



MARKET UPDATE

Month Ending April 30, 2019

Strong April for Markets

April took U.S. markets to all-time highs, continuing the streak of positive monthly results to start the year. All three major U.S. equity markets showed strong gains. Once again, the Nasdaq Composite led the way with a gain of 4.77 percent for the month. Meanwhile, the S&P 500 returned 4.05 percent, and the Dow Jones Industrial Average rose 2.66 percent.

These positive results came from improving fundamentals. According to FactSet (as of April 26, with 46 percent of companies having reported), the S&P 500's first-quarter blended earnings should decline by 2.3 percent on a year-over-year basis. Now, this number does not sound great. But it is less than the 3.9-percent drop expected just a month ago. This improvement helped boost markets in April. If earnings at the remaining 54 percent of companies also beat expectations to the same degree, there is a real possibility for actual earnings growth for the quarter. This would be supported by strong revenue growth, at 5.1 percent. Regardless of this quarter's results, earnings are expected to grow throughout the rest of the year. Technical factors were also positive, as all three indices remained above their respective trend lines for the month.

The international story was much the same. Both developed and emerging markets had a strong start to the second quarter. The MSCI EAFE Index rose by 2.81 percent in April, and the MSCI Emerging Markets Index gained 2.12 percent. The United Kingdom and the European Union reached an agreement to delay the deadline for Brexit to October 31. This deal helped calm volatility and drew investors back to international markets.

Technicals were also supportive for international markets. Developed and emerging markets indices spent the entire month above their long-term trend lines. For developed markets, it was the first time in more than a year that this level was achieved. This technical support indicates that investors may be getting more comfortable with investing abroad after declines in 2018.

Despite a rise in rates that hurt performance, even fixed income had a positive month (albeit just barely). The Bloomberg Barclays U.S. Aggregate Bond Index gained 0.03 percent in April. This rise came despite an increase on the 10-year Treasury bond yield from 2.41 percent at the end of March to 2.51 percent at the end of April.

High-yield fixed income, which is typically less driven by rate movements, also had a strong April. The Bloomberg Barclays U.S. Corporate High Yield Index returned 1.42 percent. Spreads continued to grind lower, as the return of confidence has led investors to demand less additional return to invest in high-yield securities.

GRINKMEYER LEONARD FINANCIAL

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Economic News Better Than Expected

It was a difficult first quarter. But April's economic data painted a picture of an economy that may be shaking off its worries. A prime example is the first estimate of first-quarter gross domestic product (GDP) growth. It revealed that the economy grew at an annualized rate of 3.2 percent to start the year.

This result is far better than the 2.3-percent growth that was expected. Here, it is important to note that the composition of the growth suggests it may not be sustainable over the long term. Still, the news itself was a boost to confidence and a positive reading to begin the year.

That improving confidence was clear in the data, which showed a recovery in consumer spending at quarter's end. Personal spending in March rose by 0.9 percent. Here, rebounding consumer confidence and healthy personal balance sheets allowed consumers to spend. Retail sales also came in much better than expected. We saw 1.6-percent month-over-month growth compared with estimates of 1 percent. Much of the slowdown in January was due to lowered consumer confidence and spending. As such, it is very encouraging to see both bouncing back.

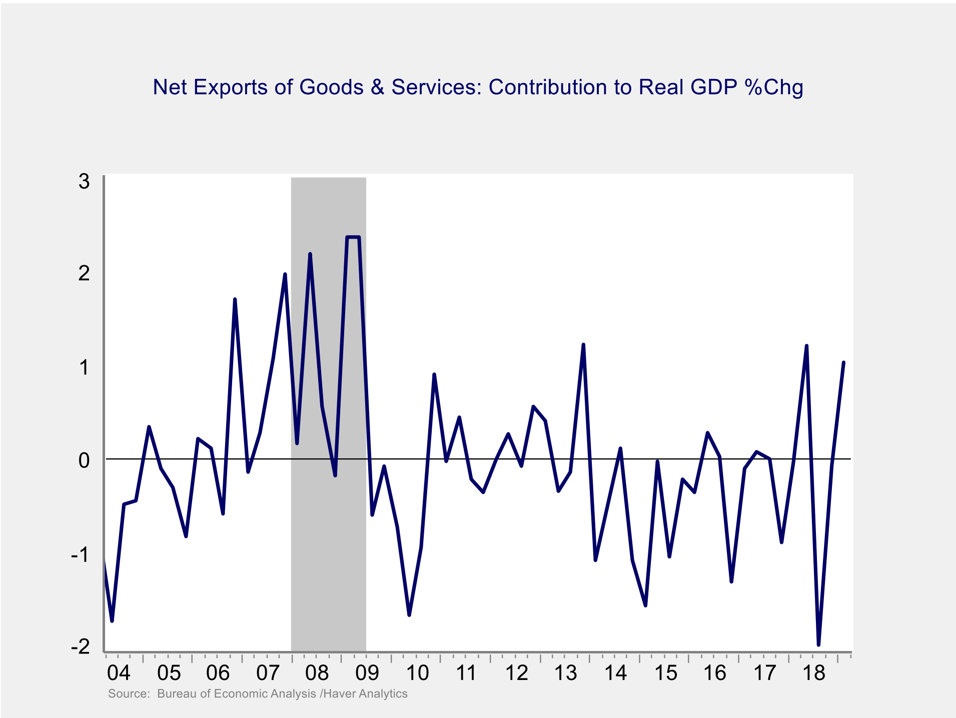
Businesses also spent more during the month. We can find evidence of this in the headline durable goods orders. This proxy for business investment grew by an impressive 2.7 percent on a month-over-month basis, as businesses continued to reinvest.

The increases in business and consumer spending marked significant improvements at quarter's end. Both suggest faster economic growth for the rest of the year.

Trade Boosts Economy

Another key driver of faster growth was an improved trade deficit in the first quarter. Exports increased, while imports contracted. This improvement in trade added 1 percent to the annualized GDP figure. As you can see in Figure 1, trade's effect on GDP growth has been quite volatile. In fact, the 1 percent seen in the first quarter is one of the highest quarterly contributions from trade since the last recession. So, this tailwind may be unlikely to persist.

Figure 1. Net Exports of Goods and Services



To be sure, some of the boosts to growth in the first quarter may be short lived. But there are also positive factors to consider. First-quarter growth has historically been slower than the rest of the year but then tends to rebound. This trend is consistent with the improving data we saw in April and seems likely to persist. If so, the economy may still expand at a healthy rate, even if trade pulls back.

Political Risks Subside

The positive economic data released in April was encouraging. We should note, however, that diminishing political risks reinforced the strong market returns. Here in the U.S., a major concern was the furor surrounding the release of the Mueller report. But the report had minimal market impact. In fact, investors appeared to ignore the political developments coming out of Washington.

On the international scene, the imminent exit of Britain from the European Union had been worrying markets. But the agreement to delay the deadline by six months put off the immediate risk and increased the chances of a negotiated settlement. A forced U.K. exit without a trade deal in place would have been very disruptive. As such, markets had a positive reaction. Likewise, the trade conflict with China continues to play out. Still, markets believe progress has been made and that the worst cases are off the table.

Of course, political risks remain, with all three of those issues still in play. But the likely immediate consequences have subsided—along with the impact on both consumer and business confidence. The other political risk on the horizon is the pending debt ceiling confrontation. That, too, is not an immediate concern. Going forward, we must remain aware of potential political risks. At the moment, however, they appear to have diminished.

Continued Growth Likely

Economically, we are in a good place. A solid first quarter is behind us, and both confidence and the hard economic data are improving. That growth should continue to support market appreciation. Given the improving data released in April and historical trends, we could see faster growth in the second quarter. Overall, the economy appears to be solid. This should support continued earnings growth throughout the rest of the year.

Concerns remain, especially the political risks. The solid economy, combined with improving confidence, puts us in a good position to weather any potential turbulence. As we saw last December, risks and volatility can strike unexpectedly. But a solid foundation will let us ride them out over time. Given that, a well-diversified portfolio constructed to meet your long-term goals remains the best path forward.

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All information according to Bloomberg, unless stated otherwise.

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and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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