DNB FIRST Wealth Management

Investment Commentary Q1 2019

The global equity markets rebounded during the first quarter as the "risk-on" trade returned due to positive developments in trade negotiations between China and the U.S., a "dovish" interest rate shift by the U.S. Federal Reserve, and stronger U.S. economic performance. Large, Mid, and Small Cap stocks grew 14%, 16%, and 15% during the first quarter of 2019 as investors reacted to higher corporate profits and lower interest rates. The Information Technology, Real Estate, and Energy sectors led the U.S. equity markets during the first quarter due to higher energy prices, strong profit results from technology firms, and higher demand for residential and commercial real estate. International-Developed stocks grew 10% during the first quarter as central banks in Europe also took a dovish stance on interest rates. Emerging Market stocks grew over 9% during the first quarter despite significant political upheaval in South America.

U.S. bonds rose 3% during the first quarter in response to the Federal Reserve's stance on its monetary policy. Jerome Powell, Chairman of the Federal Reserve, stated in a recent press conference that he did not expect inflation to be subdued in the long-term but the Committee would be "patient" about future interest rate decisions. U.S. High-Yield bonds grew over 7% during the first quarter as global bond investors sought higher yields and riskier fixed income securities. International bonds grew only 2% during the quarter due to currency fluctuations in Europe and South America.

The U.S. economy expanded at an annualized rate of 3.2% during the first quarter. U.S. economic growth was attributed to higher consumer spending, exports, and private inventory investments. The overall U.S. unemployment rate fell to 3.8% during the first quarter as hiring expanded in the professional and business services, construction, and healthcare industries. March 2019 marked the 13th consecutive month that the overall unemployment rate was at or below 4.0%. According to Reuters, worker productivity rose 3.6% during the first quarter, its fastest pace since 2014. U.S. corporate earnings also exceeded analysts' expectations during the quarter. Companies that comprise the S & P 500 Index reported, on average, an increase in profits in the first quarter of 2019 of approximately 3% versus analysts' estimates of a decline of 3%. The surprise in U.S. corporate earnings growth has been attributed to stronger domestic consumer demand. The U.S. economic, labor, and inflation data gave the Federal Reserve more rationale to suspend interest rate hikes. Despite stronger first quarter U.S. economic data, many economists continue to believe that the world's largest economy remains in the late stages of its business cycle.

The international economies grew modestly during the first quarter as countries experienced political uncertainty and currency and commodity price fluctuations. The European region GDP increased only 1.2% when compared to the first quarter of 2018 and the overall unemployment rate in the Eurozone remained above 7%. The weaker economic performance in the region was attributed to lower exports, stagnant manufacturing growth, and business uncertainty surrounding Brexit negotiations between the United Kingdom and the European Union. Emerging Market economies showed signs of recovery in the first quarter as the Chinese economy rebounded from its slowdown during 2018. Emerging Market economies such as Thailand, India, and Taiwan stabilized during the first quarter due to more accommodative fiscal policies, improving corporate governance, and more technological opportunities in Asia. The final trade agreement between the U.S. and China will have a large effect on emerging market countries as they are large exporters to the two largest economies in the world.

We reduced our International Developed Equity positions as we remain concerned about the long-term prospects of the Eurozone economies. We will continue to provide a disciplined investment process that focuses on lower cost and portfolio risk mitigation through consistent manager selection and broad equity and fixed income diversification.

As always, we welcome your thoughts and concerns. Please contact your DNB First Wealth Management Advisor to discuss your portfolio in further detail.