

Notable 1Q Market Performance

	S&P 500 (Large Cap Stocks)	MSCI EAFE (International Developed Stocks)	MSCI Emerging Markets (EM Stocks)	Barclays Aggregate (Bonds)	10-Year Treasury (Bonds)	HFRI Hedge Fund Composite (Hedge Funds)	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

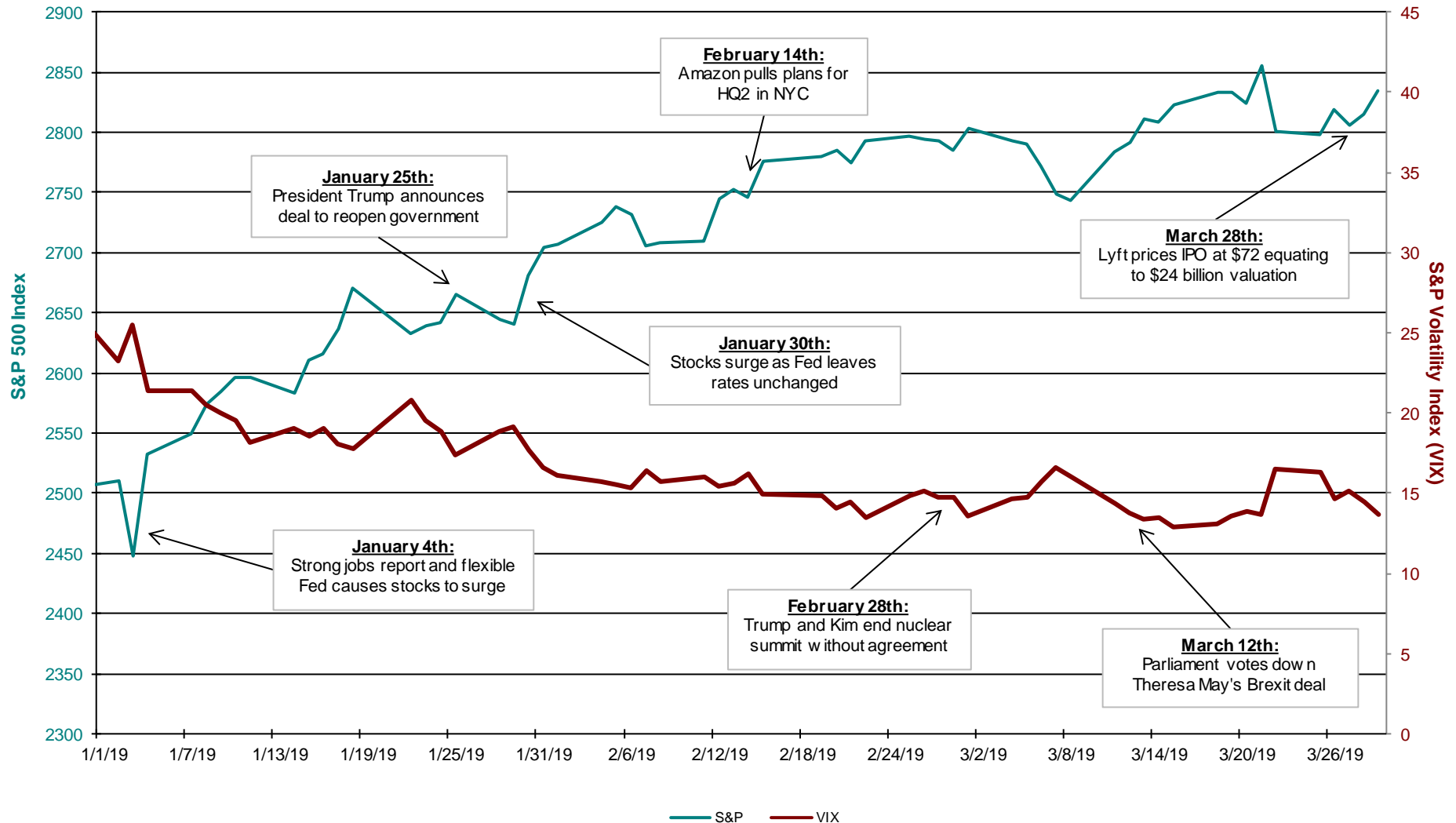
Following its worst year since 2008, the market roared back in the first three months of 2019, delivering its best quarter in nearly ten years. Fittingly, on the last day of trading the Lyft IPO priced at the top of its range with strong investor demand and, for the third time, the UK Parliament voted 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.

The S&P 500 Returns +13.7% for Best Quarter Since 2009 as the Fed Halts Rate Increases; Trade Deal with China Looms



Source: Bloomberg, WSJ.com.

Domestic Capital Markets Snapshot: Risk Assets Rebound in 1Q

U.S. Equity (S&P 500 +13.65%)

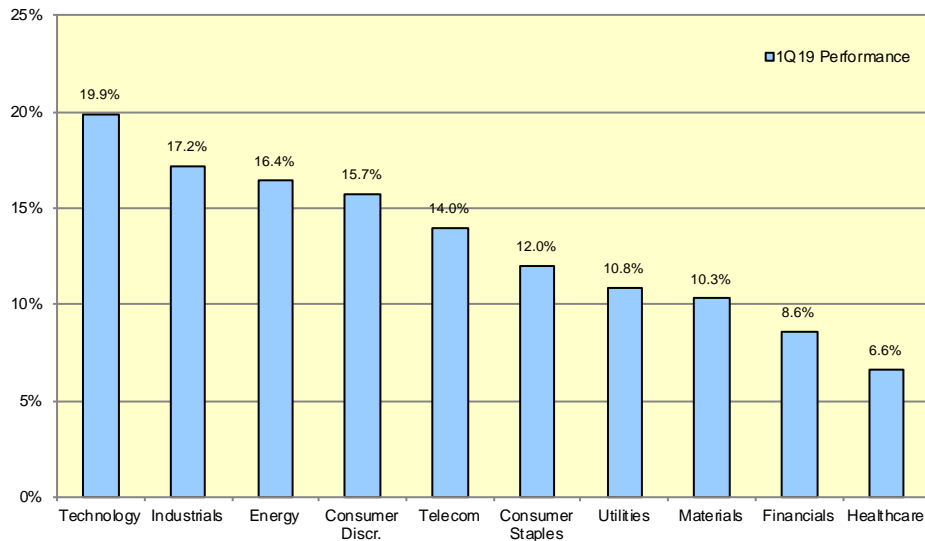
	Value	Blend	Growth
Large Cap	11.93	14.00	16.10
Mid Cap	14.37	16.54	19.62
Small Cap	11.93	14.58	17.14

U.S. Fixed Income (Barclays Agg +2.94%)

	Short Term	Intermediate	Long Term
Treasuries	0.99	1.59	4.67
Corporate	1.68	3.55	7.86
High Yield	N/A	7.12	10.07

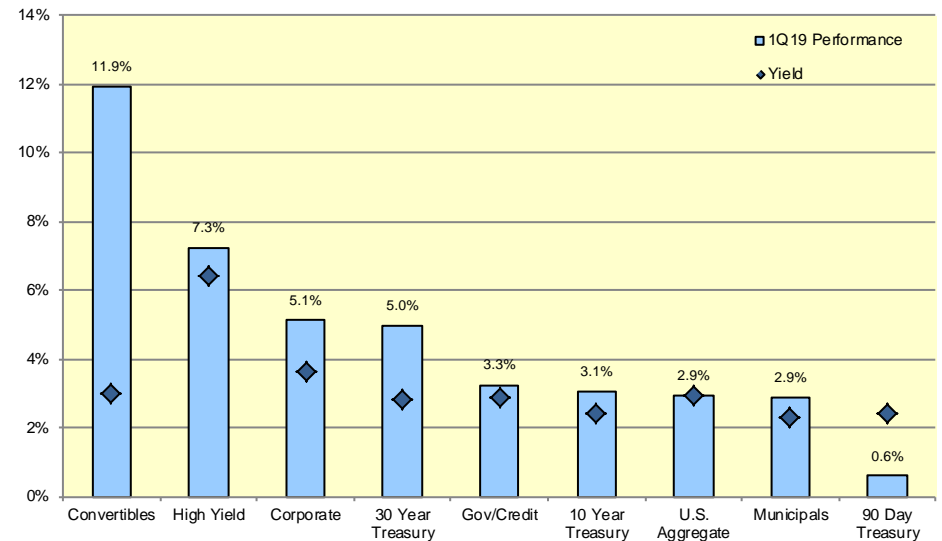
Source: Bloomberg.

S&P Sector Performance



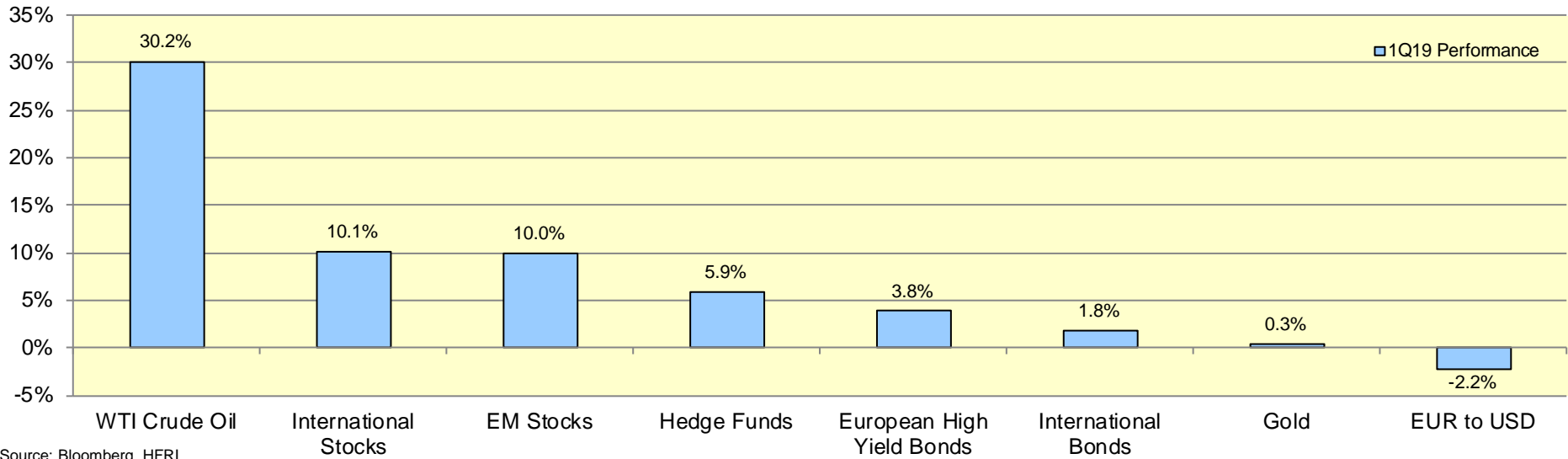
Source: Bloomberg

Domestic Fixed Income Performance



Source: Bloomberg, JP Morgan.

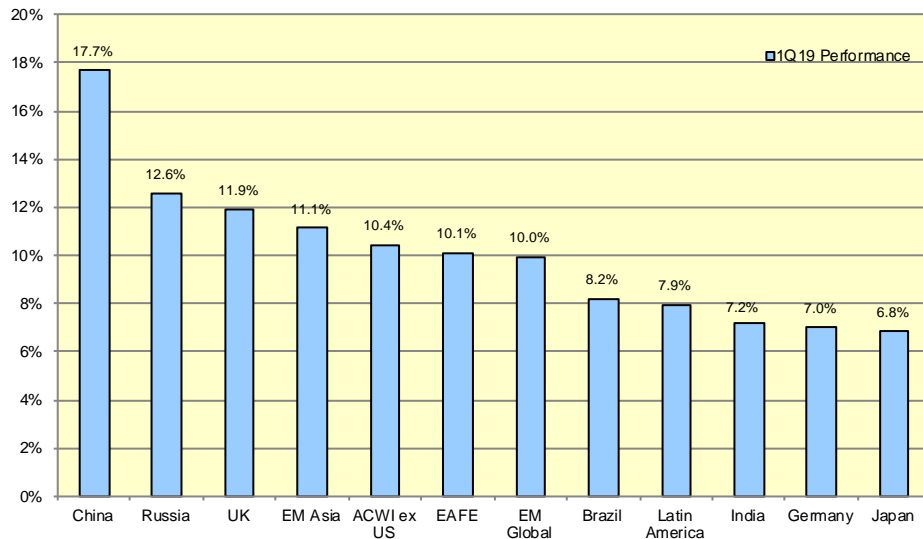
International Capital Markets Snapshot: Equities Rebound, Oil Goes on a Run



Source: Bloomberg, HFRI.

Note: All returns in USD.

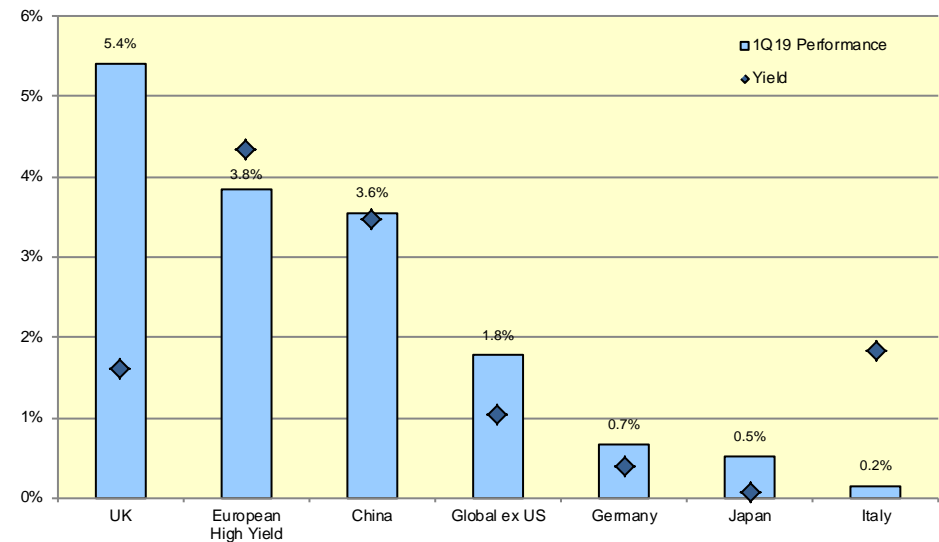
International Equity Performance



Source: Bloomberg

Note: All returns in USD.

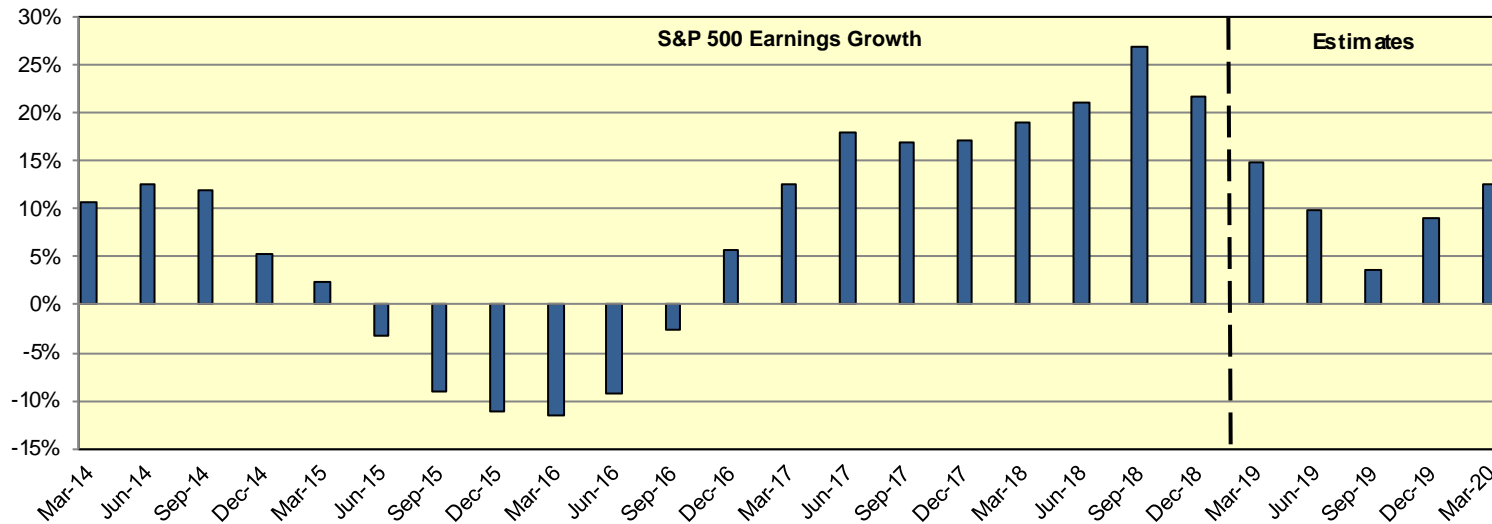
International Fixed Income Performance



Source: Bloomberg, JP Morgan. Country returns and yields represent those of Aggregate indices.

Note: All returns in USD.

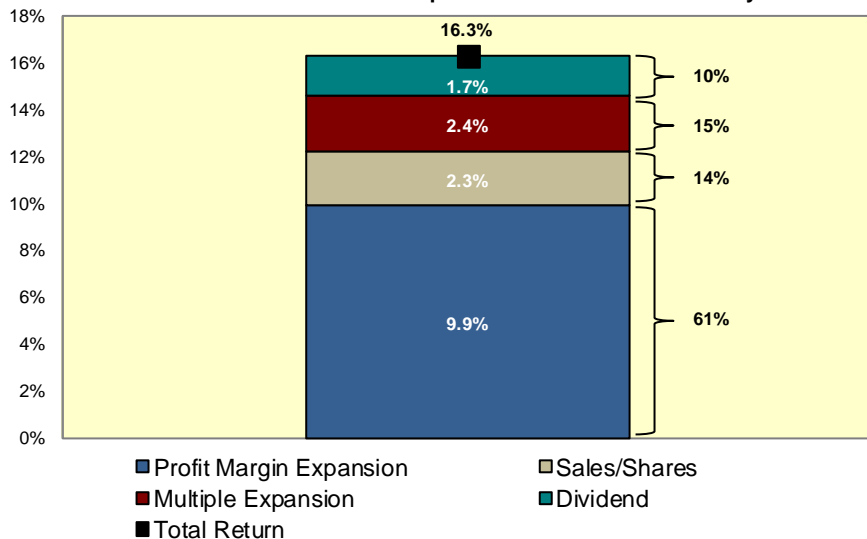
Earnings Expectations Have Begun to Shrink



Source: S&P Dow Jones Indices.

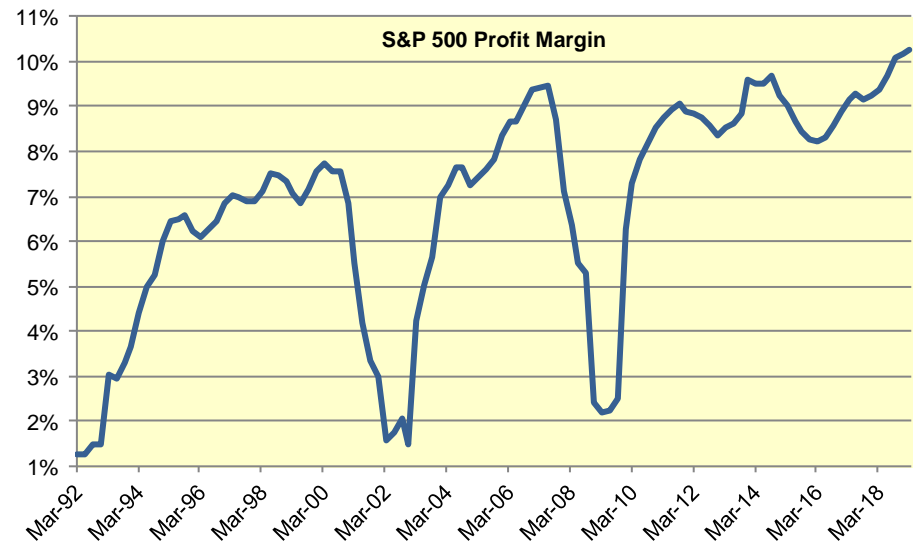
Profit Margin Expansion Has Been a Major Driver of Earnings Growth

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



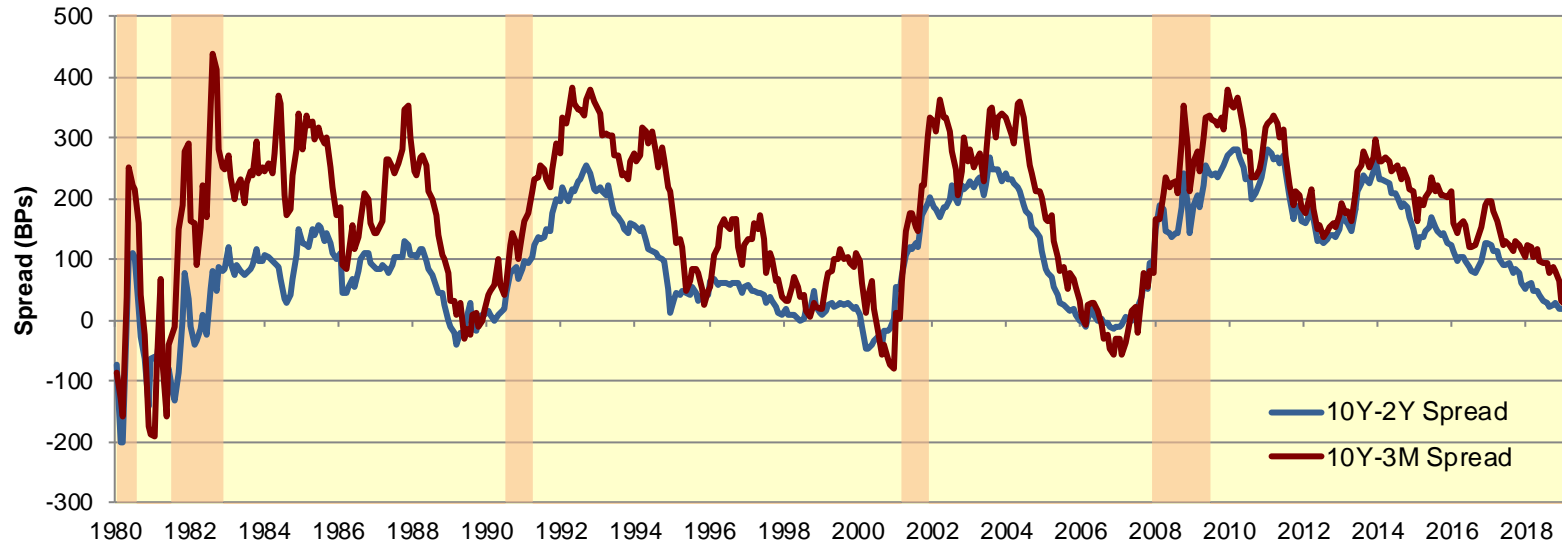
Source: Touchstone Investments, Bloomberg, S&P Dow Jones Indices.

Will Profit Margins Taper Off?



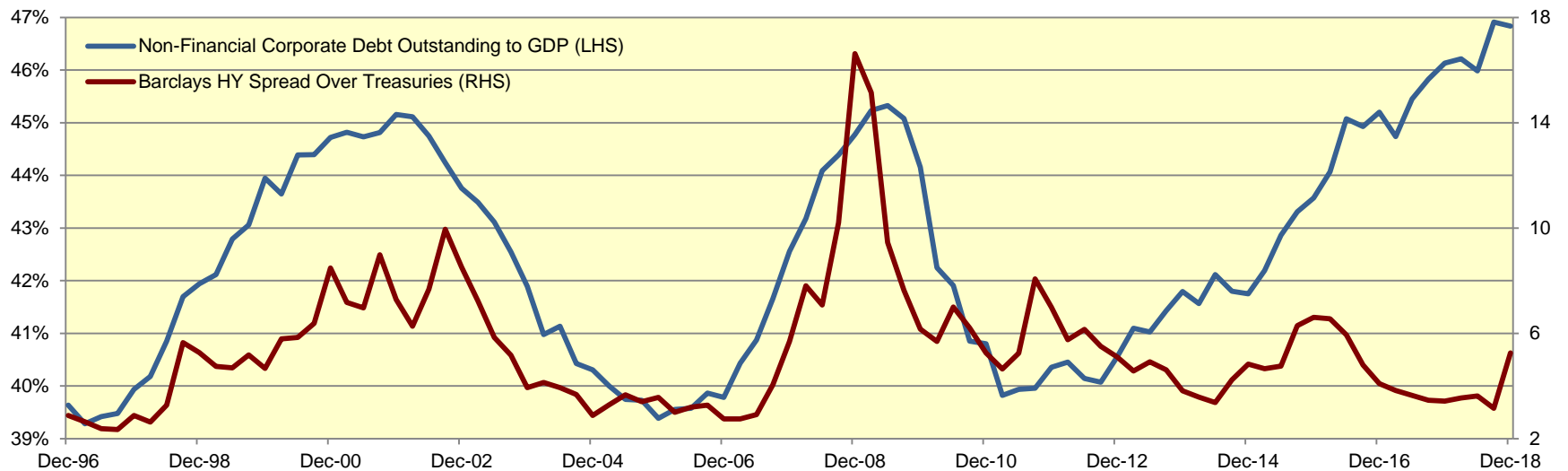
Source: Bloomberg.

Investors Remain Wary of an Inverted Yield Curve



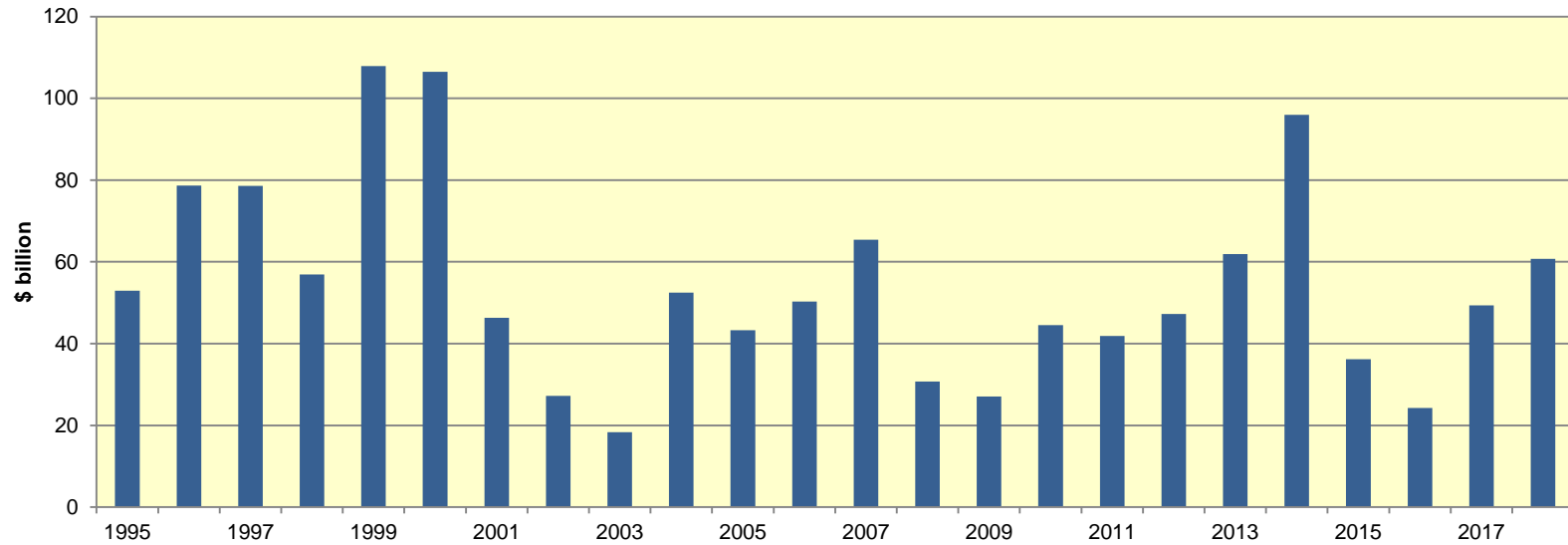
Source: Bloomberg, JP Morgan.

Tightening Spreads and Growing Debt Burden Can Compound the Effects of a Post-Expansion Decline



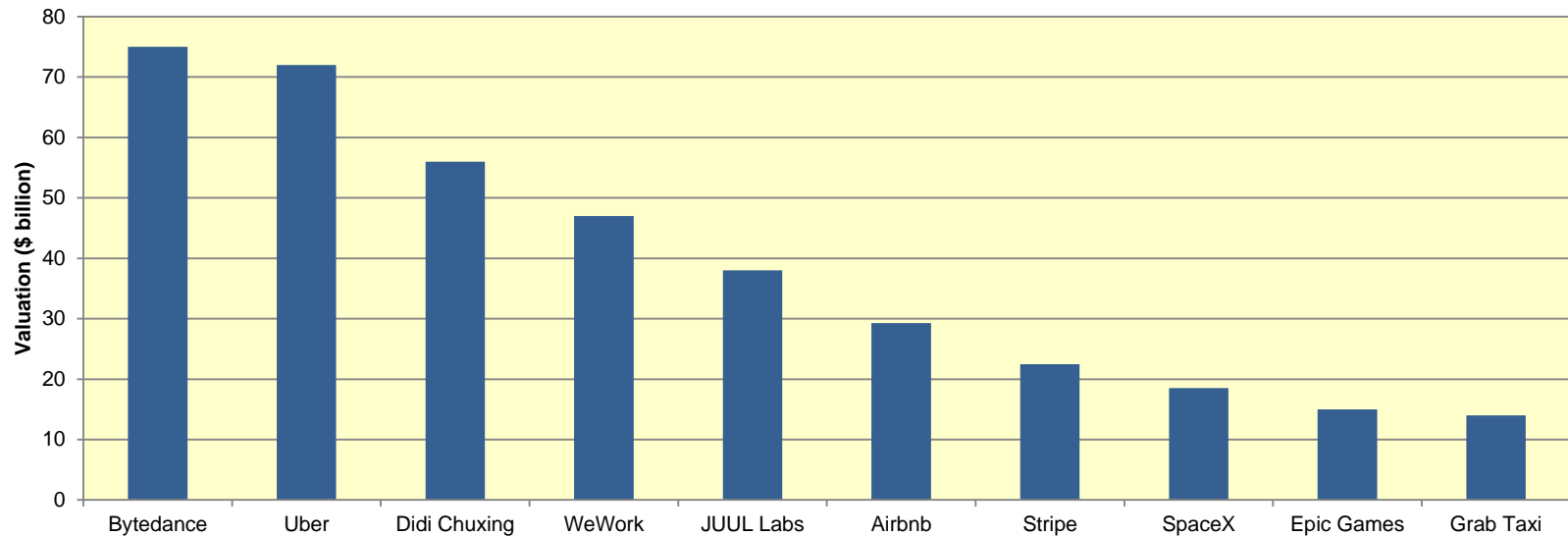
Source: Touchstone Investments, Bloomberg, Federal Reserve Bank of St. Louis.

Money Raised by IPOs since 1995: Will the Upward Trend Continue in 2019?



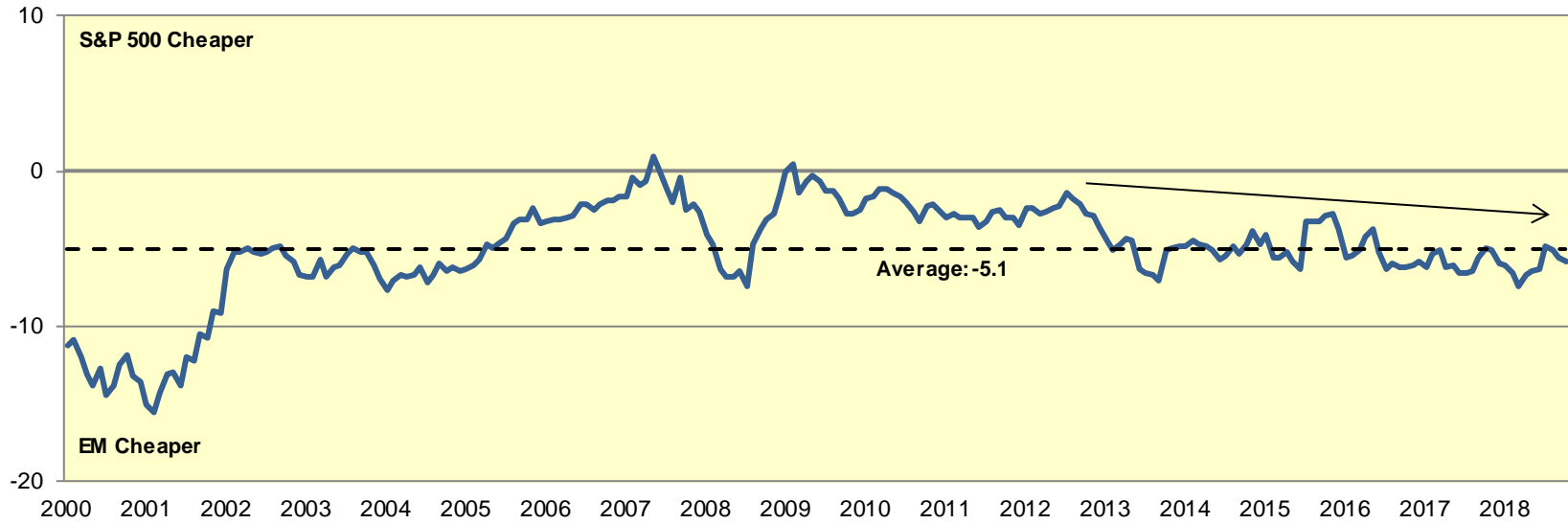
Source: WSJ.

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



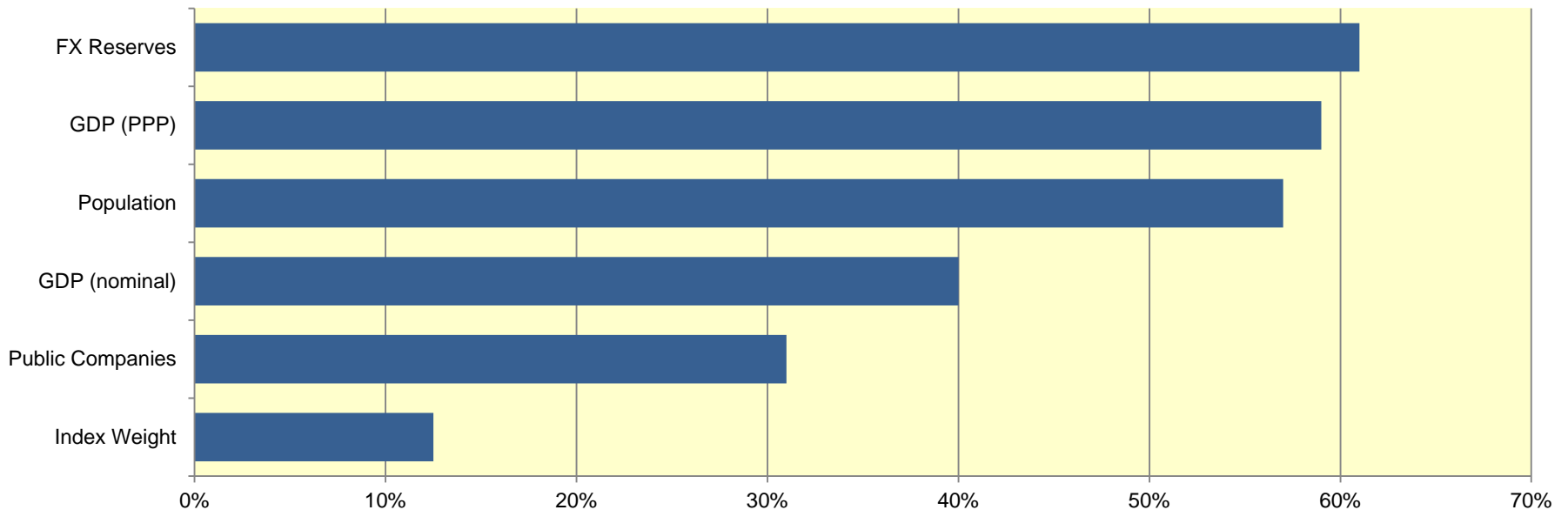
Source: CB Insights.

P/E Spread Between Emerging Markets and S&P 500: EM Remains Relatively Cheap



Source: Bloomberg.

Emerging Markets as a Percent of the World: Underrepresentation in Market Indexes



Source: Touchstone Investments, IMF, MSCI.

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Past Performance is No Guarantee of Future Results