Monthly Market Review

"Stocks say go, bonds say slow."

Market signals are contradictory: the strong stock market recovery and solid labor force indicators suggest an economy that will sustain and even expand recent growth, while falling bond yields and the Federal Open Market Committee's (FOMC) caution suggest the opposite.

Economic Highlights

- U.S. Gross Domestic Product (GDP) expanded at 3.2% in the first quarter, surprising to the upside. This was a full percent higher than the fourth quarter of 2018. Net exports plus inventory growth were responsible for 1.7% of the 3.2% reading. These components are quite volatile from quarter to quarter, while personal consumption expenditures generated only 0.8% - a sign that the sustainable pace of growth was quite a bit weaker than the headline. In other contributions, residential housing was a minimal subtraction (-0.1%), non-residential fixed investment was on the weaker side (+0.4%), federal government spending was flat, and state and local government spending was stronger than normal (+0.4%).
- At the FOMC meeting on May 1, the committee signaled once again that it had moved from a policy of tightening monetary conditions to one of watchful waiting. The Federal Reserve (Fed) noted that "on a 12-month basis, overall inflation and inflation for items other than food and energy have declined and are running below 2 percent," and that "growth of household spending and business fixed investment slowed in the first quarter." Fed Chair Jay Powell provided affirmation that "risks have moderated somewhat" and that a "patient" Fed is still warranted at this time, and surmised that lower inflation is "transitory."
- The U.S. labor market remains robust, highlighted by the latest jobs report which indicated nonfarm payrolls increased 263,000 in April, outpacing March's increase of 189,000 and exceeding April expectations of 190,000. Moreover, the unemployment rate decreased to a 50-year low of 3.6%. Hourly earnings grew at an annual rate of 3.2%. This was more than one percent higher than core inflation for the period, giving consumers a bit more spending power than this time in 2018.
- Lower mortgage rates over the past several months helped strengthen the housing market as pending home sales and new home sales increased 3.8% and 4.5% respectively, month-over-month.

Bond Markets

- Yields moved in a narrow range in April, with most of the action in longer maturities. For example, the 2-year Treasury note increased 0.01%, the 5-year rose 0.05%, and the 10-year note was up 0.09%.
- As a result, the total return of longer duration indexes lagged their shorter-term counterparts. For example, the 1-year and 3-year Constant Maturity U.S. Treasury Indexes returned 0.22% and 0.17%, respectively. Meanwhile, the 10-year and 30-year indexes generated negative returns: -0.59% and -2.04%, respectively, for the month.
- While the intermediate-maturity portion of the yield curve remained inverted (one to seven years), fear that this signaled an imminent business downturn seemed to fade, reinforcing a more positive outlook for near-term U.S. economic growth.

Equity Markets

- U.S. equities steamrolled their way to another strong month in April as the S&P 500 Index jumped 4%. The headline large-cap domestic equity index fully recovered from the late 2018 sell-off through April 30 and generated a year-to-date total return of 18.2%.
- With about 78% of S&P 500 companies reporting first quarter earnings, they have reported year-over-year declines of 0.8%, which if it holds, would will mark the first decline since the second quarter of 2016. That's still better than expectations for a fall of 4%. Also on the positive side, revenues grew 5.2% in the first quarter.
- The U.S. Dollar Index (DXY), measured against a basket of international currencies, continued to climb higher in April and ended the month up 1.4% year-to-date, evidence that even a weaker U.S. economy remains a leader on the global front.

PFM Outlook

- We see no reason to change our current strategy of emphasizing income potential while minimizing interest rate bets. This is supported by the post-meeting FOMC statement noting no "strong case for moving (monetary policy) in either direction".
- We continue to reduce allocations to Federal agency and Supranational bonds because their excess income potential is modest when compared with Treasuries. With a flat yield curve and calmer volatility, callable agency securities have become more attractive. We prefer structures with longer lockout periods (e.g. not callable for one year) to reduce reinvestment risk.
- The investment-grade credit sector has performed superbly through the first four months of the year, as spreads continue to narrow. We still maintain above average allocations and benchmark-neutral durations in the sector as the incremental income from corporate bonds is expected to be a key contributor to performance over the near-term.
- Mortgage-backed securities (MBS) have also performed well year-to-date, with longer collateral pass-throughs and agency collateralized MBS (AMBS) leading the class. As always, caution is appropriate as the structure of individual issues is a major determinant of returns.
- AAA-rated asset-backed securities (ABS) continue to produce excess returns vs. Treasuries and provide added portfolio diversification.
- In the money market space, the inverted yield curve and technical factors have concentrated value in short maturities. The potential for incremental income from investing in commercial paper and other short-term credit instruments has moderated and there is less reason to extend maturities than at the start of the year.

U.S. Treasury Yields

Duration	Apr 30, 2018	Mar 31, 2019	Apr 30, 2019	Monthly Change
3-Month	1.80%	2.39%	2.42%	0.03%
6-Month	2.01%	2.43%	2.45%	0.02%
2-Year	2.49%	2.26%	2.27%	0.01%
5-Year	2.80%	2.23%	2.28%	0.05%
10-Year	2.95%	2.41%	2.50%	0.09%
30-Year	3.12%	2.82%	2.93%	0.11%

Yields by Sector and Maturity as of March 31, 2019

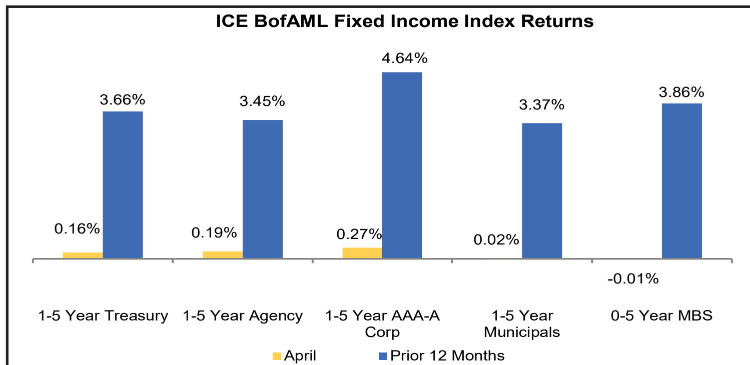
Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	2.42%	2.41%	2.49%	--
6-Month	2.45%	2.39%	2.52%	--
2-Year	2.27%	2.31%	2.65%	1.54%
5-Year	2.28%	2.36%	2.81%	1.66%
10-Year	2.50%	2.71%	3.25%	2.05%
30-Year	2.93%	3.14%	4.00%	2.69%

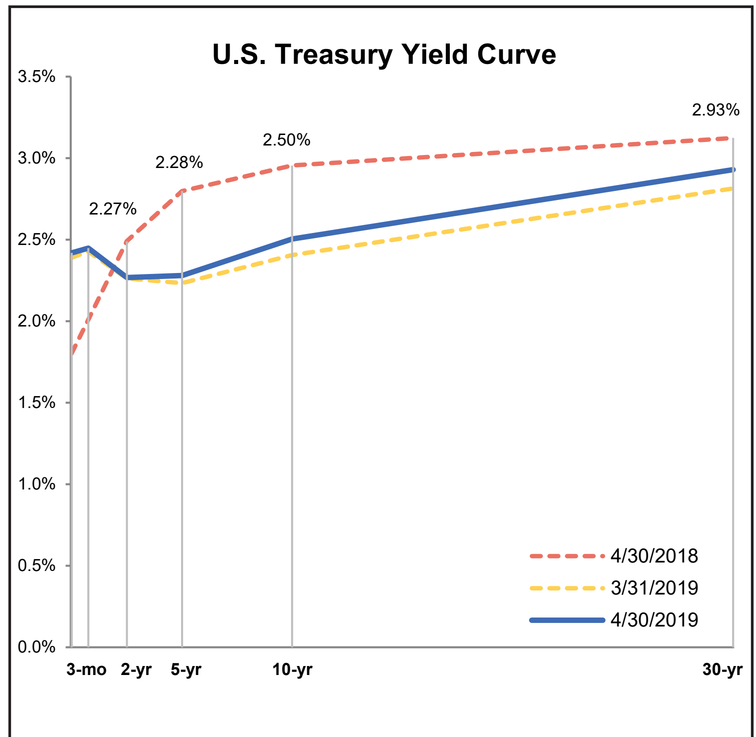
Spot Prices and Benchmark Rates

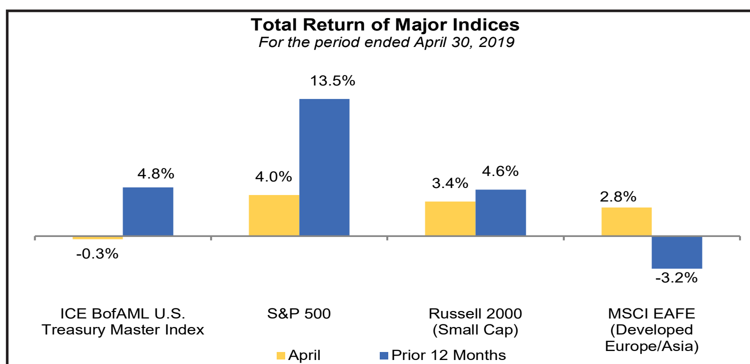
Index	Apr 30, 2018	Mar 31, 2019	Apr 30, 2019	Monthly Change
1- Month LIBOR	1.91%	2.49%	2.48%	-0.01%
3- Month LIBOR	2.36%	2.60%	2.58%	-0.02%
Effective Fed Funds Rate	1.69%	2.43%	2.45%	0.02%
Fed Funds Target Rate	1.75%	2.50%	2.50%	0.00%
Gold ($/oz)	$1,319	$1,293	$1,286	-$7
Crude Oil ($/Barrel)	$68.57	$60.14	$63.91	$3.77
U.S. Dollars per Euro	$1.21	$1.12	$1.12	$0.00

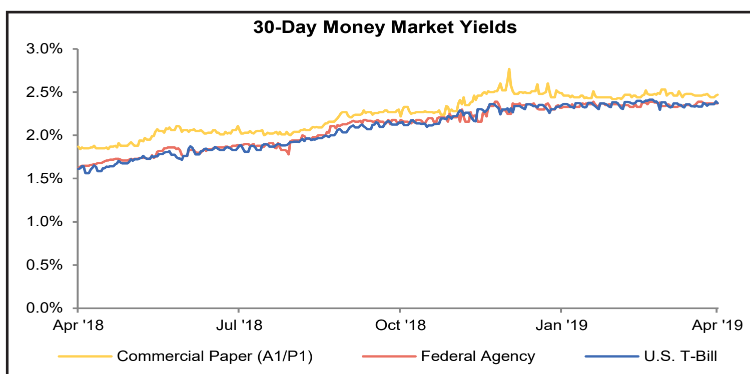
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Non-farm Payrolls	23-Apr	Mar	4.5%	-2.7%
Retail Sales MoM	26-Apr	1Q A	3.2%	2.3%
CPI Ex-Food&Energy YoY	30-Apr	Apr	129.2	126.8
Existing Home Sales	1-May	May	2.5%	2.5%
New Home Sales	1-May	Apr	52.8	55.0
GDP Annualized QoQ	3-May	Apr	263k	190k
Consumer Confidence	10-May	Apr	2.1%	2.1%









Source: Bloomberg. Data as of April 30, 2019, unless otherwise noted.

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