MarketUpdate

Strong April for markets

April took U.S. markets to all-time highs. The Nasdaq Composite gained 4.77 percent, the S&P 500 returned 4.05 percent, and the Dow Jones Industrial Average rose 2.66 percent.

These results came from improving fundamentals. The S&P 500's first-quarter blended earnings are anticipated to decline by 2.3 percent on a year-over-year basis (with 46 percent of companies having reported), rather than the 3.9-percent drop expected just a month ago. If earnings at the remaining 54 percent of companies also beat expectations to the same degree, there is the possibility for actual earnings growth for the quarter. This would be supported by revenue growth of 5.1 percent. Further, earnings are expected to grow throughout the rest 2019. Technical factors were also positive, as all three indices remained above their trend lines.

Internationally, developed and emerging markets had a strong start to the second quarter. The MSCI EAFE Index rose by 2.81 percent, and the MSCI Emerging Markets Index gained 2.12 percent.

Developed and emerging markets indices spent the month above their long-term trend lines. This technical support indicates investors may be getting more comfortable with investing abroad.

Fixed income had a positive month. The Bloomberg Barclays U.S. Aggregate Bond Index gained 0.03 percent. 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 also had a strong April. The Bloomberg Barclays U.S. Corporate High Yield Index returned 1.42 percent.

Economic news better than expected

April's economic data was better than expected. The first estimate of first-quarter gross domestic product (GDP) growth came in at an annualized rate of 3.2 percent, against expectations for 2.3 percent. The details suggest this growth may not be sustainable. Still, the news was a boost to confidence.

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 beat expectations, with 1.6-percent month-over-month growth.

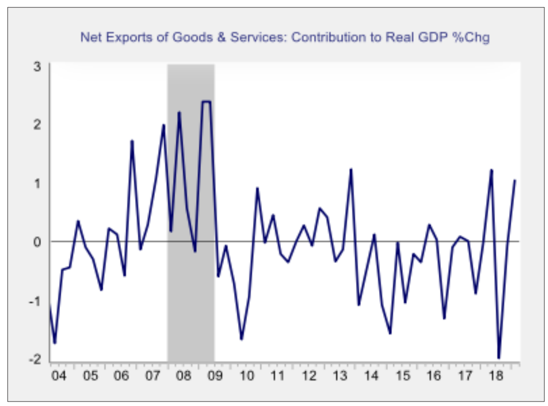
Businesses spent more during the month, as seen in the headline durable goods orders. This proxy for business investment grew by 2.7 percent, month-over-month.

Trade boosts economy

An improved trade deficit also drove faster growth. This improvement added 1 percent to the annualized GDP figure. This is one of the highest quarterly contributions from trade since the last recession (see Figure 1). So, this tailwind may not persist.

First-quarter growth has historically been slower than the rest of the year but then tends to rebound. This trend is consistent with April's improving data and will likely persist. If so, the economy may expand at a healthy rate, even if trade pulls back.

Figure 1. Net Exports of Goods and Services



Source: Bureau of Economic Analysis/Haver Analytics

Political risks subside

Diminishing political risks reinforced strong market returns. In the U.S., a major concern was the Mueller report, but it had minimal market impact.

Internationally, Brexit had been worrying markets. The agreement to delay the deadline lessened the immediate risk. Markets had a positive reaction to this news. Likewise, the trade conflict with China continues, but markets believe progress has been made.

The immediate consequences of the political risks have subsided—along with the impact on consumer and business confidence. The pending debt ceiling confrontation looms, but the concern is not immediate.

Continued growth likely

With a solid first quarter behind us and confidence and the economic data improving, growth should continue to support market appreciation. Given this data and historical trends, we could see faster growth in the second quarter. Overall, the economy seems solid. This should support continued earnings growth throughout the rest of the year.

Concerns remain, especially politically. The solid economy and improving confidence put us in a good position to weather any turbulence. Risks and volatility can strike unexpectedly. A well-diversified portfolio constructed to meet your long-term goals remains the best path forward.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays 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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