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THE INVESTOR QUARTERLY

MARKET COMMENTARY AND INVESTMENT PERSPECTIVES

The Investor Quarterly is issued in order to communicate the current state of capital markets and provide overview of economic conditions. The information contained in this publication should not be construed as investment advice. You should discuss with your financial advisor the conditions of your unique circumstances. The material prepared by Ashton Thomas Private Wealth, LLC., for use by its approved advisors.

WELCOME

Greetings,

The first quarter of 2019 brought a welcome respite from the turbulence we experienced in the capital markets in Q4 2018. The Standard & Poor's 500 Index ("S&P 500"), the most widely followed "benchmark" Index for U.S. equities, delivered a +13.6% total return in the first three months of this year [(1)], after surrendering (-13.5%) in Q4 2018 [(2)]. Investors found relief in hopes for a U.S. - China Trade Agreement, and in clear indications that the U.S. Federal Reserve Bank's ("Fed") previously announced plans to "normalize" (read: increase) interest rates are on hold, at least for the near-term. European and Pacific region equity markets weren't too far behind the U.S.' advance, with the MSCI EAFE Index, the most commonly cited global "developed" economies' equity Index, advancing in Q1 2019 by +10.0% in U.S. Dollar terms (+10.6% in local currencies' terms). Emerging economies' equity markets lagged their developed foreign counterparts slightly, gaining +9.7% for the quarter in U.S. Dollar terms [(3)].

Globally, Fixed Income markets saw small gains in Q1 2019. In the U.S., the Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for U.S. Fixed Income securities of all types, rose by +2.9%. Bloomberg's Global Aggregate Bond Index, a proxy for developed foreign bonds, grew by +2.2% for the quarter. The worst markets for Fixed Income in Q1 were the Emerging Markets. The J.P. Morgan GBI-Emerging Markets Global Diversified Index declined by (-1.3%) for the quarter [(4)].

While the equity markets heated up in Q1, the U.S. economy's Gross Domestic Product ("GDP") continued to cool. The Bureau of Economic Analysis ("BEA"), in its final revision of the Q4 2018 GDP, determined the economy's growth rate was just +2.2% in Q4. That matched the BEA's Q1 2018 reading, effectively "bookending" Q2 and Q3 readings that were high enough to deliver a full-year "real" GDP growth rate of +2.9% [(5)], the best calendar year reading since 2015. As this is written, the BEA is yet to announce Q1 2019 GDP growth, but the Atlanta Fed in its "GDP Now" report dated April 19th, 2019, estimates the U.S. economic growth (seasonally adjusted annual rate) in the first calendar quarter of 2019 will come in at a respectable 2.8% [(6)].

Trading Economics estimates that Eurozone GDP is cooling as well. Following a +1.8% final reading for Q4 2018, they project Q1 2019 will come in at +1.6%. The "Big Four" European economies, Germany, the U.K., France and Italy, are believed to have seen GDP growth in Q1 of +0.6%, +1.4%, +1.0%, and a "flat" 0.0%, respectively. All of those estimates are lower than their respective Q4 2018's final readings [(7)]. Several developed Asian economies bucked this trend, with Japan seeing its economy growing by +0.3% in Q1 (vs. +0.1% in Q4). South Korea grew by +3.1% in Q1 (vs. +2.0% in Q4), while the Philippines' economy grew by +6.3% (vs. +6.0% in Q4), and Thailand's Q1 GDP reading of +3.7% was an improvement over Q4's +3.2% reading. Others didn't fare as well, with China's economy expected to have cooled to a still quite respectable +6.4% GDP reading in Q1 (vs. +6.5% in Q4). Israel's GDP estimate for Q1 economic growth is +2.7% (vs. +3.1% in Q4), while Hong Kong slowed to a +1.3% growth rate (vs. +2.8% in Q4). Singapore's economic growth also cooled to +1.3% in Q1, vs. +1.9% in Q4, as did Taiwan's economy, which is estimated to have grown by +1.78% in Q1, versus its +2.38% growth rate in Q4 [(8)].

Fears of an economic slowdown in the coming quarters prompted global Central Banks to moderate their attempts to "normalize" monetary policy. As stated earlier, the U.S. Federal Reserve Bank announced in mid-February its intent to "pause" its recent pattern of raising the Fed Funds Rate, leaving it at 2.25% - 2.50% for now. It indicated it would be

(1) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(2) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-4q-2018.html
(3) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(4) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(5) https://www.bea.gov/news/2019/gross-domestic-product-4th-quarter-and-annual-2018-third-estimate-corporate-profits-4th
(6) https://www.frbatlanta.org/cqer/research/gdpnow.aspx
(7) https://tradingeconomics.com/european-union/gdp-annual-growth-rate
(8) https://tradingeconomics.com/country-list/gdp?continent=asia

WELCOME

"patient as it determines what future adjustments may be appropriate to support the Committee's congressionally mandated objectives of maximum employment and price stability". [9] Further, the Fed announced its intention to slow the monthly reduction of its holdings of Treasury securities (aka its "Balance Sheet"), which is currently $3.935 Trillion, from the current pace of $30 billion, to $15 billion per month beginning in May of 2019 [10].

Unlike the Fed, which has been attempting to increase rates and reduce its Balance Sheet, other global Central Banks have yet to abandon their ultra-accommodative monetary policies. The European Central Bank ("ECB") has maintained a 0% benchmark refinancing rate (overnight lending rate) since March of 2016 and has recently indicated its intent to keep its overnight lending rate at this historic low until the end of 2019. The ECB's current Balance Sheet is larger than the Fed's, at €4.669 Trillion, which is the equivalent of $5.246 Trillion (USD) [11]. The Bank of England ("BoE") has maintained an overnight lending rate of 0.75% since August of 2018 [12], and its Balance Sheet is currently at £592.380 Billion, which is the equivalent of $769.325 Billion (USD) (13). The Bank of Japan ("BoJ"), the Central Bank that has utilized the most aggressive monetary policy of all the major industrialized economies, has maintained a slightly negative (-0.1%) overnight bank lending rate since early 2016, and now holds ¥561.926 Trillion on its Balance Sheet (14), equivalent to $5.018 Trillion USD. Japan's annual GDP is just $4.872 Trillion (in USD), which means its Balance Sheet is now 103% the size of its entire economy [15].

We continue to see risks in both debt and equity markets globally. The bull market in equities that started in March of 2009 is technically still running, and remains the longest in U.S. history, which should by itself, give investors pause. While "Earnings Season" (reporting for Q1 2019) is still early, with just 79 of the S&P 500 Index constituents reporting thus far, it is expected that Q1 2019's "Operating Earnings per Index Share" will rise by a modest +5% over Q4 2018's earnings, and will be essentially "flat" when compared to Q1 2018's Operating Earnings [16].

A slowdown in corporate earnings growth, or perhaps even an earnings recession, such as the one seen in mid-2014 through late-2017 could be a precursor to a bear market decline.

Bond investors are also worried about the inversion of the yield curve here in the U.S. An "inverted" yield curve occurs when short-term Treasury yields are higher than their intermediate-term, and longer-term counterparts. As this is written, the 3-month T-Bill yield is 2.42%, and the 5-Year Treasury Bond yield is just 2.38% [17]. On March 22nd, the 10-Year Treasury Bond yield slipped below the 3-Month T-Bill yield for the first time since 2007 [18], even if only for a few days. The last three times the 10-Year Treasury Yield fell below the 3-Month T-Bill yield, an economic recession followed.

We will be keeping a close watch on interest rates and on corporate earnings in the coming months, remaining ever vigilant in our efforts to safely guide our clients' assets in meeting their most important financial goals.

As always, we appreciate your continued support of our efforts, and welcome your comments.

Thank you,

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(9) https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320a.htm
(10) https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320c.htm
(11) https://tradingeconomics.com/euro-area/central-bank-balance-sheet
(12) https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp
(13) https://tradingeconomics.com/united-kingdom/central-bank-balance-
(14) https://tradingeconomics.com/japan/central-bank-balance-sheet
(15) https://tradingeconomics.com/japan/gdp
(16) https://us.spindices.com/indices/equity/sp-500
(17) https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield
(18) https://www.ft.com/content/cf9eb29a-5220-11e9-9c76-bf4a0ce37d49

ASHTON THOMAS PRIVATE WEALTH

THE MARKET AT A GLANCE

U.S. EQUITIES:

U.S. equities had their best first-quarter returns since 1998. Easing global trade tensions and accommodative Central Bank policies, along with the end of the longest government shutdown in U.S. history, provided investors relief following a tumultuous capital market in Q4 2018.

Every sector of the U.S. economy saw price improvement. The best performing sector, Information Technology stocks, advanced by +20%, and were followed by Real Estate stocks, up +18%, Industrials, up +17%, Energy and Consumer Discretionary names, each up +16%, and Communication Services, which appreciated by +14%. The lowest gains in the quarter were delivered by Health Care stocks, which appreciated by just +7%. They were followed by Financials, which gained +9%, and Materials were up +10%. Last quarter's best performing sector, Utilities, were up +11% for the quarter, and Consumer Staples were up +12% for the period [19].

As one might expect given the surge in Information Technology stocks, he "tech-heavy" NASDAQ Composite Index was the best performing domestic equity Index in Q1, delivering a +16.81% gain [20]. The Russell 2000 Index, an Index measuring the performance of approximately 2,000 smallest-capitalized U.S. stocks was the second-best performing Index in Q1, appreciating by +14.60% [21]. Mid-Cap U.S. stocks, as represented by the S&P 400 Index, wasn't far behind, appreciating by +14.49% during the quarter [22]. Large-Cap U.S. Stocks followed, with the Russell 1000 Index up +14.0% [23], the S&P 500 Index was up +13.65%, and the Dow Industrial Average appreciated by +11.81% [24]. Generally speaking, "growth-oriented" stocks outperformed "value-oriented" stocks for the quarter. With stock prices rising in the +12% to +16% range, while the underlying earnings of companies growing at a much slower +5% in Q1, the "trailing 4-quarters" Operating Earnings Price/Earnings Ratio of the S&P 500 Index rose from 16.54 X in Q4 2018, to a projected 19.12X in Q1 2019 [25]. Yale University Finance Professor Robert Shiller's Cyclically Adjusted P/E ("CAPE") Ratio, which compares the S&P 500 Index Price to the average of the constituent companies' inflation-adjusted Earnings from the previous 10 years, also rose from 28.41 X earnings at year-end 2018, to 30.22 X earnings at the end of Q1 2019 [26]. That is still extremely elevated from an historical perspective. The average ("Mean") reading for the Ratio, which Shiller has been calculated from 1871 to present, is 16.62 X earnings. The Median CAPE Ratio for that period has been 15.72 X earnings [27].

INTERNATIONAL DEVELOPED MARKETS:

Foreign equity markets followed the U.S.'s lead and rallied in Q1 2019 in virtually all major global markets. The MSCI Europe Index, an Index capturing large and mid-cap stocks in 15 Developed Markets (countries) in Europe, was up +10.74% for the quarter. France was the best performing equity market in Europe, up +13.39%. The U.K. FTSE All-Share Index was up +9.42%, and the German DAX Index gained +9.16% for the quarter [28]. The Asian markets also rose during the quarter. The MSCI Asia-Pacific Index, which captures 5 Developed Markets (countries) and 9 Emerging Market countries in the Asia Pacific region, was up 9.72% through the end of March. Among the Index' constituent markets, China's Shanghai Index appreciated the most, advancing by +23.94% during the quarter on hopes of a Sino-U.S. trade agreement. Hong Kong's Hang Seng Index grew by +12.84% in Q1. Australia's S&P/ASX Index grew by +11.37% for the quarter, while India's Sensex Index appreciated by +7.43%. The Index' largest constituent, Japan's Nikkei Index, advanced by a more modest +6.81% for the period [29].

All market sectors in Europe advanced during the quarter, led by 16% gains in both Consumer Staples and Information Technology stocks. The ECB's announcement in March that they would re-start the Central Bank's stimulus program in response to weakening economic data was a primary

(19) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(20) https://www.rbcwealthmanagement.com/_us/static/documents/insights/file-617107.pdf
(21) https://www.ftse.com/Analytics/Factsheets/temp/ea52a42f-701e-49c5-b340-5174b9ec51cd.pdf
(22) file:///C:/Users/JayPenney/Downloads/fs-sp-400%20(7).pdf
(23) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf
(24) https://www.rbcwealthmanagement.com/_us/static/documents/insights/file-617107.pdf
(25) https://us.spindices.com/indices/equity/sp-500
(26) https://www.multpl.com/shiller-pe/table/by-month
(27) https://www.multpl.com/shiller-pe
(28) https://www.rbcwealthmanagement.com/_us/static/documents/insights/file-617107.pdf
(29) https://www.rbcwealthmanagement.com/_us/static/documents/insights/file-617107.pdf

reason for the advance. All market sectors advanced in the Asia-Pacific region as well, led by Information Technology stocks, which appreciated by +18% for the quarter. Japan's economy showed more signs of stress than other Asia-Pacific economies, which rebounded sharply in Q1. Japan's exports declined for the third consecutive month in February, hurt by lower Asian demand. Recent data has raised concerns over an economic contraction in Q1. Japan has not had two consecutive quarters of GDP growth since 2017 [30].

While foreign Developed Markets trailed their American counterparts in returns, they are less "expensive" than U.S. equities from a fundamental perspective. The MSCI Europe Index trades at a 4-quarter trailing P/E Ratio of just 15.47 X [31], while the MSCI Asia-Pacific Index trades at an even more reasonable 13.39 X trailing 4-quarter earnings [32].

EMERGING MARKETS:

The MSCI Emerging Markets Index, which captures 1,136 large and mid-cap companies in 24 "emerging" economies' equity markets, was up +9.92% for the quarter ended March 31st [33]. These emerging markets recorded significant declines in 2018. The reversal in Emerging Market equities in Q1 2019 was largely driven by the stabilization of the U.S. Dollar, and by signs of progress in U.S. China trade negotiations. Emerging Markets' equities were also cheered by the change in the Fed's monetary policy. The U.S. dollar's strength in 2018, particularly in the second and third quarters of 2018, exerted severe downward pressure on Emerging Markets' assets, especially those markets with high current account deficits and/or significant holdings of U.S. Dollar-denominated debt [34]. In early January, Fed Chairman Jerome Powel's tone shifted markedly, signaling to the global markets that further rate hikes were on hold for the time being. China, which has seen a slowdown in its growth in recent quarters, also announced new stimulative policies, including plans to cut the Value-Added-Tax ("VAT") rate applied to the manufacturing sector by 3%, and the transportation and construction sectors by 1%.

As is typically the case with such a broad cross section of countries in the Index, equity market performance by country varied widely. China's equity markets led all constituents, with its equity markets rising by +17.7% for the quarter. They were followed by Russia, up +12.6%, Taiwan, up +9.0%., Brazil, which appreciated by +8.2%, and India, which recorded a gain of +7.2%. The worst performing countries were Malaysia, which was barely positive, up +0.3%, and Indonesia, which saw gains of +4.3% in the quarter [35].

COMMODITIES:

The Bloomberg Commodity Index rebounded from its large Q4 2018 decline of (-9.4%) with a gain of +6.3% in Q1 2019 [36]. Limited upside in the U.S. Dollar, and downside in China's Purchasing Managers' Index ("PMI") provide commodity investors with the hope of some mean reversion in what have been lackluster commodity markets globally. Crude Oil was, by far, the "leader" in commodity gains, registering a whopping +30.2% gain in Q1 2019. Unleaded Gasoline was also up +26.7%, while Natural Gas prices declined by (-7.9%) for the period. Industrial Metals were up +12.8% as a category, led by Copper, which appreciated by +12.0%, and Aluminum was up +3.2%. Precious Metals were essentially "flat" for the quarter, with Gold appreciating by +0.9%, and Silver declining by (-2.8%). Agricultural Commodities were generally in decline during the quarter, falling (-3.2%) as a category. Wheat was the worst performing agricultural commodity in Q1, declining by (-9.0%), followed by Corn, down (-6.3%), and Soybeans, which were down (-2.1%) for the period [37].

(30) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(31) https://www.msci.com/documents/10199/db217f4c-cc8c-4e21-9fac-60eb6a47faf0
(32) https://www.msci.com/documents/10199/156aff0d-3d08-47c9-aa87-52701a5153d6
(33) https://www.msci.com/documents/10199/c0db0a48-01f2-4ba9-ad01-226fd5678111
(34) https://www.lazardassetmanagement.com/research-insights/outlooks/Emerging-Markets
(35) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf
(36) https://data.bloomberglp.com/promo/sites/12/438594_BCOM-April2019Outlook.pdf
(37) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf

THE MARKET AT A GLANCE

REAL ESTATE:

The MSCI U.S. Real Estate Index, a proxy for U.S. based Real Estate Investment Trusts ("REIT's") that contains 153 constituents and (approx.) 99% of the U.S. REIT universe, was up substantially in Q1, 2019, appreciating by +16.27%. This followed a decline of (-6.72%) in Q4 2018 [38].

The National Association of REIT's or "NAREIT" reported that Infrastructure REIT's, which consist primarily of cell tower REIT's, was the top performing sector within the REIT market, appreciating by +21.35% in Q1 2019. The Industrial REIT subsector was the second-best performing sub-sector during the quarter, gaining +21.28%. Timber REIT's followed very closely behind Industrials, delivering a +21.11% total return. Other property segments whose total returns outpaced the broad REIT market Index were Office REIT's, up 20.31%, Data Centers, up +20.16%, Shopping Center REIT's, up +18.21%, Single Family Homes, up +18.19%, and Manufactured Home REIT's, which were up +17.85% for the quarter [39].

FIXED INCOME:

Fixed Income markets generally followed their equity counterparts higher in Q1 2019, though with far smaller gains. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the U.S. taxable bond market, appreciated by a very respectable +2.94% for the quarter [40].

Bond markets cheered the Fed's decision to keep the Fed Funds Rate where it was. U.S. Treasury Bill/Bond Yields declined at every holding period (maturity) from 3-months to 30-years in Q1, with the 10-Year U.S. Treasury yield ending the quarter at 2.41%, 28 basis points (-0.28%) lower than where it started the year. Both the 2-Year Treasury Bond and the 30-Year Treasury Bond saw their yields decline 21 basis points (-0.21%) from their year-end 2018 yields [41].

The best performing domestic sub-section of the bond markets were High Yield Corporate Bonds, which appreciated by +7.3% in Q1. Investment-Grade Corporates were up +5.1% during the quarter. They were followed closely by Insured Municipals, and High Yield Municipal securities, which recorded gains of +3.9% and +3.8%, respectively, for the period. As the yield curve "flattened" during the quarter, U.S. Treasuries and Agency bonds were up +2.1% in Q1 [42].

As would be expected with High Yield securities appreciating, credit spreads plunged rather dramatically throughout the period. The ICE B of A/ML High Yield Master II Index, a proxy for the "spread" (i.e. additional yield) paid to holders of lower-rated (BB-rated) corporate credits, over comparable maturities of U.S. Treasury securities, fell from +5.33% on December 31st, 2018, to +4.05% on March 31st, 2019 [43].

Globally, bond prices appreciated, as interest rates in Europe, China, and Japan, have been declining [44]. However, U.S. investors' returns on foreign-issued bonds were largely dependent on the direction of the currency exchange rate between the U.S. Dollar, and the currency needed to purchase the foreign bonds over the quarter. U.S. investors gave back (-2.00%) in currency losses alone holding Euro-denominated bonds during Q1, and they lost (-0.75%) in currency exchange rates on Japanese Yen-denominated bonds, effectively wiping out any gain in the (local currency) bond value itself. Most other major foreign currencies appreciated against the U.S. Dollar during the quarter, adding to the gains the bonds earned in their "local-currency" terms. U.S. Dollar-denominated Investors in (Chinese)

(38) https://www.msci.com/documents/10199/08f87379-0d69-442a-b26d-46f749bb459b
(39) https://www.reit.com/news/blog/nareit-media/reits-deliver-strong-gains-first-quarter
(40) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html
(41) https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yieldYear&year=2019
(42) https://content.rwbaird.com/RWB/Content/PDF/Insights/Quarterly-Market-Chart-Book.pdf
(43) https://fred.stlouisfed.org/series/BAMLH0A0HYM2
(44) https://www.global-rates.com/interest-rates/central-banks/central-banks.aspx

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Yuan-denominated bonds picked up +2.30% in currency gain alone during the period. In U.S. Dollar terms, (British) Pound Sterling-denominated securities gained +2.33% in currency exchange value over Q1. The Canadian Dollar appreciated by +2.07%, and the Mexican Peso appreciated against the U.S. Dollar by +2.32% for the quarter, adding to U.S. Dollar-based investors returns [45].

Much of the debt issued by Emerging Market economies are U.S. Dollar-denominated, and they were among the best performing Bonds U.S. Investors could have held during the quarter. In U.S. Dollar terms, the JP Morgan EMBI Global Index, a proxy for Emerging Market Debt instruments, gained +7.0% for the quarter. Some notable gainers were Mexican bonds, up +7.8%, Indonesian debt securities, up +6.9%, South African bonds gained +6.5%, and Brazilian debt securities appreciated by +5.2% for the quarter [46].

(45) https://www.oanda.com/fx-for-business/historical-rates
(46) https://www.capitalgroup.com/us/insights/market-commentary/world-markets-1Q-2019.html

THE WORLD ECONOMY AT A GLANCE

As stated in our Welcome Letter opening this issue of The Investor Quarterly, the U.S. economy, the world's largest, is firmly in the late-cycle phase, accompanied by troubling signs of slowing global growth, all of which has the Fed, and other major global Central Banks, rapidly shifting to a much more dovish state. Depending if one is an optimist or a pessimist, this shift in policy can be seen as potentially good news, or possibly bad news, for near-term prospects for global economic growth.

The relatively uneven pace of global growth remains positive, but leading economic indicators continue to point to global economic headwinds.

U.S. workers continue to reenter the labor force amid cyclically low unemployment rates. Tight labor markets have spurred accelerating wage growth. According to the Bureau of Labor Statistics, March's Seasonally-Adjusted Average Hourly Earnings in March was $23.24 per hour, up 3.33% from the March 2018 reading, the highest year-over-year gain since 2009 [47]. But a rising number of U.S. states are reporting higher initial unemployment claims, which may be an early sign of peaking employment growth. Recent weakness in housing data supports this "late-cycle" trend.

Prior to January, the Fed had expressed a baseline plan to raise the Fed Funds Rate five more times during this tightening cycle, trying to "tap the brakes" on an economy that was feared to be on the verge of overheating. However, following the Fed's first rate hike (post-announcement) in December, the economic data seen in the first quarter of 2019 led the FOMC to communicate an "indefinite pause" in its plans for further rate tightening in 2019, and a decline in the pace of the reduction of its Balance Sheet. Most monetary-policy observers believe there is more likely to be a rate cut in 2019 than a rate increase.

The Institute for Supply Management's ("ISM") Manufacturing Index bounced back up to 55.3 in March (readings above 50 indicate expansion), while the new orders component (a leading indicator) accelerated as well, to 57.4 in March from the 54.2 reading the month prior [48]. The Non-Manufacturing (service industries) Index came in at a still-expanding 56.1% [49], but that was down from February's 59.7 reading. Not everything was rosy however, as Retail Sales fell (-0.2%) in February from the month prior. Durable Goods orders declined by (-1.6%) and orders for non-defense capital goods fell (-0.1%) month-over-month [50].

China's economy grew by +6.4% in Q1 2019 (51), matching Q4 2018's as the lowest pace of growth in "official" Chinese GDP pronouncements since 1990. Much of their prospects for economic growth in the near-term will be dependent upon a successful end to ongoing trade negotiations with the U.S. The U.S. is, by far, China's largest trading partner, with 19.2% of all its Exports ($479.7 Billion UDS) coming to the U.S. [51]. Those talks also have the potential to disrupt U.S. economic and manufacturing supply-chains, and by extension, corporate earnings and growth, so the near-term focus of economists as well as market participants will be on headlines relating to those negotiations.

The U.S. / Mexico / Canada ("USMCA") Treaty was negotiated and signed negotiated by the trade representatives of all three North American trading partners in November. The agreement affects automobile component sourcing requirements, requires minimum wages for auto workers in all three countries, provides U.S. farmers more access to Canadian dairy consumers, protects intellectual property and digital trade, and prevents the "dumping" of Canadian, and/or Mexican steel and aluminum on U.S. manufacturers [52]. The Treaty has been agreed to

(47) https://data.bls.gov/pdq/SurveyOutputServlet
(48) https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1
(49) https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1
(50) https://www.schwab.com/resource-center/insights/content/market-perspective
(51) http://www.worldstopexports.com/chinas-top-import-partners/
(52) https://www.vox.com/2018/10/3/17930092/usmca-nafta-trump-trade-deal-explained

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by all parties involved but has yet to be ratified by any of the three governments' legislative bodies. Like the U.S. – Sino Trade negotiations, the ultimate ratification of this treaty would go a long way to assuaging fears of economic slowdown leading to recession, at least for now.

THE U.S. ECONOMY IN FOCUS

GROWTH

Atlanta Fed's "GDPNow" report dated 04/19/2019 projects Q1 2019 GDP growth in the U.S. will be +2.8%, higher than Q4's disappointing +2.2% reading, but lower than 2018's full-year +2.9% GDP growth rate.

JOB CREATION

The U.S. Economy added 541,000 jobs in Q1 2018, down from the 635,000 reported in Q4 2018 [55].

CORPORATE PROFITS

As of this writing, with 20.7% of the constituents having reported, the S&P 500 Index Operating Earnings "per Index Share" for Q1 2019 are projected to come in at $36.84, a quarter-over-quarter gain of +5.16%. Projections for full-year (2019) Operating Earnings are at $165.02, which if realized, would represent year-over-year growth in operating earnings of +8.85% [53].

INFLATION

The Bureau of Labor Statistics announced that the Consumer Price Index for All Urban Consumers (CPI – U) rose +0.4% in March, its highest monthly reading since May 2018. For the year ending March 31st, the year-over-year change in CPI – U was +1.9%, the same as the year-over-year increase for the 12 months ending Q4 2018 [56].

INTEREST RATES

Interest rates in all but the shortest portions of the yield curve (< 3 months) declined between (-0.20%) and (-0.28%) for the quarter. The yield curve "flattened" considerably during the period, with the critical "3 Month – 10-Year" portion of the curve temporarily "inverting" (3 Month Yield higher than 10 – Year Yield) from 03/22 thru 03/28 [54].

RISK TO CONTINUED U.S. ECONOMIC GROWTH

We remain confident that recession in the U.S is unlikely to occur in the near-term (next four quarters), as Consumer Spending and Wage Growth continue. But trade negotiations between the U.S. and China could change those in a hurry, as could the inability to finalize the USMCA Treaty.

(53) https://us.spindices.com/indices/equity/sp-500
(54) https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yieldYear&year=2019
(55) https://www.bls.gov/news.release/empsit.b.htm
(56) https://www.bls.gov/news.release/cpi.nr0.htm

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