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ECONOMY: A Hodge Podge of Data

U.S. GDP GROWTH SOLID

The U.S. economy grew 2.6% in the Q4 according to early estimates – higher than expectations, but lower than the previous two quarters. Consumer spending was strong, despite earlier reports that retail sales had dipped during the key December holiday period. Gross domestic product rose 2.9% in 2018, the highest annual rate in three years.

BIG SURPRISE IN JOBS MARKET

Employers added just 20,000 jobs during February, the fewest since September 2017. While the three month average gain of 186,000 is strong, February missed all economist estimates and showed signs of moderation in the job market. Analysts said the unexpectedly low figure does not mean conditions rapidly deteriorated, but were likely attributed to weather and previous outsized gains. The unemployment rate fell to 3.8% from 4.0%, while wages grew 3.4% over the past year.

TRADE DEFICIT HITS RECORD

According to the Commerce Department the U.S. trade deficit hit a 10-year high in December of $59.8 billion, well ahead of economists' expectations for a $57.3 billion increase. The expansion came due to a 2.1% increase in imports, while exports fell 1.9%. Slowing global growth is causing a reduction in demand for U.S. goods, while a stronger dollar is also working against the trade balance.

CONSUMER CONFIDENCE REBOUNDS

The Conference Board ***Consumer Confidence Index***® increased in February, following a January decline. *"Consumer Confidence rebounded in February, following three months of consecutive declines. The Present Situation Index improved, as consumers continue to view both business and labor market conditions favorably. Expectations, which had been negatively impacted in recent months by financial market volatility and the government shutdown, recovered in February. Looking ahead, consumers expect the economy to continue expanding. However, according to The Conference Board's economic forecasts, the pace of expansion is expected to moderate in 2019."*

SERVICES AND MANUFACTURING DIVERGE

The ISM non-manufacturing index rebounded to 59.7, and the underlying cycle highs for business activity and new orders point to continued momentum. The ISM manufacturing index, down to 54.2, has shown clear signs of a slowdown, as the index has retreated from the high readings of the past couple of years amidst slowing growth overseas and ongoing trade issues.

BOE & ECB REDUCE FORECASTS…

Amid continued political uncertainty the Bank of England (BoE) cut its UK growth forecast from 1.7% to 1.2% for the year, citing slowing global economic growth and Brexit related uncertainty. The downgrade represented the largest downward revision to BoE estimates since the EU Referendum in 2016. The ECB cut its 2019 GDP forecast for the Eurozone to just 1.1% from 1.7% previously. Rate cuts are unlikely, as the ECB expects rates to remain unchanged "at their present levels at least through the end of 2019, and in any case for as long as necessary" to meet its inflation target.

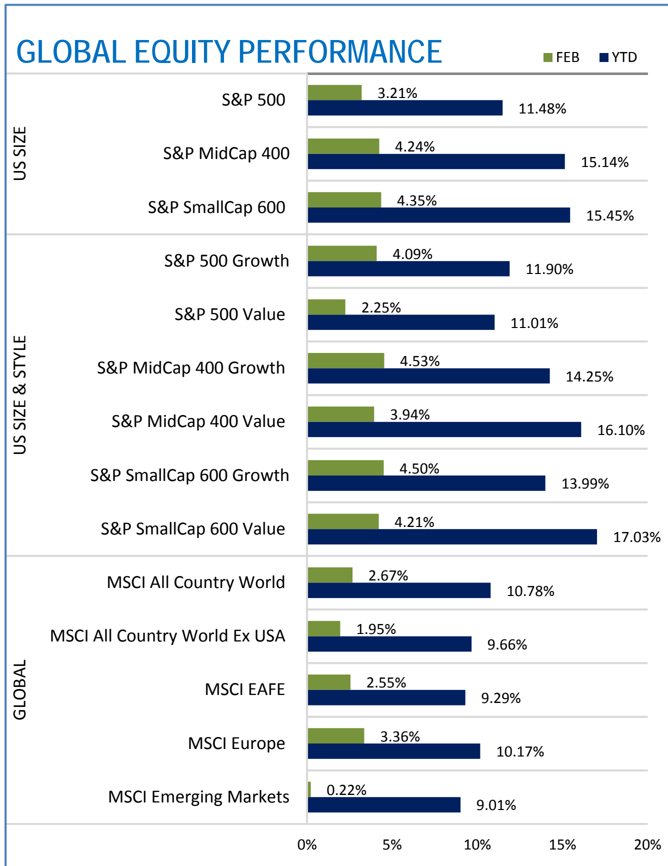
JAPAN RALLIES BACK

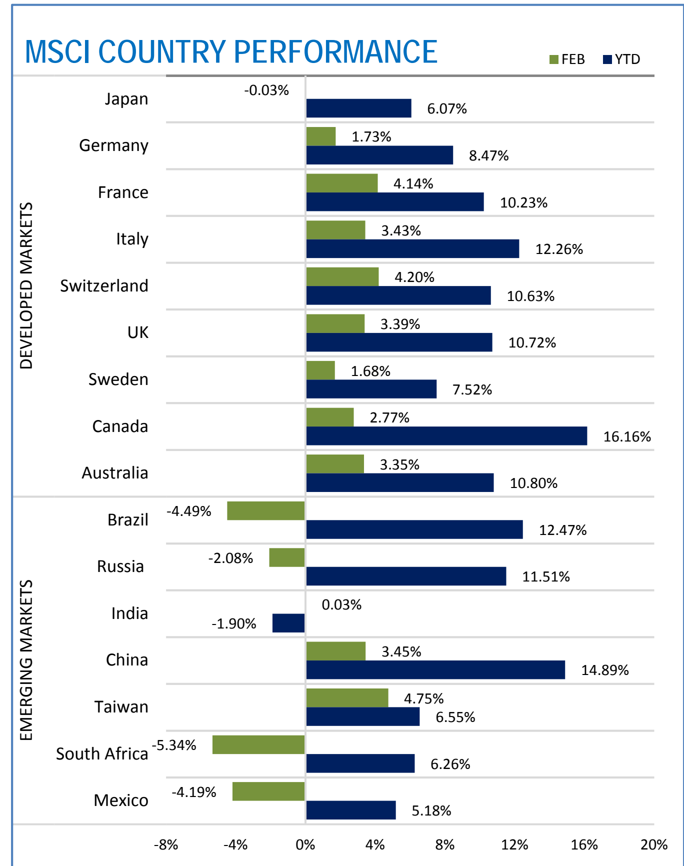
Japan's Q4 GDP rose 1.4%, rallying back from a Q3 contraction on solid domestic business and consumer spending. However, January exports fell 8.4%, the biggest drop since October 2016. The Bank of Japan (BoJ) has also hinted at additional stimulus, considering an unsteady economy and below target inflation. Policymakers are concerned that a strengthening of the yen amid global economic weakness could pressure Japan's economy.

REFORM FOR BRAZIL

President Jair Bolsonaro plans to save $270 billion over a decade with his proposed pension overhaul plan by revising the tax rate, increasing the retirement age and creating savings accounts, as part of efforts to tackle the country's account deficit and boost economic growth. Underscoring the challenges Bolsonaro faces, Brazil's economy slowed sharply in the fourth quarter, expanding only by 0.1%, down from a revised 0.5% rate in the previous quarter.

GLOBAL EQUITIES: Global Equities Maintain Momentum





EARNINGS CONTINUE TO BEAT EXPECTATIONS

In February, the S&P 500 continued where January left off, posting a broad 3.21% gain, after January's 8.01% gain, mostly negating December's 9.03% fall. The 11.48% YTD gain is the best since the 11.82% gain for the first two months of 1991. The focus continued to be on Q4 earnings which were not terrible, but not great considering the reduced expectations. With over 95% of the market value having reported earnings, 68% beat, 25% missed, and 7% met expectations.

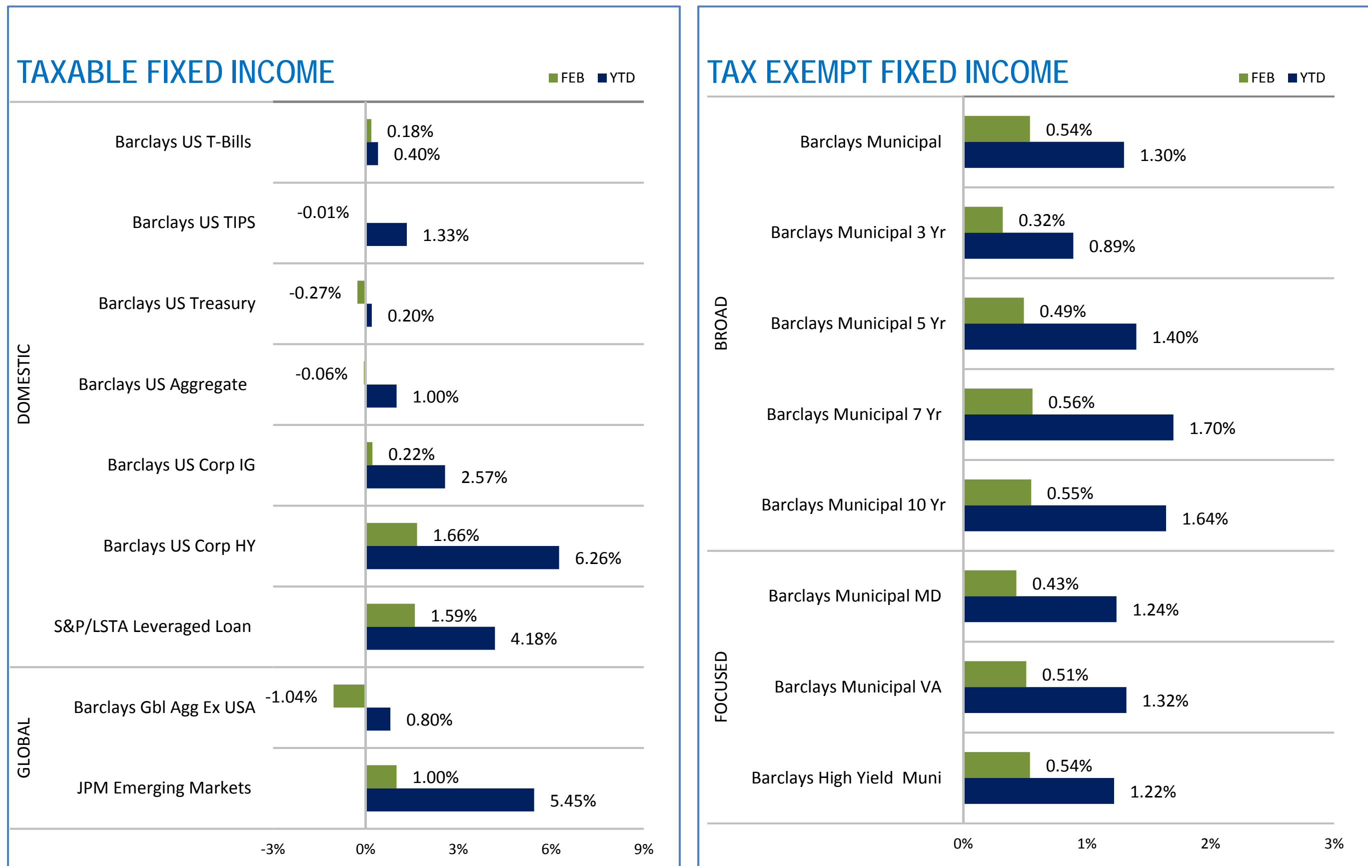
EUROPE GAINS ON RATES & TRADE

European stocks advanced in line with a global market rally in February as the MSCI Europe Index gained 3.36%. Investor sentiment was largely driven by signs of progress in U.S.-China trade negotiations and the likelihood that that interest rates in the U.S. and Europe may remain lower for longer than previously expected.

EMERGING MARKETS FLAT

Emerging markets stocks paused after January's rally. Resurgent oil prices, political events, and trade dominated the month. Asia was the only region to register gains for the month with sentiment boosted by progress in US-China trade talks. China was also bolstered by news that MSCI will increase it's index weighting in Chinese A Shares throughout 2019. The MSCI China Index rallied 3.45%. Conversely, the MSCI South Africa Index plummeted 5.34%, the worst performing EM in February, as the government unveiled a $4.8 billion bailout for state owned power company Eskom. Ratings agency Fitch warned that the country could see their ratings downgraded if the bailout and turnaround plan failed. Overall, the MSCI Emerging Markets Index gained only 0.22%

FIXED INCOME: Credit Risk Pays Off



RATES LITTLE CHANGED

The yield curve was little changed in February, as the 10-yr U.S Treasury yield moved 0.08% higher to end the month at 2.71%. Helping to mute rate volatility was the continuation of a more patient Federal Reserve and limited economic surprises. The minutes from the January Fed meeting emphasized that they will remain patient on further rate hikes and flexible with unwinding their balance sheet. The Treasury heavy Barclays U.S. Aggregate Bond Index fell 0.6% for the month.

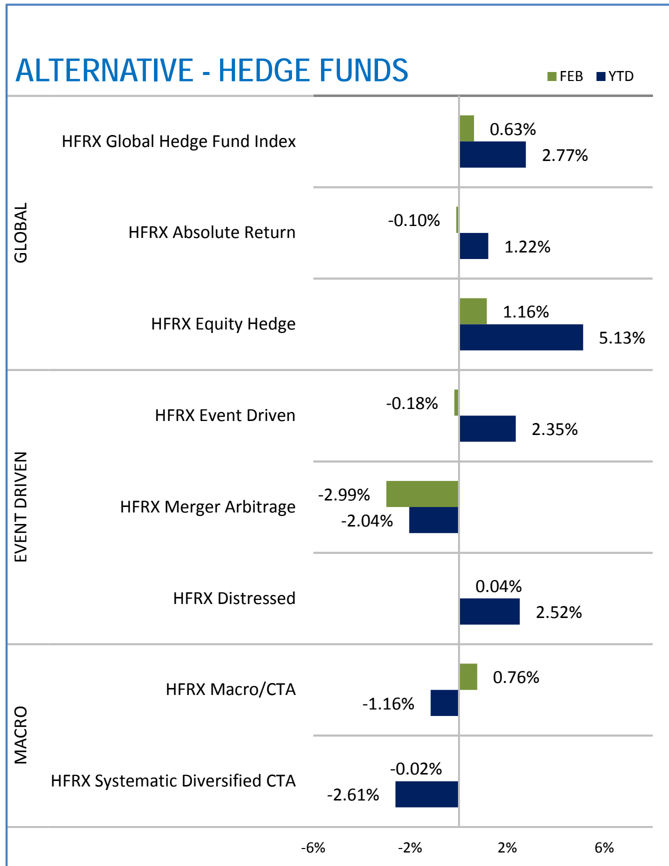
CREDIT RISK REWARDED

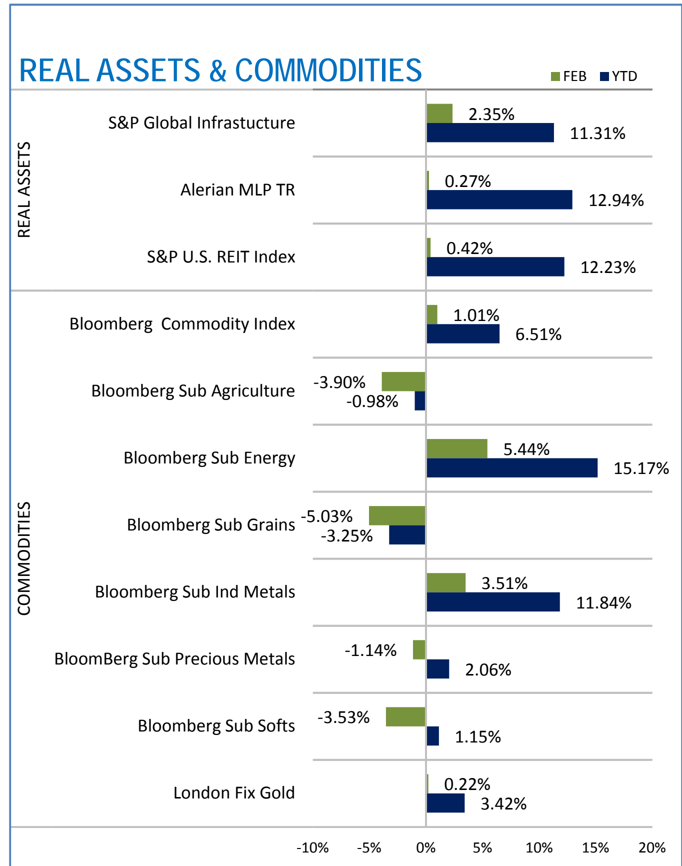
Credit sectors continued to rally in 2019 against a backdrop of rising equities, benign inflation, and better than expected corporate earnings. High yield bonds are off to their best start since 2001, gaining 1.66% in February and 6.26% YTD. Bank loans followed suit gaining 1.59% and 4.18% YTD. Emerging markets bonds also rallied 1.00% and are up 5.45% YTD.

STRONG DEMAND FOR MUNI'S

Strong demand and relatively light supply generated a 0.54% monthly return for the Barclays Municipal Index. Investor demand for tax-free debt continued at the strongest annual pace in at least ten years. Conversely, average monthly issuance of just $24B this year would equate to an annualized rate of just $288B, well below the approximately $370B that is expected.

ALTERNATIVES: Oil Rally Continues





EVENT DRIVEN STUBBLES

As the global financial markets continued their strong start in 2019, hedge funds continued to join the rally. Hedge funds posted gains for the month with the HFRX Global Hedge Fund Index gaining 0.63%. In January, global macro strategies were the laggard and in February it was event driven strategies. The HFRX Event Driven Index declined 0.18% in February as merger arbitrage declined 2.99%, which was partially offset by a 0.04% gain for distressed strategies.

BLACK GOLD RALLIES...FOR HOW LONG?

February continued the positive start for the energy markets in 2019. Oil prices ended the month at $57.22/bbl, up $3.40 from last month. The 26% increase in crude prices in 2019 has been driven partly by OPEC production cuts, reducing supply by more than 2 million barrels/day, or 6.3%, since the end of the year. That may not be enough, however, to offset North American supply increases. U.S. and Canada crude oil and liquid fuels production surpassed consumption last year. According to Department of Energy estimates, excess supply should be almost 2 million barrels a day by the end of 2019. In two years, global producers will face a North American surplus of 3 million barrels a day.

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