Economic and Capital Markets Commentary

How Quickly Things Change…

The U.S. economy looked weak during the first quarter of 2019, as the Government shutdown, unusually severe winter weather, and the fourth quarter 2018 stock market sell-off all coincided with a continued decline in global growth. The Federal Reserve reacted by dialing back projected future Fed Fund rate increases and the stock market rebounded, recovering most of the ground given up at the end of last year.

A weak February jobs report, sharply slowing retail sales, and reduced business spending led economists to predict first quarter U.S. GDP growth of only 1.1%. Seasonally, growth should recover in the spring, and the more-positive March jobs report, including several revisions to earlier data, was a welcome relief. Nevertheless, the global economy appears to be in the late stages of this expansion. With major economies, like the U.S., at full employment, sustained growth going forward will probably require increased productivity growth.

The Federal Reserve has given the stock market a boost with its accommodative posture. Interest rate hikes are on hold for the near-term and the run-down of the Fed's balance sheet will end in September. As growth slows, Fed watchers are now beginning to predict interest rate cuts in 2020, with the expectation that the Fed will aggressively seek to stall or avoid the next recession. As a result, while the stock market tries to regain its September 2018 highs, indications are that interest rates have peaked in this cycle, as the yield on the ten-year U.S. Treasury ended the first quarter of 2019 at its lowest level in fifteen months. One positive side-effect of low yields is that mortgage rates have also declined, which may add a boost to housing activity in the spring and summer.

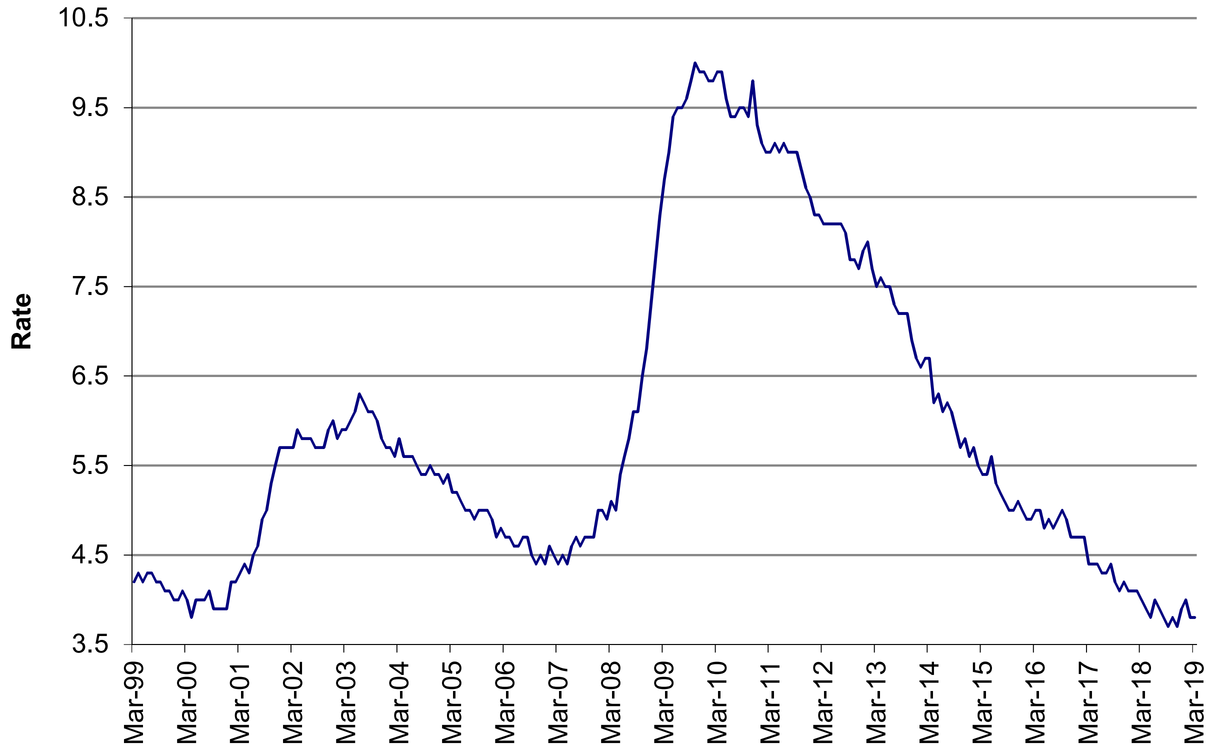
Corporate earnings reports over the next few weeks will set the tone for the direction of the stock market. Profit growth, which was up a very strong 20% in 2018, is expected to slow to single digits. Equity investors, after enjoying the first quarter rebound, will be watching closely to determine whether the recent economic weakness was temporary, or further indication of a broader, late-cycle slowdown. As always, Mitchell Sinkler & Starr's Portfolio Managers will work to position portfolios for a variety of economic conditions based on each client's long-term goals and objectives.

Economic and Capital Markets Data

	March 31, 2019	March 31, 2018	March 31, 2014
S&P 500 Index	2834	2641	1872
Price / Earnings Ratio	18.7x	19.6x	17.5x
Yield	1.94%	1.95%	1.94%
Federal Funds Rate	2.50%	1.75%	0.25%
10 Year U.S. Treasury Yield	2.41%	2.74%	2.72%
Gold	1292	1325	1284
Oil (Brent)	68	70	108
GDP (Annualized)	3.2%	2.2%	-1.0%
Unemployment	3.8%	4.0%	6.7%
Inflation (Annualized)	1.9%	2.4%	1.5%

U.S. Unemployment Rate

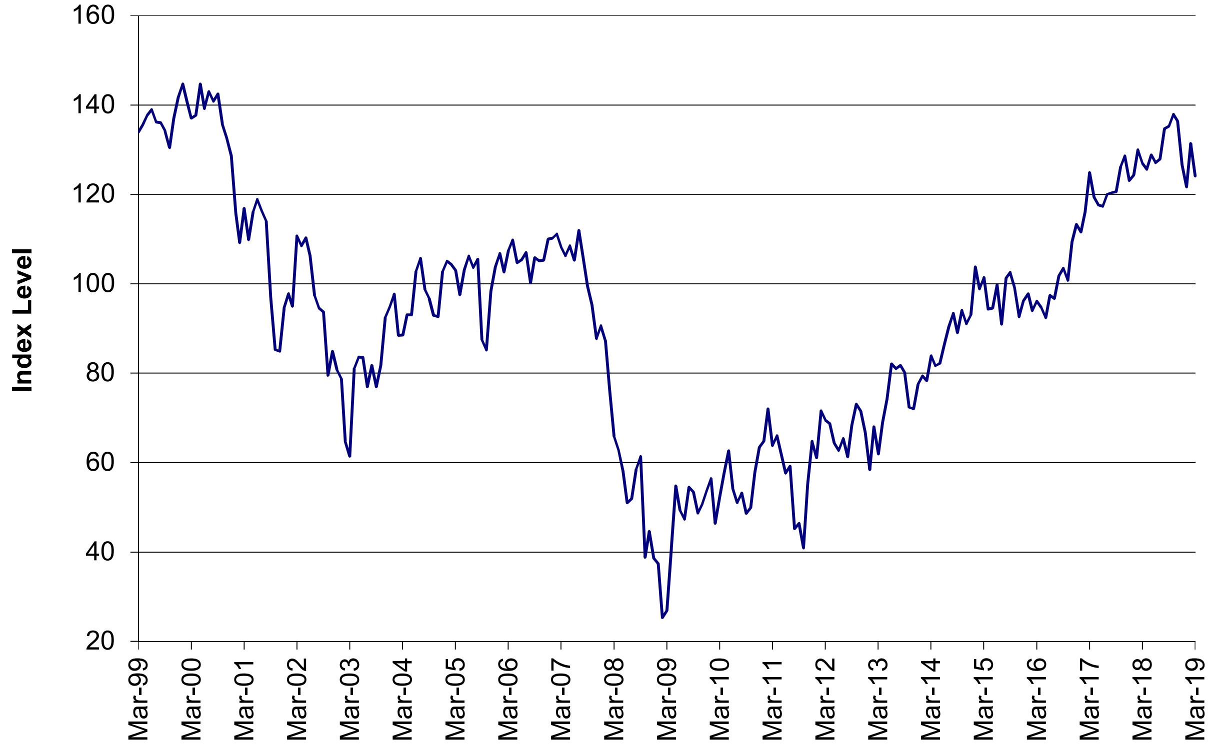
Twenty Years



Courtesy of Bloomberg

Consumer Confidence Index

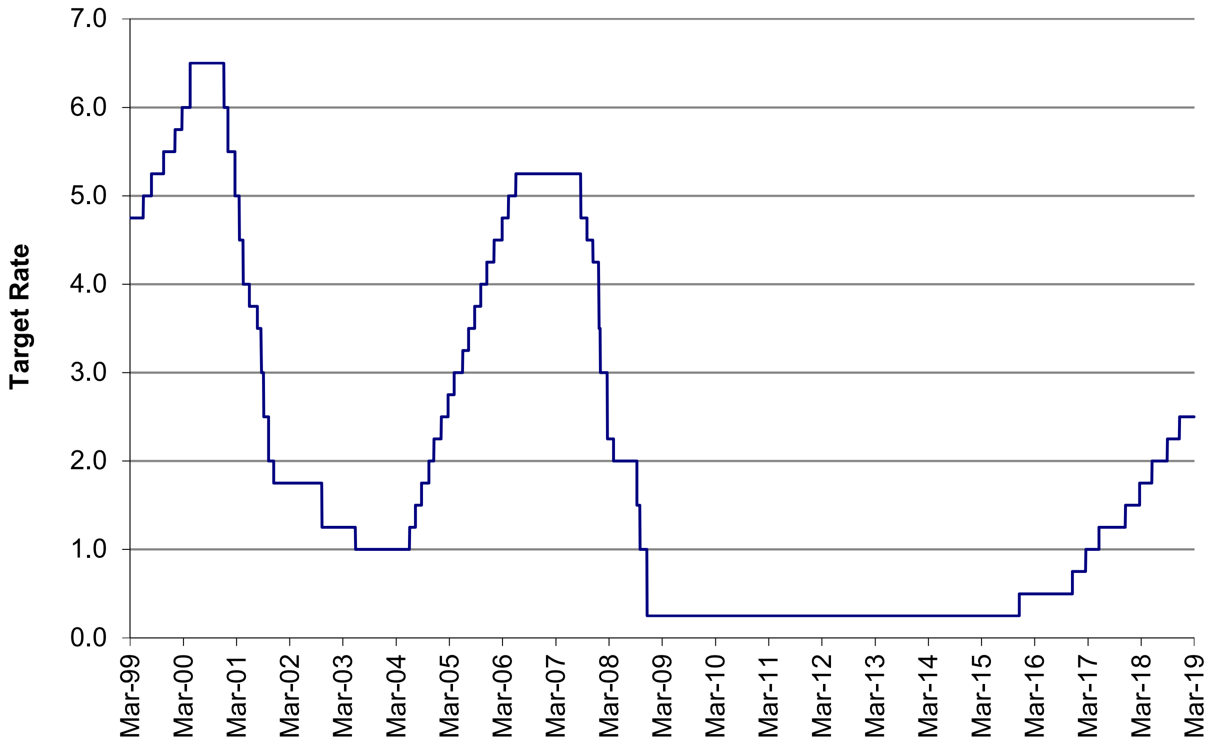
Twenty Years



Courtesy of Bloomberg

Federal Funds Target Rate

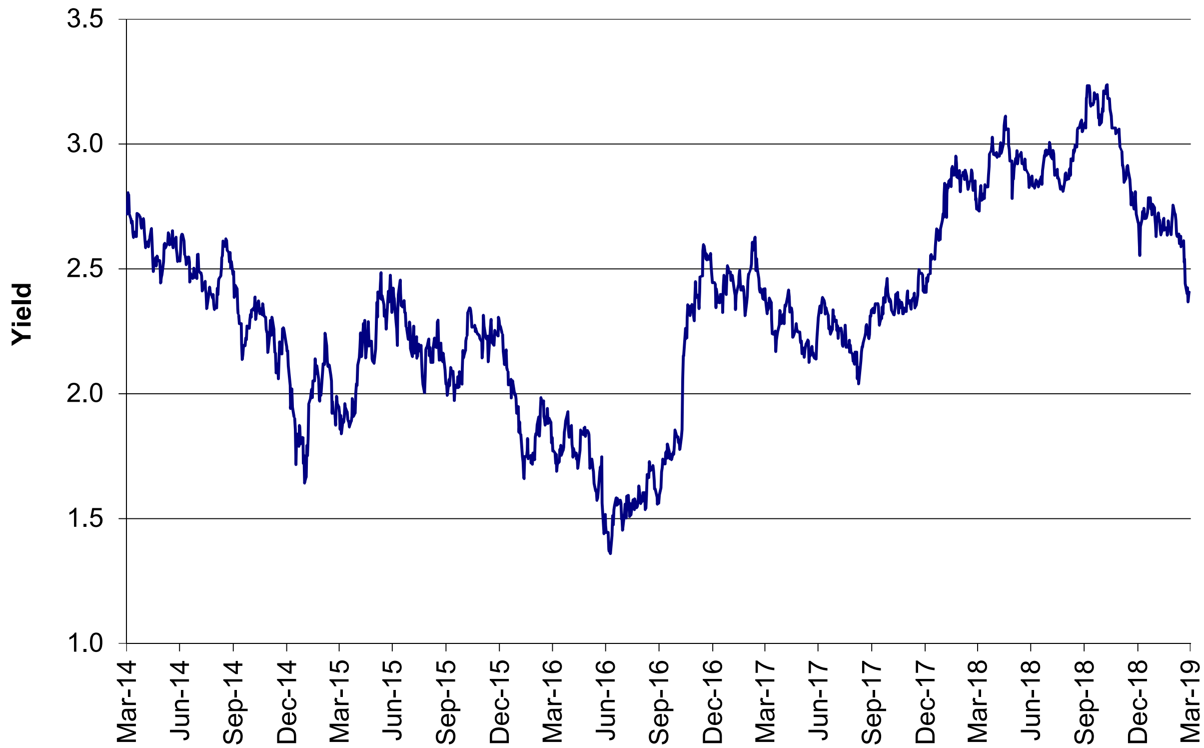
Twenty Years



Courtesy of Bloomberg

U.S. Treasury Ten-Year Bond Yield

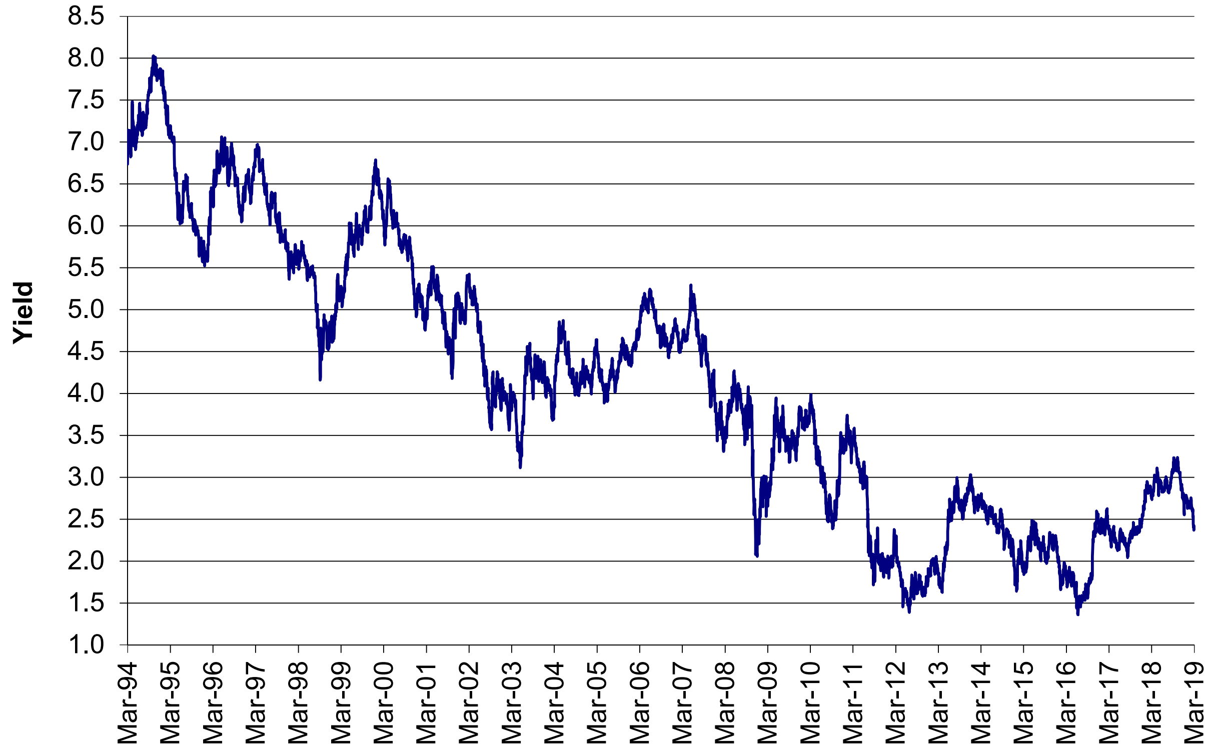
Five Years



Courtesy of Bloomberg

U.S. Treasury Ten-Year Bond Yield

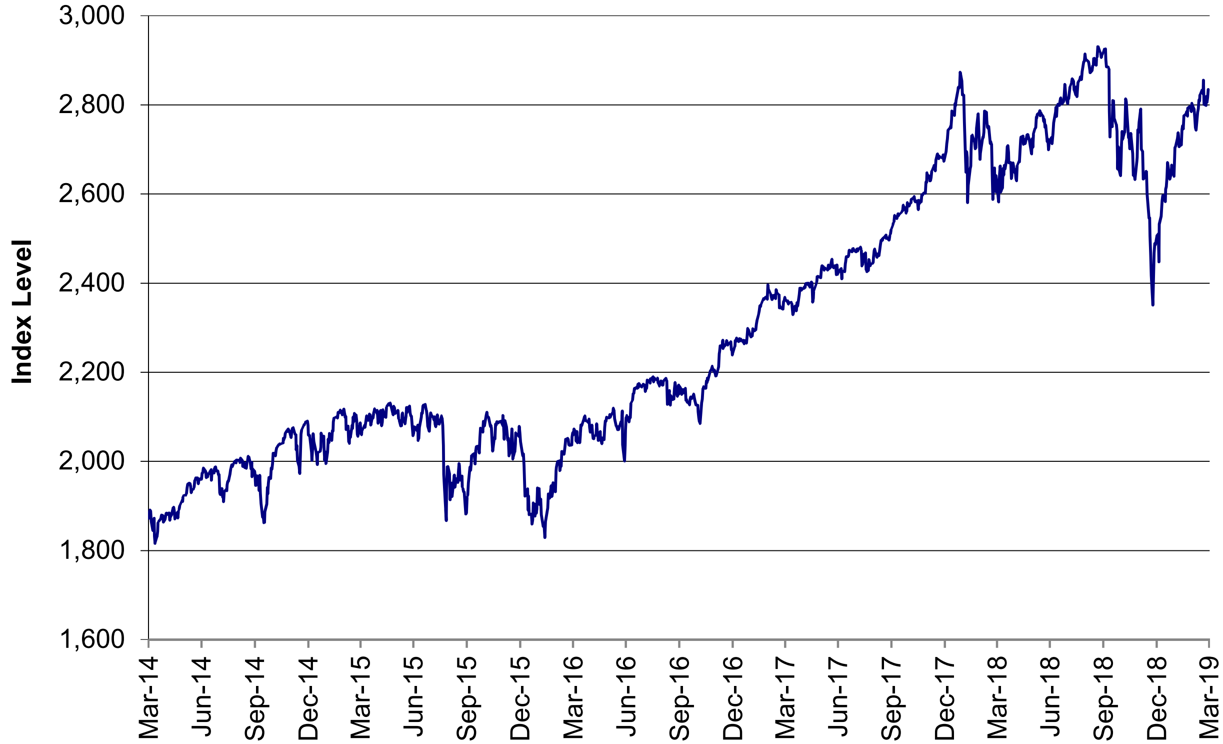
Twenty Five Years



Courtesy of Bloomberg

Standard & Poor's 500 Index

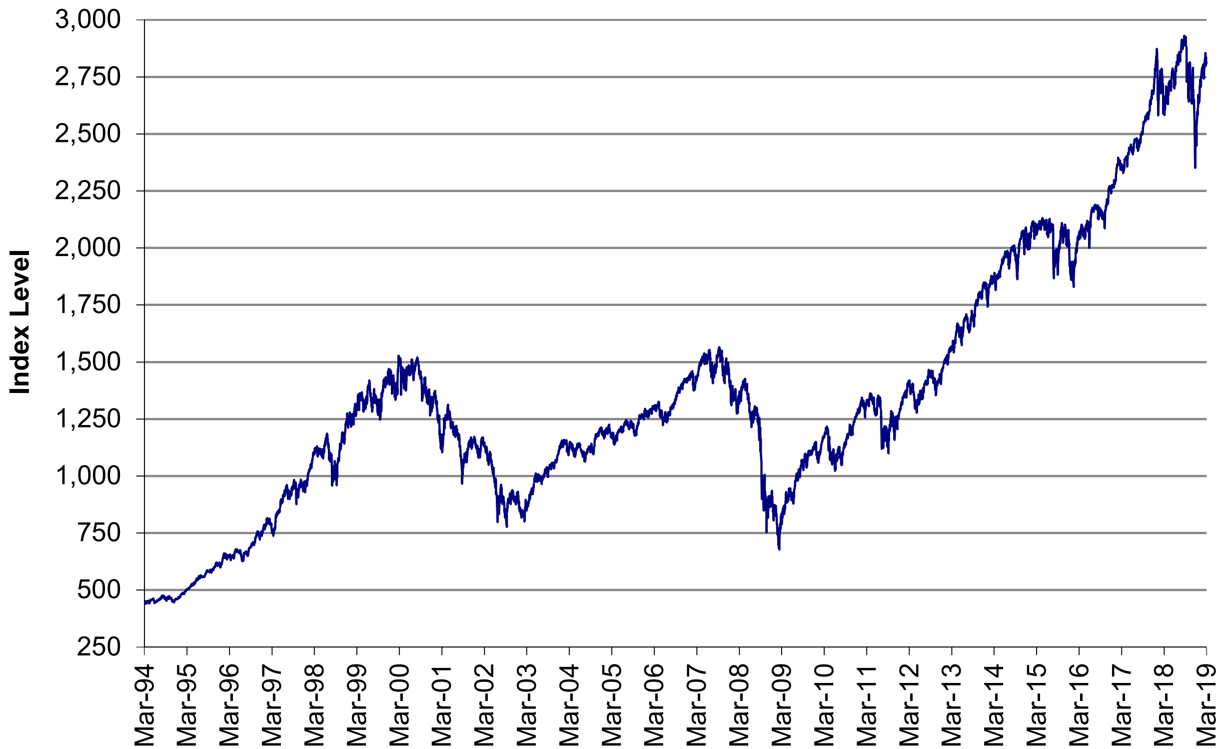
Five Years



Courtesy of Bloomberg

Standard & Poor's 500 Index

Twenty Five Years



Courtesy of Bloomberg