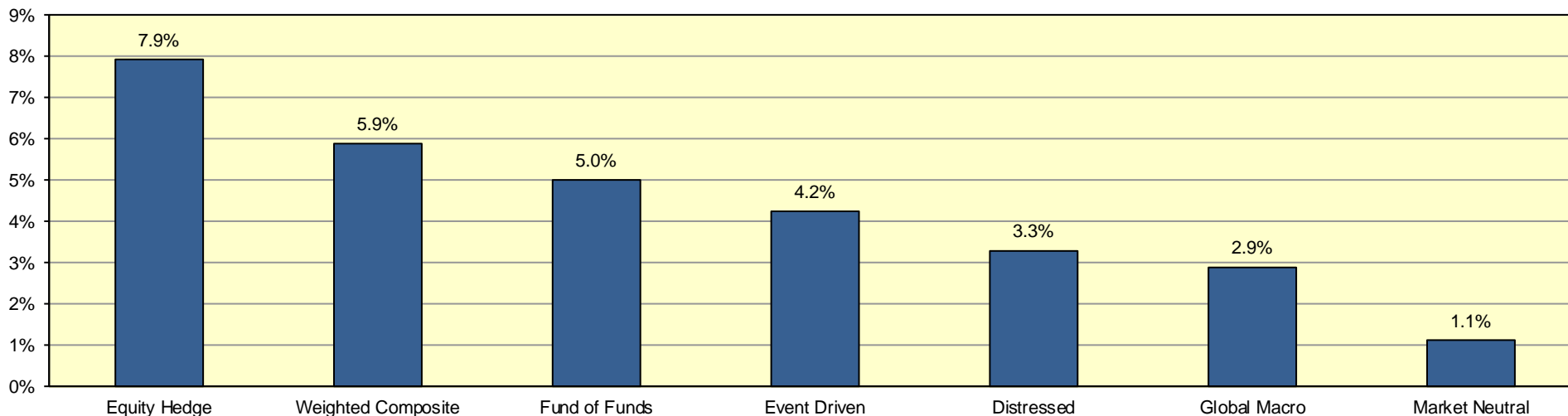
Source: Bloomberg.

Global Currency Performance – 1Q 2019



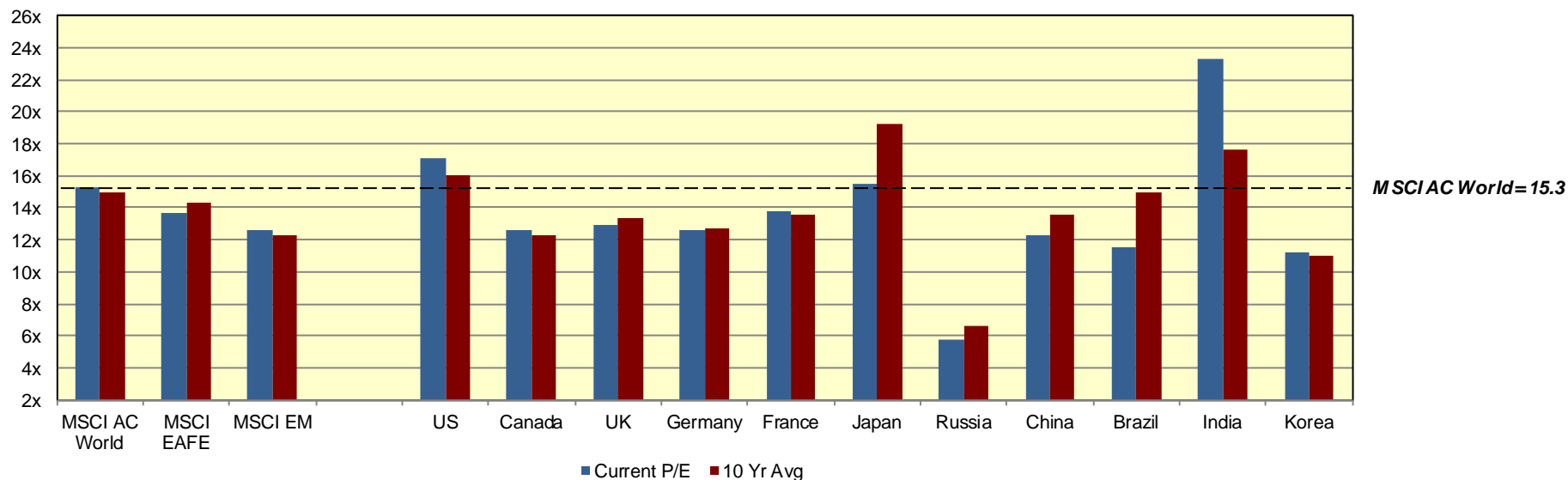
Source: Bloomberg.

Global Hedge Fund Performance By Strategy – 1Q19



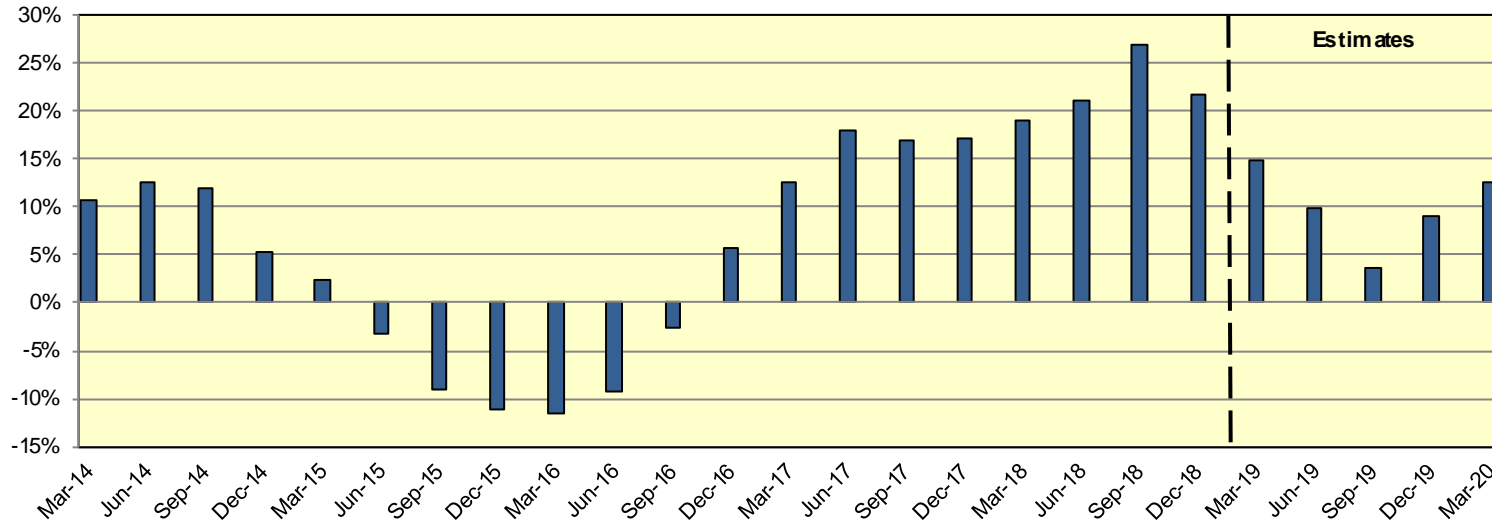
Source: HFRI Hedge Fund Indices.

Global Current Price / Earnings Ratio vs. 10 Year Average



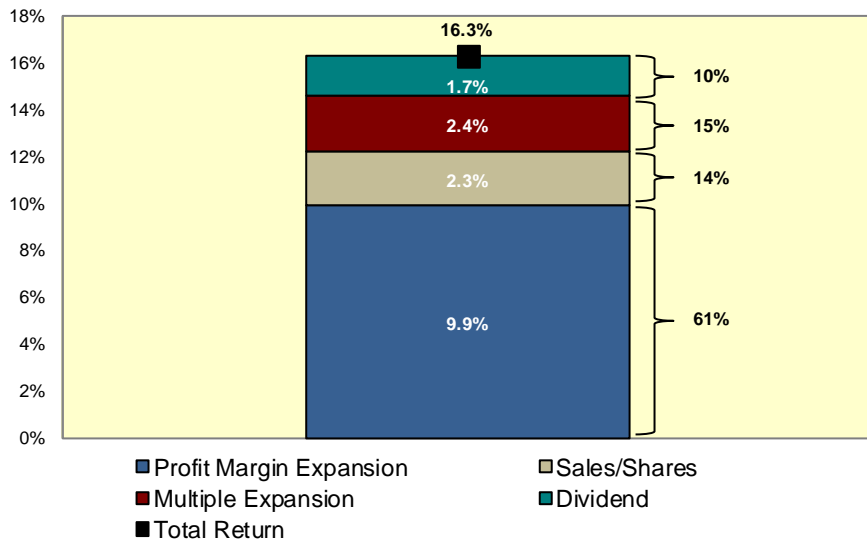
Source: Bloomberg. Price to earnings is price divided by Bloomberg consensus forward 12 month earnings estimate

S&P 500 Operating Earnings Growth (YoY Percentage Change)



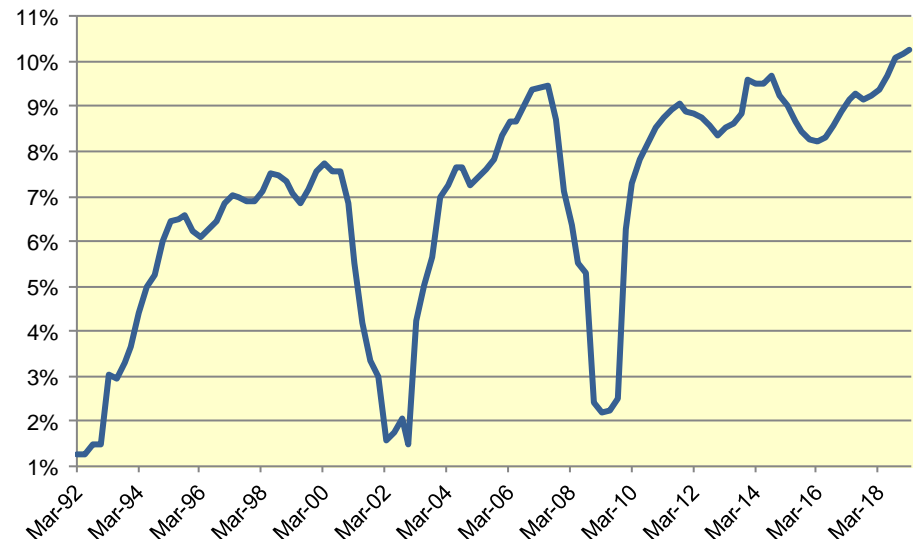
Source: S&P Dow Jones Indices.

S&P 500 Return Decomposition: March 2009 – February 2019



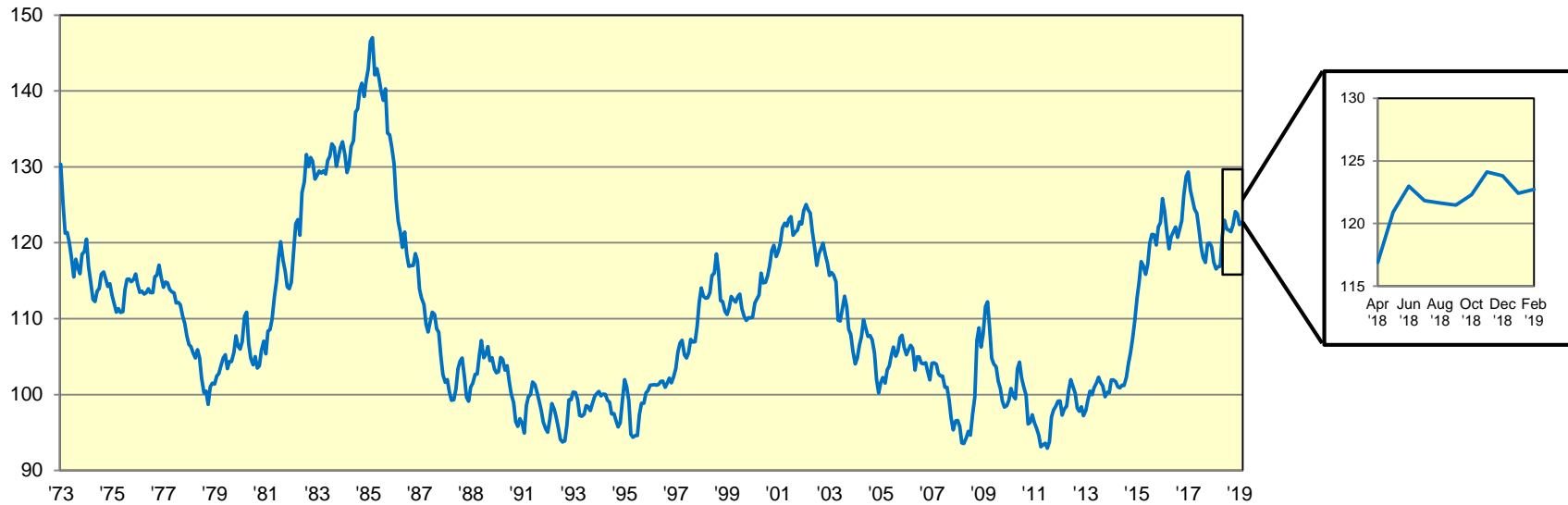
Source: Touchstone Investments, Bloomberg, S&P Dow Jones Indices.

S&P 500 Profit Margin



Source: Bloomberg.

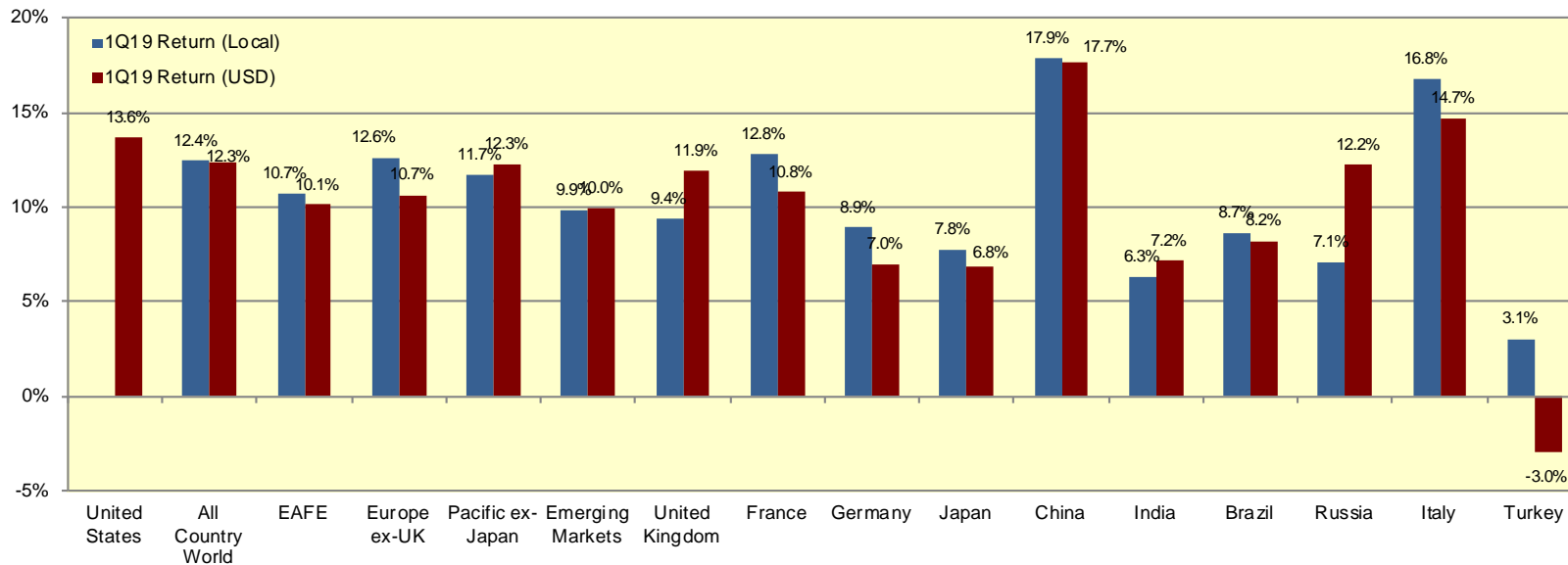
US Dollar Index



Note: Adjusted for inflation. The US Dollar Index is comprised of a basket of currencies of the trading partners of the United States.

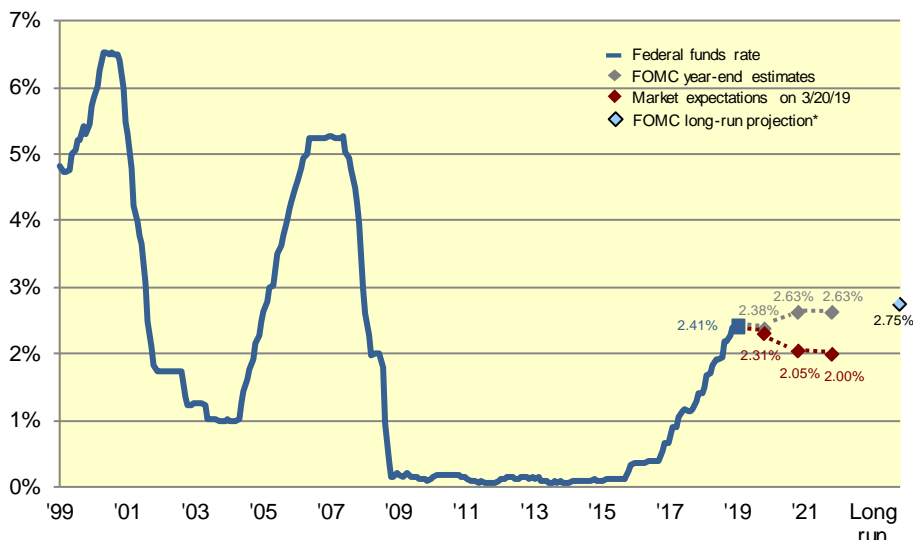
Source: BIS.

Global Equity Returns: Local Currency vs. USD – 1Q19



Source: Bloomberg, JP Morgan.

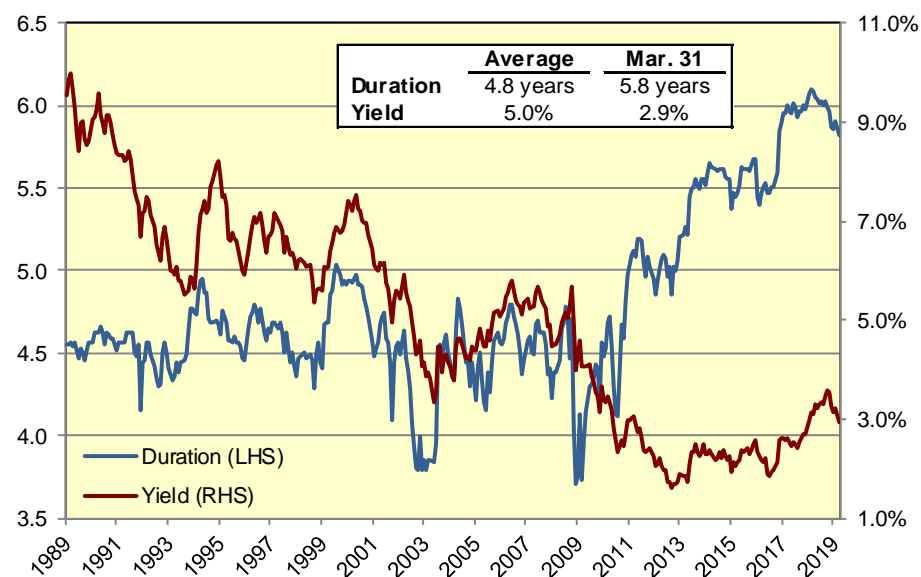
The Fed and Interest Rates



*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in the absence of further shocks and under appropriate monetary policy.

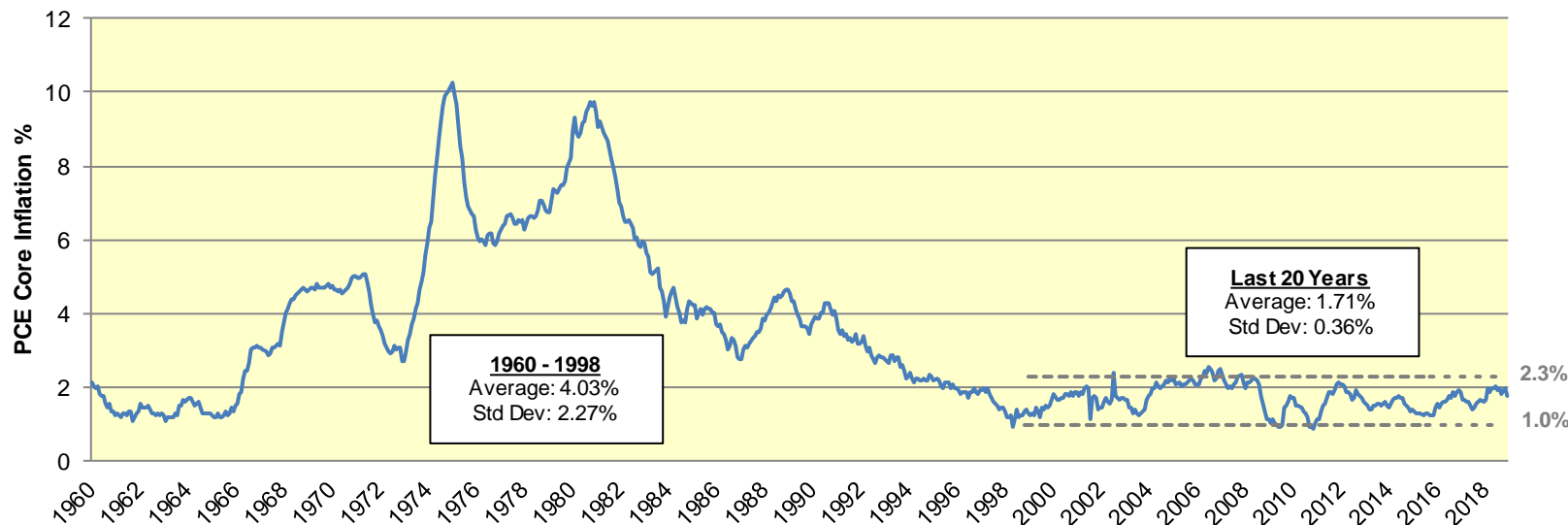
Source: Bloomberg, JP Morgan.

Duration of Barclays U.S. Aggregate



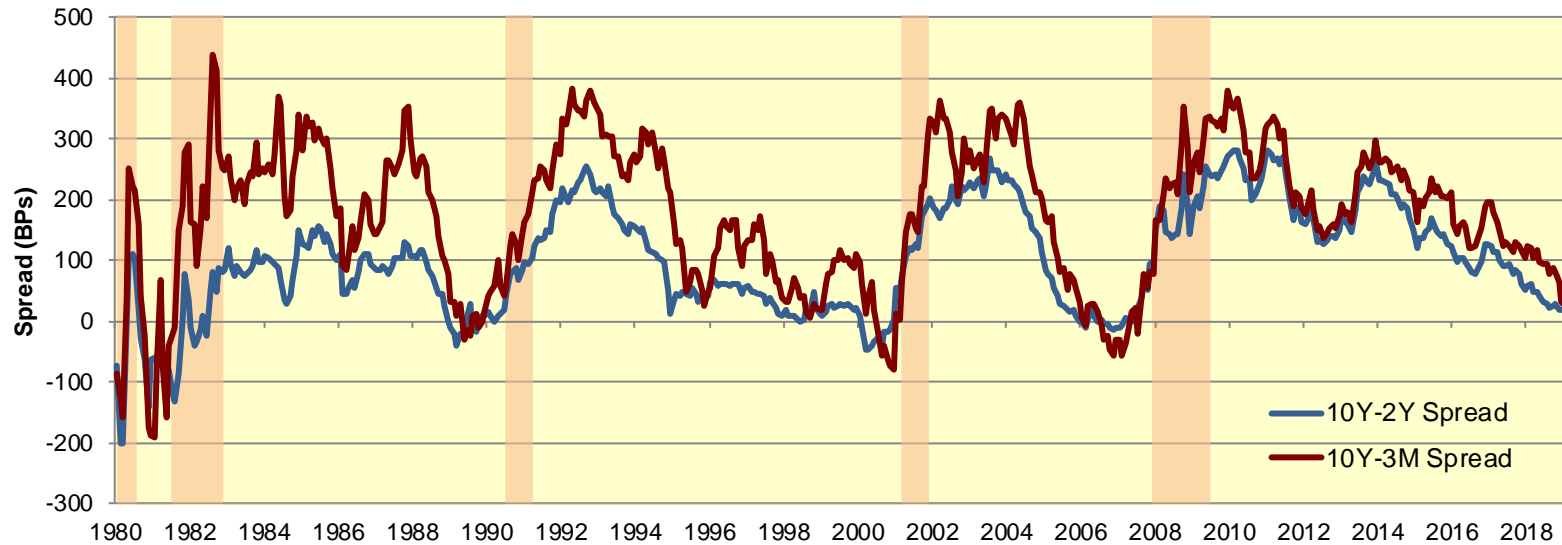
Source: Bloomberg, JP Morgan.

Inflation Since 1960



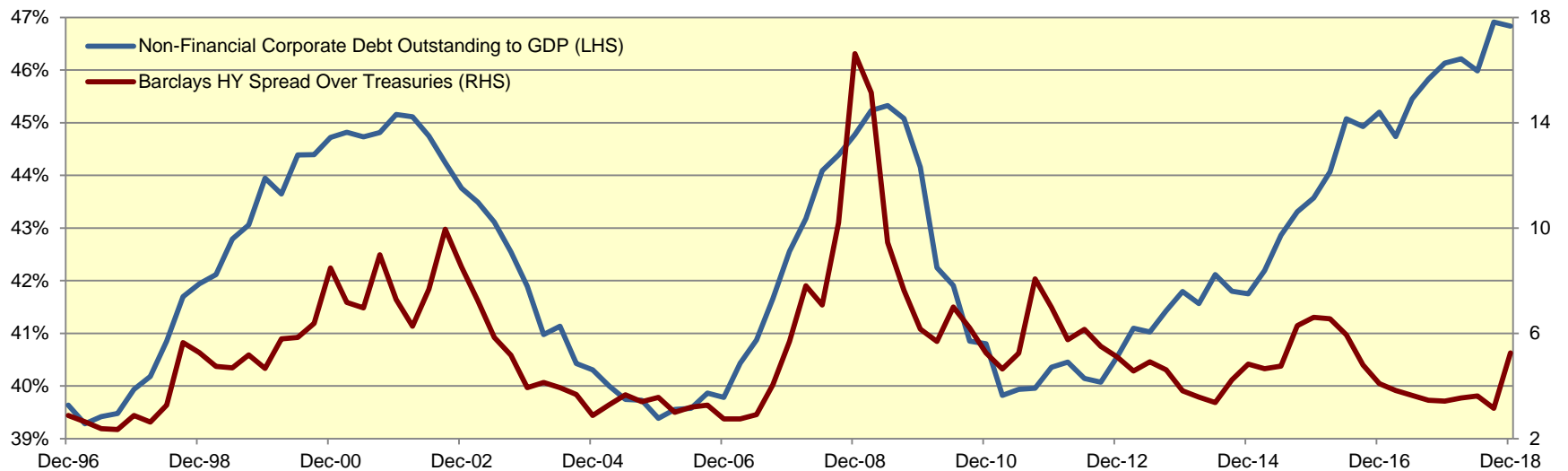
Source: Bloomberg, WSJ.

US Treasury Spreads



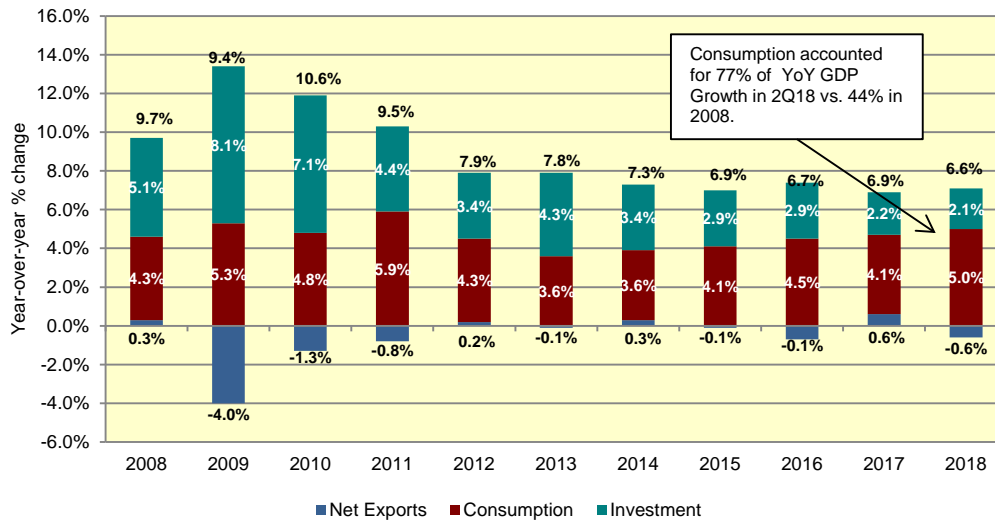
Source: Bloomberg, JP Morgan.

Credit Spread and Corporate Debt Burden



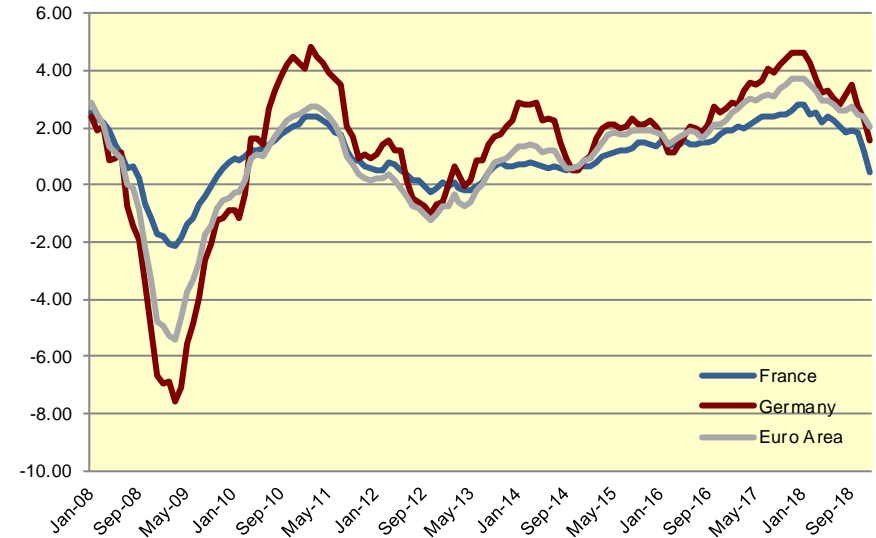
Source: Touchstone Investments, Bloomberg, Federal Reserve Bank of St. Louis.

China Real GDP Growth Contribution



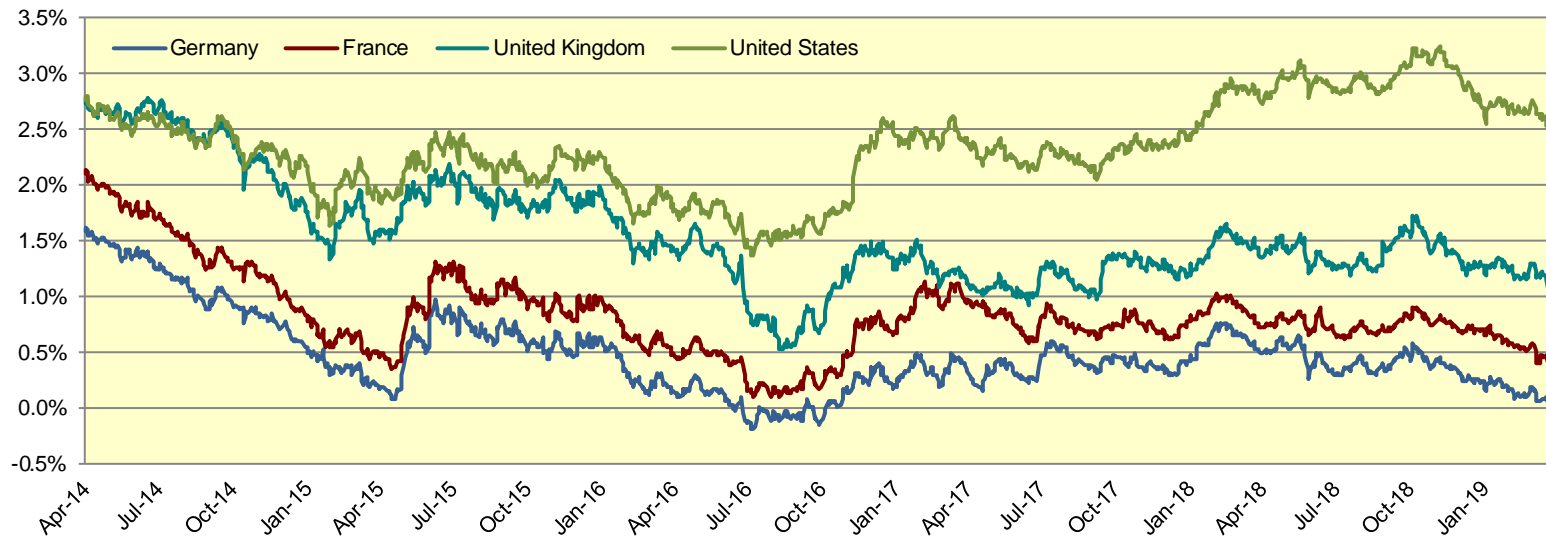
Source: JP Morgan, Factset.

GDP in Europe



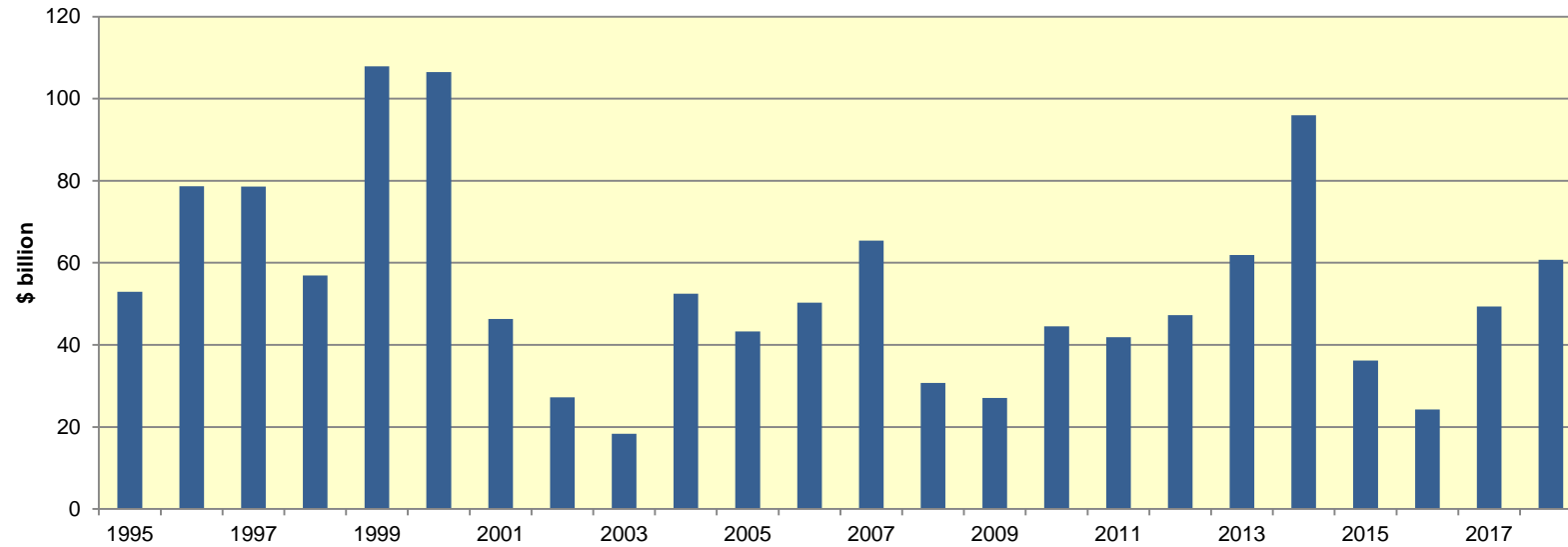
Source: Bloomberg.

10-Year Government Bond Yields



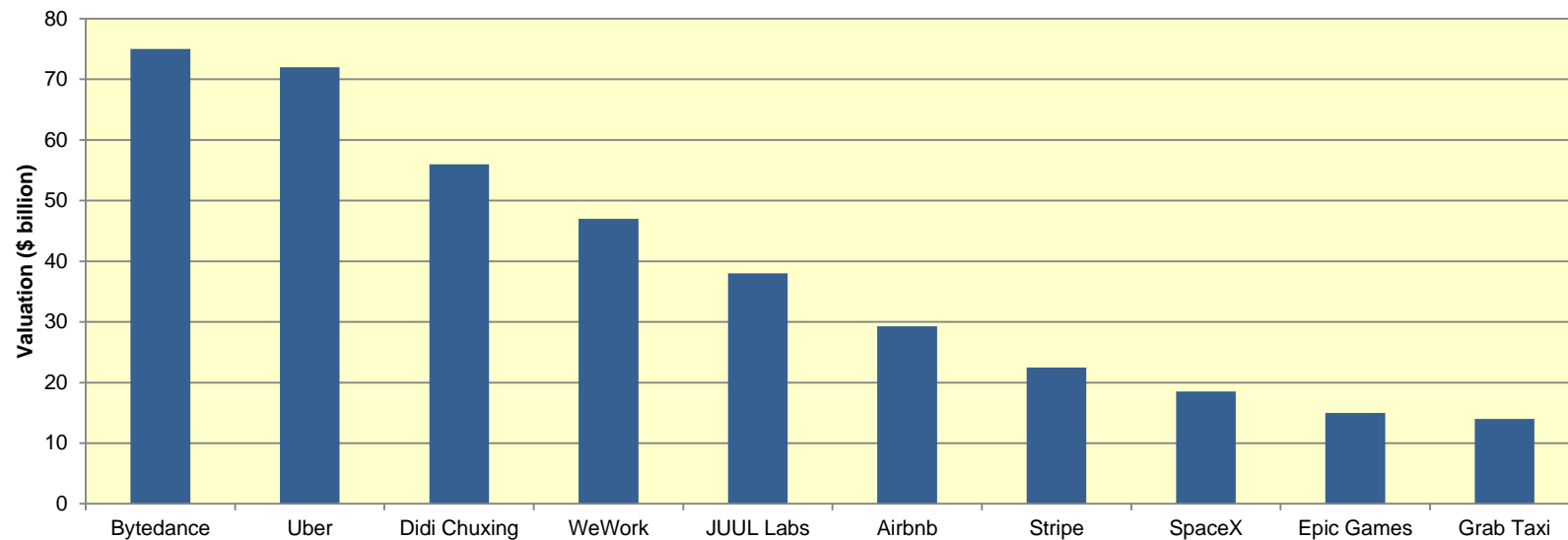
Source: Bloomberg.

Money Raised by IPOs since 1995



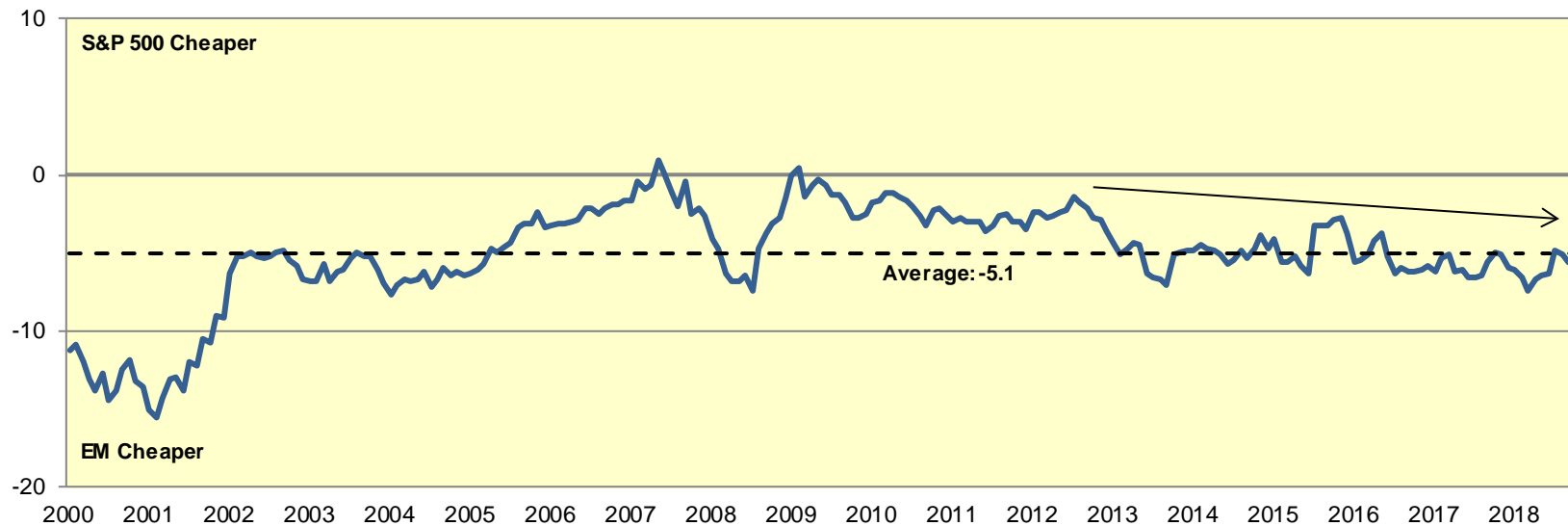
Source: WSJ.

Unicorn Startups: Largest Private Companies Valued Over \$1 Billion



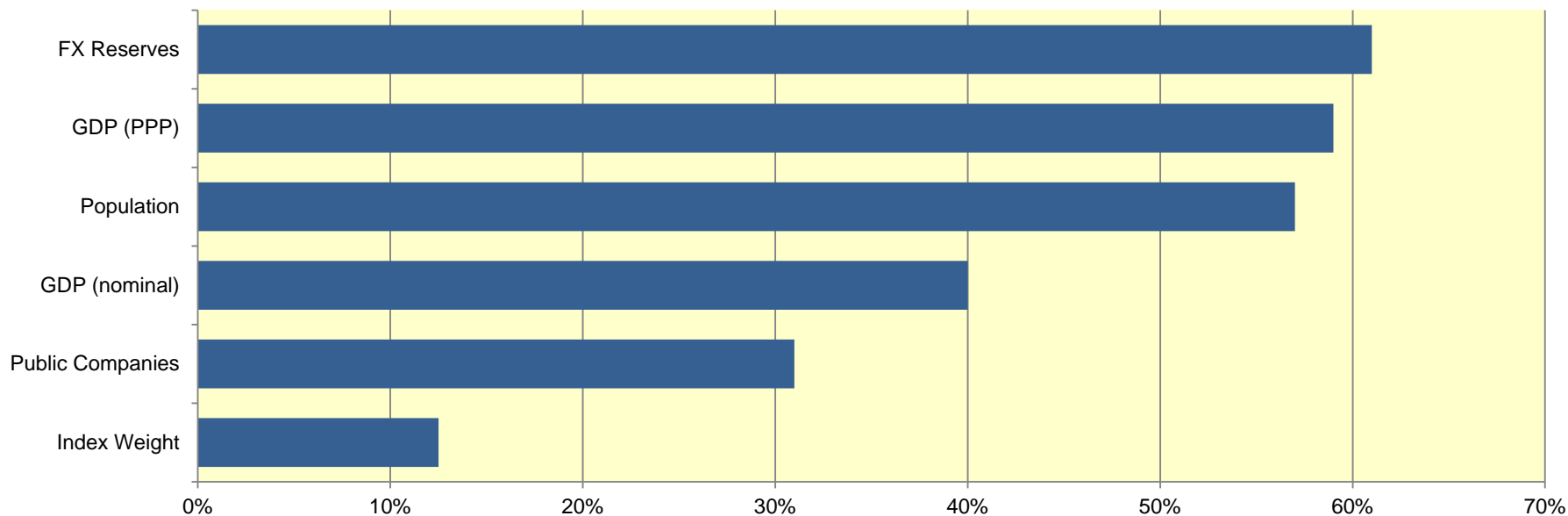
Source: CB Insights.

P/E Spread Between Emerging Markets and S&P 500



Source: Bloomberg.

Emerging Markets as a Percent of the World



Source: Touchstone Investments, IMF, MSCI.

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Past Performance is No Guarantee of Future Results