



#### THE POWELL PIVOT

The year 2018 ended with a steep selloff in global equity markets coupled with a significant decline in domestic interest rates. As we highlighted in recent commentary, the negative market sentiment appeared to reflect diverging views between the Fed and the broader financial markets with respect to projected future economic growth and inflation. The tension created by these diverging views came to a flash point in the final quarter of 2018.

During the first week in January, Fed Chairman Jerome Powell made a public statement at the American Economic Association annual meeting in which he emphasized that the Fed would be “patient” in raising rates and “flexible” with respect to managing the Fed’s balance sheet. In the eyes of most investors this represented a significant shift in the Fed’s policy. A shift that has become affectionately known as the “Powell Pivot”. With the benefit of hindsight and disclosure of minutes from the November FOMC meeting, it appears that the Fed members had actually come to this “patient” and “flexible” perspective on policy much earlier than most investors understood. In reality, Powell’s pivot speech in January was not a sudden change in policy at all, but rather an attempt to clarify the Fed’s earlier position.

Pivot or not, this time the financial markets got the message. The Fed was acknowledging the signs of slower growth and their plans to be more dovish going forward. The result was a sudden rebound in equity markets. The domestic equity market, as represented by the S&P 500 Index, fell nearly 20% between late September and Christmas Eve only to rebound over 20% by the end of 1Q2019. Credit spreads rebounded as well, sending the broader investment grade bond market up nearly 3% and high yield bonds up over 7% for the quarter. While equity markets and credit spreads largely retraced their moves from last quarter, domestic and global interest rates have not followed suit. Slowing global growth prospects and lower inflation expectations have actually pushed global rates even lower.

How low can rates go? While bond yields in the US remain in positive territory, we are increasingly witnessing negative yields in other parts of the world. Negative yields are a fairly unusual occurrence in economic history. Purchasing bonds with a negative yield means that investors are willing to pay borrowers to keep their money. So why would investors be willing to pay borrowers to keep their money? In most cases the borrowers are local governments and investors are seeking out the perceived safety of these governments during times of extreme economic uncertainty. In the current slowing growth environment, investors are increasingly willing to pay for safety. At the end of 1Q19 nearly 30% of global government bonds were trading with negative yields. Japan is the poster child for negative yields, with nearly 70% of its government debt trading at negative yields. Some 40% of European government debt now trades at negative yields.

How do negative global yields impact domestic investors? While the Fed will set short-term rates here in the US, global demand will set longer-term interest rates. With nearly 30% of global government bonds trading at negative yields, there would appear to be very little competition for US government debt in a global marketplace. With little competition you would expect higher demand (higher prices) and hence lower yields to persist.

## GLOBAL ECONOMIC LANDSCAPE

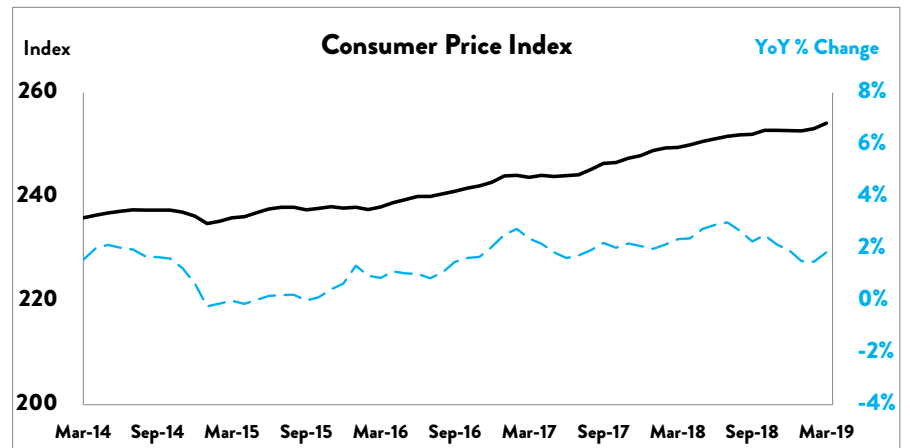
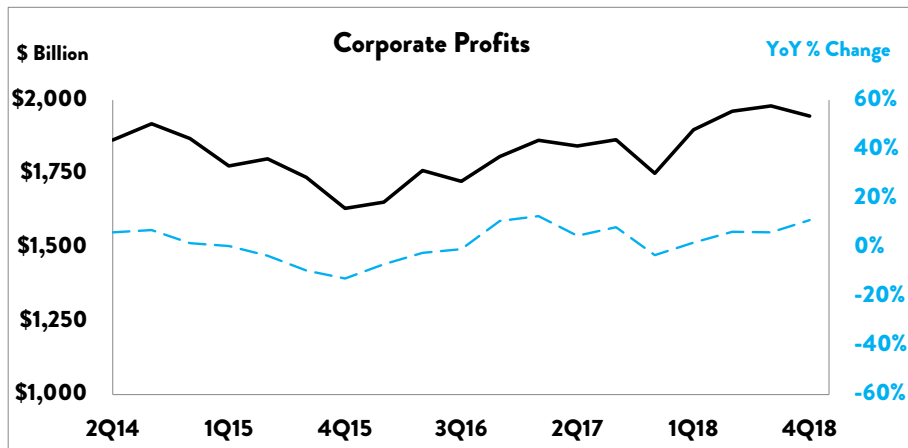
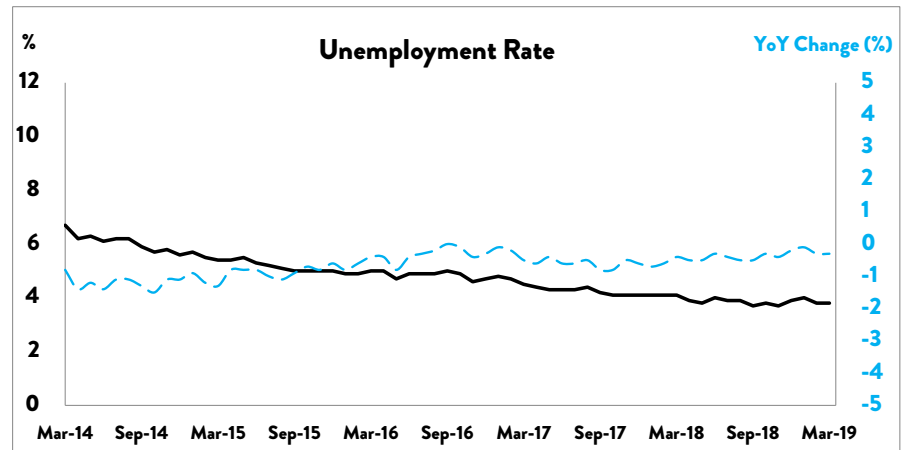
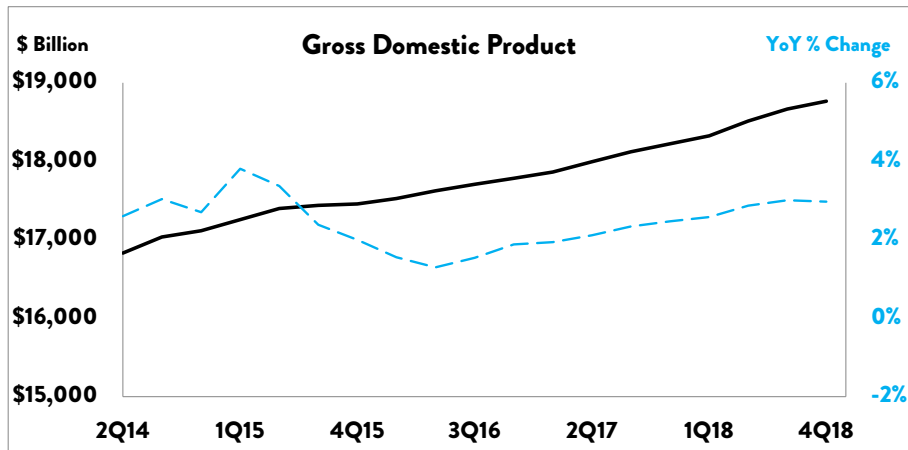
- The US economy gained 196,000 jobs in March, well above the 150,000 jobs that is cited as a baseline for economic expansion. Healthcare, leisure and hospitality sectors accounted for nearly half of those gains. Retail and manufacturing were the laggards in the most recent report, showing actual job losses during the period.
- The Fed initially forecast two rate hikes for 2019. Forward interest rate curves are now implying no interest rate hikes by the Fed for 2019. The European Central Bank appears to have pushed potential rate hikes out to 2020 and Japan is expected to continue its easing policy.
- The current unemployment rate of 3.8% remains near historic lows, well below the 50-year average rate of 6.2%. This would indicate an economy operating near full capacity. Historically we would expect to see higher inflation, rising interest rates and wage growth as a result. However, inflation remains below 2.0%, less than half the 50-year average. Interest rates have declined sharply since 3Q18 with 10-year Treasury yields currently below 2.5%. Wage inflation, while increasing, stands at 3.5%, well below the 4.1% 50-year average.
- However, if you look beyond the basic employment figures you get a different picture. The ratio of employed to total eligible population currently stands at just over 60%. This is below historical averages and indicates significant slack in the economy.
- Markets have been increasingly concerned with higher levels of debt as a percentage of GDP. While the percentage of debt has increased, the private sector debt service ratio remains fairly low by historical standards due to the low interest rate environment. More than 80% of US consumer and business debt is fixed rate, providing a level of protection from any near-term rise in interest rates/service costs.
- The global economic front continues to show mixed signals. Recent manufacturing reports out of the US and China showed modestly stronger growth than expected. However, reports out of Europe continue to be mixed at best. Germany, Europe's largest economy, posted sharp industrial order declines of 4.2% during the quarter. The International Monetary Fund recently warned that the majority of countries around the world should expect slower growth in 2019 citing rising trade tensions, concerns over Brexit and less accommodative central bank policies.

## GLOBAL FINANCIAL MARKETS

- While global equity markets have largely retraced the significant declines that occurred during 4Q18, this rebound rests largely on multiples expansion. Earnings revisions have moved sharply lower, with 1Q19 estimates falling into negative territory. Financial and healthcare are among the few sectors expecting to see positive earnings growth. Broadly speaking, companies selling into slower growth international markets are expected to face strong headwinds. While earnings are expected to slow, continued low interest rates and inflation are expected to support historical high profit margins.
- Despite slowing global growth prospects, commodity prices rose sharply during the quarter driven largely by rising oil prices. Prices rose from \$49 a barrel to end the year to \$58 at the end of 1Q19. Prices have continued to move higher based on expectations of tighter supplies driven by political instability in Libya, ongoing US sanctions with Venezuela and lower production from OPEC. Power struggles have intensified in Libya as forces under Khalifa Haftar have sought to seize the capital city of Tripoli. Oil production from OPEC member countries fell by over 500,000 barrels a day in March.
- Value stocks have had a history of outperforming in down markets. Yet, during the 4Q18 market selloff, many value managers found themselves underperforming value indices and in many cases growth indices as well. This left investors, including ourselves, questioning why value was "not working". In 1Q19 these value managers tended to outperform in a strong bull market and often the deeper the value style, the better the performance. Is value investing broken? Further analysis highlights that traditional value sectors, examples include Utilities and Real Estate, are among the most expensive sectors relative to their historical averages. Utilities and Real Estate trade at +27% and +16% of their 20-year median price-to-earnings (P/E) ratios. In short, most value managers were not finding value in traditional value sectors. In contrast, value managers were often identifying value in growth sectors such as Health Care which currently trades at -4% of historical median P/Es.

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# 1Q2019 Economic Data



Key: — Economic Series      - - - Year-Over-Year Change

Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	196,000	351,000	14,000	214,183	Mar-19
Unemployment Rate	3.8%	6.7%	3.7%	4.8%	Mar-19
Median Unemployment Length (Weeks)	10.8	18.4	6.6	10.9	Mar-19
Average Hourly Earnings	\$27.70	\$27.70	\$24.34	\$25.88	Mar-19

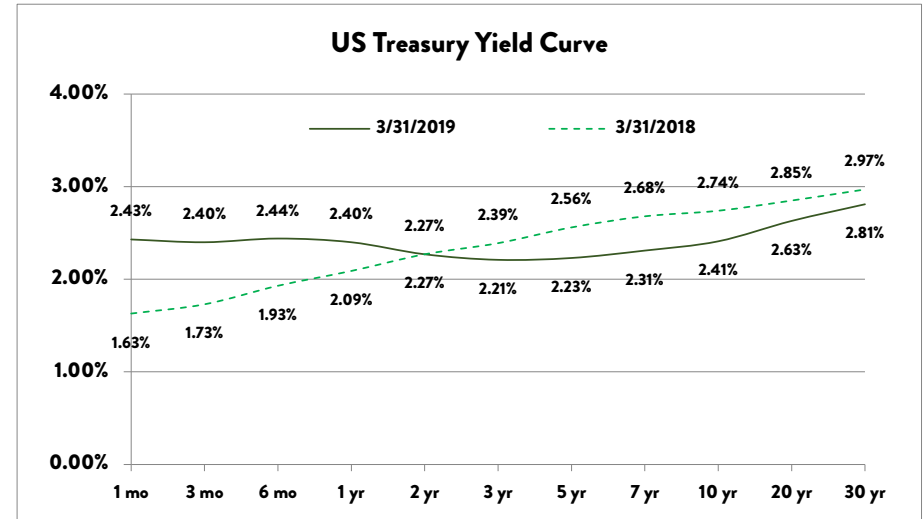
Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.50	\$3.70	\$1.79	-32.3%	Mar-19
Spot Oil	\$58.15	\$105.79	\$30.32	-45.0%	Mar-19
Case-Shiller Home Price Index	214.6	214.6	168.6	27.3%*	Jan-19
Medical Care CPI	490.8	490.8	433.3	13.3%*	Mar-19

Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

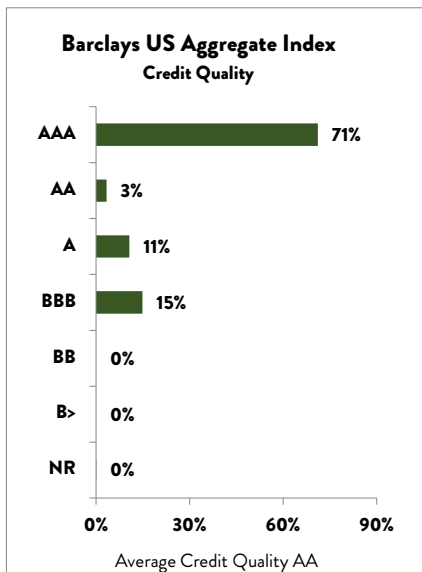
\*% Off Low

# 1Q2019 Bond Market Data

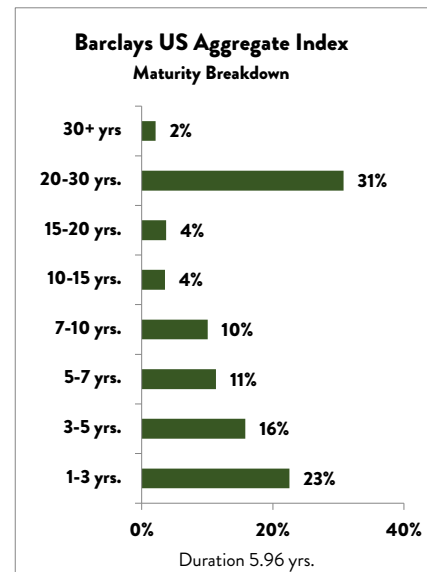
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.60%	0.60%	1.98%	1.06%	0.66%	0.38%
Barclays US Aggregate	2.94%	2.94%	4.48%	2.03%	2.74%	3.77%
Barclays Short US Treasury	0.66%	0.66%	2.22%	1.23%	0.81%	0.52%
Barclays Int. US Treasury	1.59%	1.59%	3.80%	0.95%	1.66%	1.98%
Barclays Long US Treasury	4.67%	4.67%	6.24%	1.47%	5.44%	5.13%
Barclays US TIPS	3.19%	3.19%	2.70%	1.70%	1.94%	3.41%
Barclays US Credit	4.87%	4.87%	4.89%	3.48%	3.61%	6.22%
Barclays US Mortgage-Backed	2.17%	2.17%	4.42%	1.77%	2.65%	3.11%
Barclays US Asset-Backed	1.48%	1.48%	3.68%	1.83%	1.89%	3.95%
Barclays US 20-Yr Municipal	3.50%	3.50%	6.23%	3.49%	4.85%	6.09%
Barclays US High Yield	7.26%	7.26%	5.93%	8.56%	4.68%	11.26%
Barclays Global	2.20%	2.20%	-0.38%	1.49%	1.04%	3.05%
Barclays International	1.52%	1.52%	-4.13%	0.96%	-0.26%	2.46%
Barclays Emerging Market	5.43%	5.43%	4.38%	5.36%	4.75%	8.54%



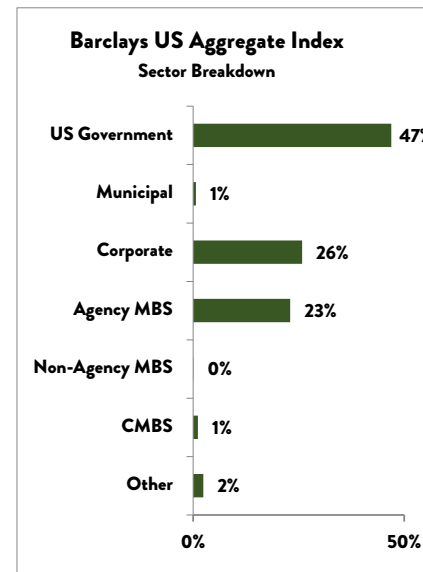
Source: Department of US Treasury



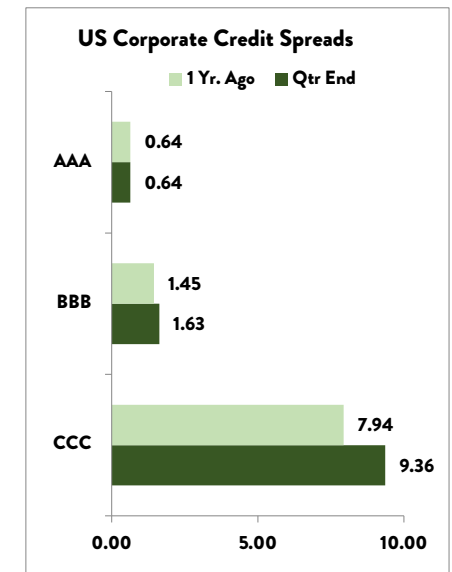
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

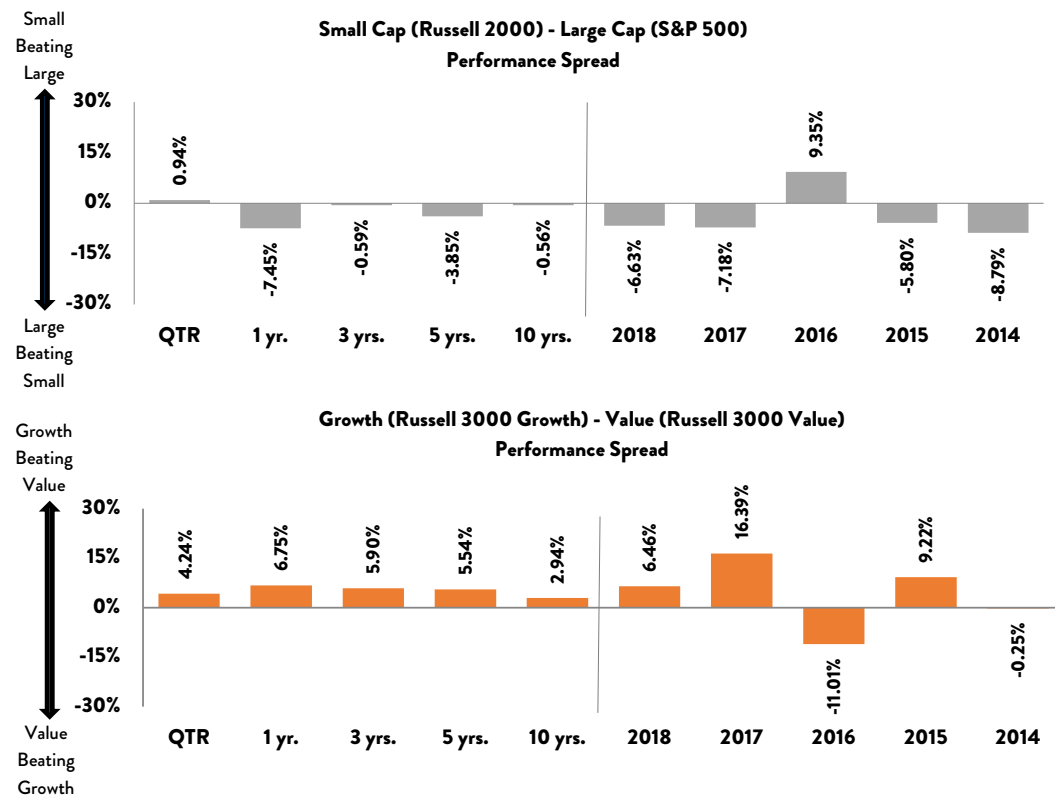
# 1Q2019 US Equity Market Data

## Sectors Weights/Returns (ranked by quarter performance)

	Wgt.	Sector	Performance			
			QTR	YTD	1 Yr.	
<b>S&amp;P 500 Index</b>	21%	Information Technology	19.86%	19.86%	15.44%	
	3%	Real Estate	17.53%	17.53%	21.00%	
	9%	Industrials	17.20%	17.20%	3.23%	
	5%	Energy	16.43%	16.43%	1.32%	
	10%	Consumer Discretionary	15.73%	15.73%	13.19%	
	10%	Communication Services	13.98%	13.98%	7.75%	
	7%	Consumer Staples	12.01%	12.01%	10.49%	
	3%	Utilities	10.84%	10.84%	19.33%	
	3%	Materials	10.30%	10.30%	-0.43%	
	13%	Financials	8.56%	8.56%	-4.67%	
	15%	Health Care	6.59%	6.59%	14.89%	
	<b>S&amp;P Midcap 400 Index</b>	16%	Information Technology	21.30%	21.30%	10.21%
		4%	Energy	19.82%	19.82%	-8.88%
		3%	Communication Services	16.18%	16.18%	17.18%
		15%	Industrials	15.89%	15.89%	1.24%
7%		Materials	15.20%	15.20%	-4.21%	
10%		Real Estate	14.89%	14.89%	15.53%	
10%		Health Care	13.29%	13.29%	13.71%	
16%		Financials	10.99%	10.99%	-8.67%	
12%		Consumer Discretionary	10.79%	10.79%	-5.75%	
5%		Utilities	10.44%	10.44%	22.22%	
3%		Consumer Staples	8.74%	8.74%	4.56%	
<b>S&amp;P Smallcap 600 Index</b>		4%	Energy	22.67%	22.67%	-21.95%
		4%	Materials	18.87%	18.87%	-5.61%
		8%	Real Estate	16.49%	16.49%	15.39%
		15%	Information Technology	16.29%	16.29%	4.41%
	2%	Communication Services	14.31%	14.31%	20.34%	
	19%	Industrials	12.59%	12.59%	-1.15%	
	14%	Consumer Discretionary	10.18%	10.18%	3.00%	
	2%	Utilities	9.07%	9.07%	14.96%	
	3%	Consumer Staples	8.03%	8.03%	9.20%	
	11%	Health Care	7.24%	7.24%	4.30%	
	17%	Financials	6.23%	6.23%	-2.41%	

## Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
<b>S&amp;P 500</b>	13.65%	13.65%	9.50%	13.51%	10.91%	15.92%
<b>Russell 1000 Value</b>	11.93%	11.93%	5.67%	10.45%	7.72%	14.52%
<b>Russell 1000 Growth</b>	16.10%	16.10%	12.75%	16.53%	13.50%	17.52%
<b>Russell Mid Cap</b>	16.54%	16.54%	6.47%	11.82%	8.81%	16.88%
<b>Russell Mid Cap Value</b>	14.37%	14.37%	2.89%	9.50%	7.22%	16.39%
<b>Russell Mid Cap Growth</b>	19.62%	19.62%	11.51%	15.06%	10.89%	17.60%
<b>Russell 2000</b>	14.58%	14.58%	2.05%	12.92%	7.05%	15.36%
<b>Russell 2000 Value</b>	11.93%	11.93%	0.17%	10.86%	5.59%	14.12%
<b>Russell 2000 Growth</b>	17.14%	17.14%	3.85%	14.87%	8.41%	16.52%
<b>Russell 3000</b>	14.04%	14.04%	8.77%	13.48%	10.36%	16.00%
<b>DJ US Select REIT</b>	15.72%	15.72%	19.73%	5.29%	8.93%	18.50%



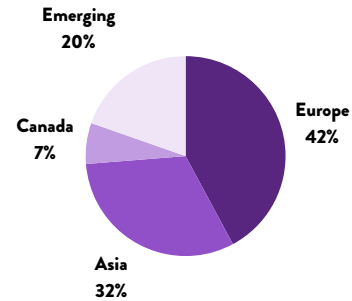
# 1Q2019 International Market Data

## Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
<b>MSCI ACWI ex-US</b>	<b>10.31%</b>	<b>10.31%</b>	<b>-4.22%</b>	<b>8.09%</b>	<b>2.57%</b>	<b>8.85%</b>
<b>MSCI EAFE</b>	<b>9.98%</b>	<b>9.98%</b>	<b>-3.71%</b>	<b>7.27%</b>	<b>2.33%</b>	<b>8.96%</b>
<b>Europe</b>	<b>10.84%</b>	<b>10.84%</b>	<b>-3.72%</b>	<b>6.56%</b>	<b>1.04%</b>	<b>8.95%</b>
United Kingdom	11.89%	11.89%	-0.07%	6.31%	0.69%	9.27%
Germany	6.91%	6.91%	-13.71%	3.84%	-0.74%	8.60%
France	10.71%	10.71%	-3.74%	9.21%	2.66%	8.44%
<b>Pacific</b>	<b>8.53%</b>	<b>8.53%</b>	<b>-3.86%</b>	<b>8.82%</b>	<b>4.96%</b>	<b>9.12%</b>
Japan	6.66%	6.66%	-7.84%	8.06%	5.61%	7.96%
Hong Kong	15.58%	15.58%	8.01%	14.26%	9.92%	13.91%
Australia	11.39%	11.39%	4.46%	8.67%	1.47%	10.23%
<b>Canada</b>	<b>15.37%</b>	<b>15.37%</b>	<b>3.11%</b>	<b>7.47%</b>	<b>0.92%</b>	<b>7.64%</b>
<b>MSCI EM</b>	<b>9.91%</b>	<b>9.91%</b>	<b>-7.41%</b>	<b>10.68%</b>	<b>3.68%</b>	<b>8.94%</b>
<b>MSCI EM Latin America</b>	<b>7.85%</b>	<b>7.85%</b>	<b>-6.72%</b>	<b>11.10%</b>	<b>-0.30%</b>	<b>5.27%</b>
<b>MSCI EM Asia</b>	<b>11.11%</b>	<b>11.11%</b>	<b>-6.84%</b>	<b>11.79%</b>	<b>6.21%</b>	<b>10.80%</b>
<b>MSCI EM Eur/Mid East</b>	<b>6.34%</b>	<b>6.34%</b>	<b>-3.98%</b>	<b>7.13%</b>	<b>-2.20%</b>	<b>5.11%</b>
<b>MSCI ACWI Value ex-US</b>	<b>8.33%</b>	<b>8.33%</b>	<b>-5.39%</b>	<b>7.73%</b>	<b>1.08%</b>	<b>8.19%</b>
<b>MSCI ACWI Growth ex-US</b>	<b>12.31%</b>	<b>12.31%</b>	<b>-3.05%</b>	<b>8.42%</b>	<b>4.01%</b>	<b>9.47%</b>
<b>MSCI ACWI Sm Cap ex-US</b>	<b>10.26%</b>	<b>10.26%</b>	<b>-9.49%</b>	<b>7.01%</b>	<b>3.26%</b>	<b>11.86%</b>

## Regional Exposure

MSCI ACWI ex-USA

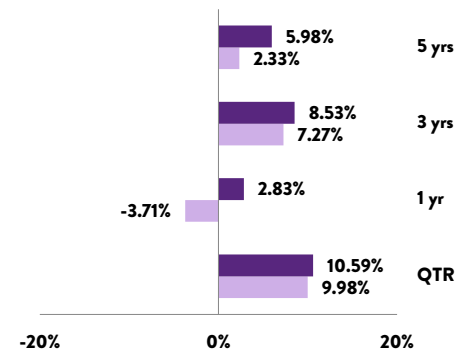


## Top 10 Countries (MSCI AC World ex-USA)

Japan	16%
UK	11%
China	9%
France	8%
Canada	7%
Switzerland	6%
Germany	6%
Australia	5%
South Korea	4%
Taiwan	3%

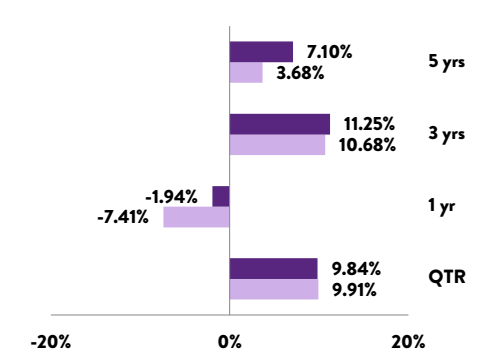
## MSCI EAFE Index Return

Local (Dark Purple), US\$ (Light Purple)



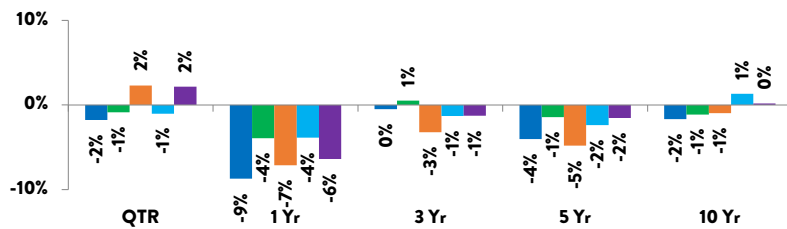
## MSCI Emerging Index Return

Local (Dark Purple), US\$ (Light Purple)



## Foreign Currency v. US\$ Returns

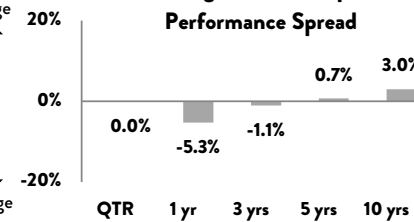
Euro (Blue), Japanese Yen (Green), Pound Sterling (Orange), Swiss Franc (Light Blue), Chinese Yuan (Purple)



Exchange Rates	QTR	4Q18	3Q18	2Q18	1Q18	4Q17
<b>Japanese Yen</b>	110.68	109.70	113.48	110.71	106.20	112.69
<b>Euro</b>	0.89	0.87	0.86	0.86	0.81	0.83
<b>British Pound</b>	0.77	0.78	0.77	0.76	0.71	0.74
<b>Swiss Franc</b>	1.00	0.98	0.98	0.99	0.95	0.97
<b>Chinese Yuan</b>	6.71	6.88	6.87	6.62	6.27	6.51

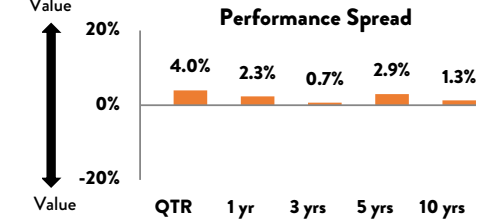
## MSCI ACWI Ex US Large v. Small Cap Performance Spread

Small Beating Large (Up), Large Beating Small (Down)



## MSCI ACWI Ex US Value v. Growth Performance Spread

Growth Beating Value (Up), Value Beating Growth (Down)



## Historical Market Returns

Ranked by Performance

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1Q19
Emerging Markets 25.55%	Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Core Real Estate 7.36%	Mid Cap 16.54%
Intl 20.91%	Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Cash 1.69%	Small Cap 14.58%
Mid Cap 20.22%	Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	US Bonds 0.01%	Large Cap 13.65%
Small Cap 18.33%	Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Global Bonds -1.20%	Intl 10.31%
Global Balanced 12.18%	Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	TIPS -1.26%	Emerging Markets 9.91%
Core Real Estate 12.00%	Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	High Yield -2.08%	Global Balanced 8.29%
High Yield 11.13%	Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Large Cap -4.38%	High Yield 7.26%
Large Cap 10.88%	Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	Global Balanced -5.30%	Commod. 6.32%
Global Bonds 9.27%	Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Mid Cap -9.06%	TIPS 3.19%
Commod. 9.15%	TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	Small Cap -11.01%	US Bonds 2.94%
TIPS 8.46%	High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	Commod. -11.25%	Global Bonds 2.20%
US Bonds 4.34%	US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -14.20%	Core Real Estate 1.20%
Cash 1.44%	Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	Emerging Markets -14.58%	Cash 0.60%

Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills.