



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

APRIL 2019
Capital Markets Update

Market commentary

U.S. ECONOMICS

- U.S. GDP expanded at an annualized quarterly rate of 3.2% (exp. 2.3%) in Q1 2019. Inventory builds and net exports, which are viewed as more volatile components to the GDP calculation, contributed 1.7% to the print, their highest addition since 2013.
- Nonfarm payrolls grew by 263k in April, beating expectations for a 190k increase. Hiring activity was strongest within business services (+76k), health care (+53k) and construction (+33k). Unemployment dipped to 3.6% (exp. 3.8%), a fresh 49-year low.
- Average hourly earnings missed expectations in April, rising at a year-over-year rate of 3.2% (exp. 3.3%). Some analysts pointed to mild inflation data and contained wage gains as evidence of a labor market with some room to run.

U.S. EQUITIES

- The S&P 500 advanced 4.0% in April and cyclical sectors led the way. The Financials (+9.0%), Telecom (+6.5%), and IT (+6.4%) sectors were the top performers for the month.
- With 89% of companies reporting, revenue and earnings growth for the S&P 500 have come in at 4.8% and 1.7%, respectively. Sales growth has been in line with expectations, while earnings growth has topped estimates by 6.5% in aggregate.
- Per FactSet, there are 11,045 ratings on stocks in the S&P 500 - 51.9% are buy ratings, 41.8% are hold ratings, and 6.3% are sell ratings. The Energy sector (63%) has the highest percentage of buy ratings, and the Consumer Staples sector (39%) has the lowest.

U.S. FIXED INCOME

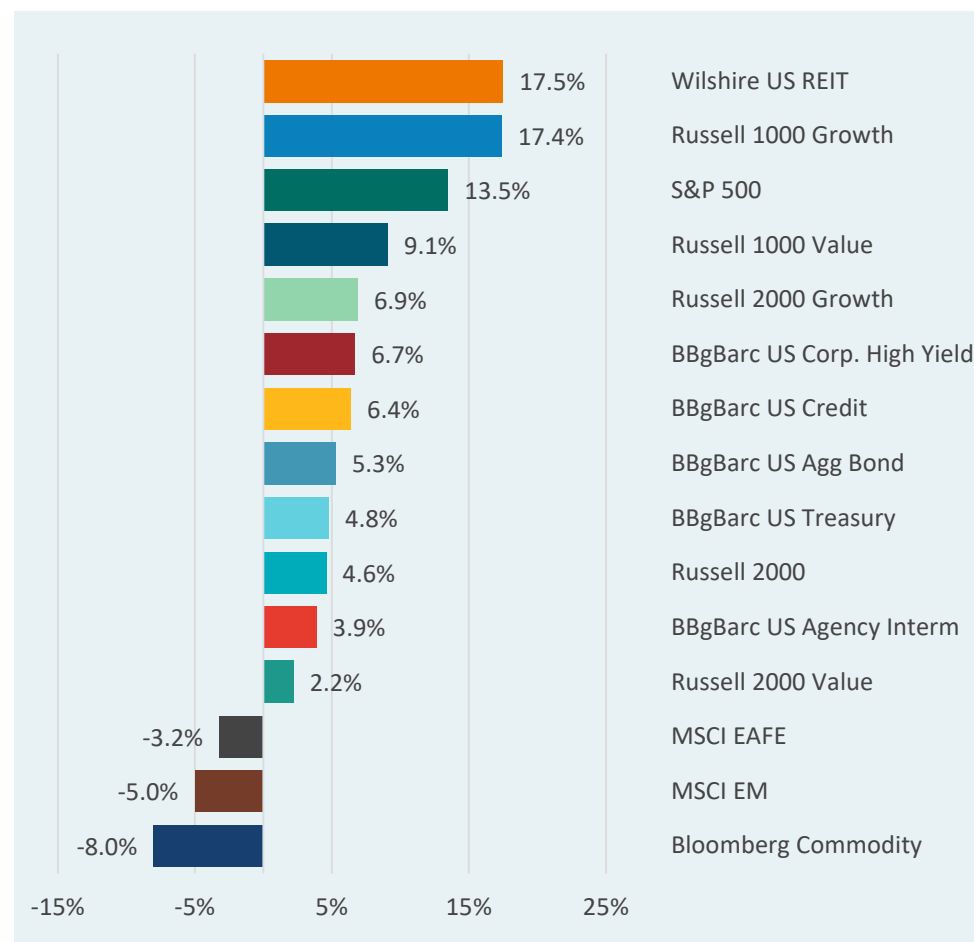
- The Federal Open Market Committee decided in its May meeting to leave its range for the benchmark interest rate unchanged at 2.25%-2.50%. The committee made a “mechanical” adjustment to the rate paid on excess reserves, cutting it 5 bps to 2.35%.
- Following the Federal Reserve’s meeting, Chairman Powell stated that the slowdown in core PCE inflation, the Fed’s preferred measure, was due to “transitory factors”. Over the first quarter of 2019, year-over-year core PCE growth fell from 1.95% to 1.55%.
- Credit spreads continued to edge lower in April. Investment-grade spreads compressed from 1.19% to 1.11%, and high-yield spreads ended the month 18 bps tighter, at 3.58%.

INTERNATIONAL MARKETS

- U.S. and Chinese officials met several times to discuss trade, and optimism built for a formal deal to be reached by May 10th. On May 5th, the Trump administration squashed this optimism, announcing that tariff rates on \$200 billion in Chinese imports would be raised from 10% to 25% on May 10th. President Trump cited progress that was too slow, and noted that 25% tariffs on an additional \$325 billion in Chinese imports could be levied soon.
- On April 10th, the British Prime Minister Theresa May reached an agreement with the European Council to extend the Brexit deadline from April 12th to October 31st.
- Italy emerged from recession, reporting (QoQ) GDP growth of 0.2% in Q1 following two consecutive quarters of contraction. Year-over-year, GDP growth remained anemic at 0.1%.

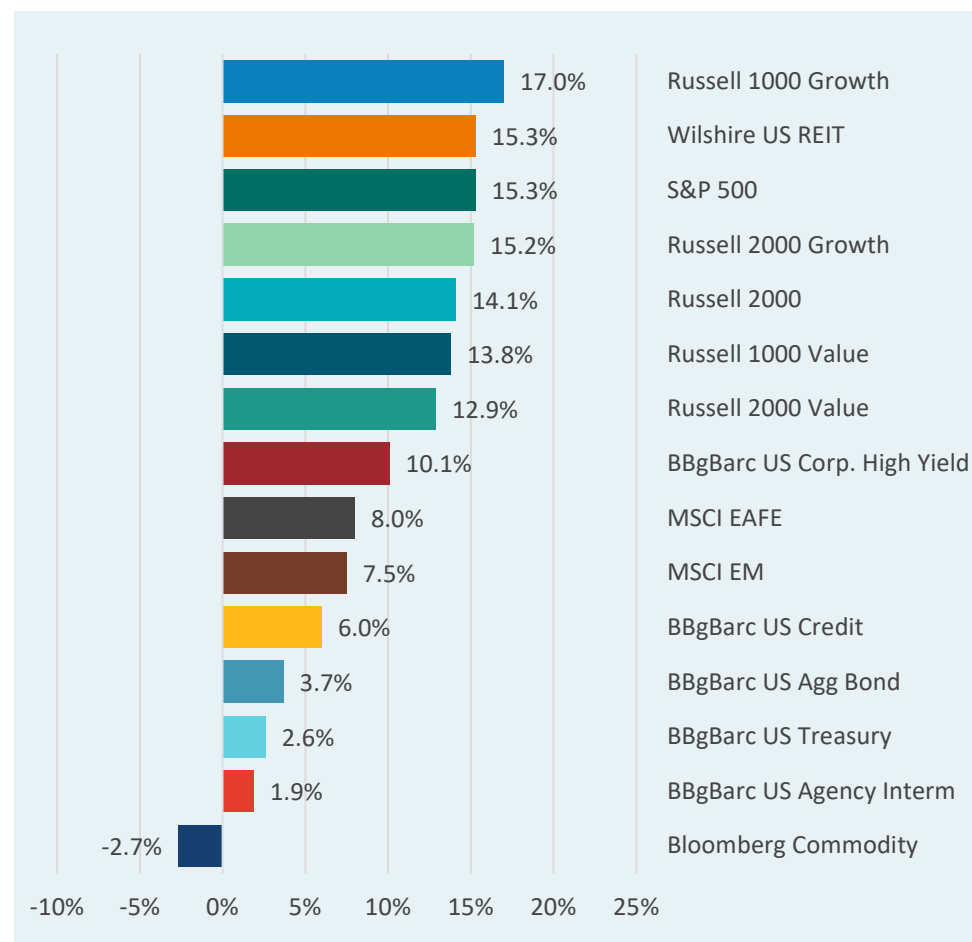
Major asset class returns

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/19

TEN YEARS ENDING APRIL



Source: Morningstar, as of 4/30/19

U.S. large cap equities

- The S&P 500 Index gained 4.0% in April, and all sectors except for Health Care (-2.6%) and Real Estate (-0.5%) posted positive performance for the month.
- The Health Care sector was the worst performer, falling 2.6% despite solid aggregate Q1 sales and earnings growth. Some analysts have contended that Bernie Sanders' introduction of Medicare for All legislation, which was co-signed by several Senate Democrats running for the presidency in 2020, has weighed on prices for health care stocks.
- Implied volatility on U.S. stocks remained subdued in April. The CBOE VIX Index traded in a narrow range between 12-14 for most of the month, materially below its long-term average of 18.
- At month-end, the forward one-year P/E ratio on the S&P 500 Index was 17.0, which exceeded both its 5- and 10-year averages of 16.4 and 14.7. Per FactSet, the Consumer Discretionary (21.4), and Financials (12.1) sectors held the highest and lowest one-year forward P/E multiples.

S&P 500 PRICE INDEX



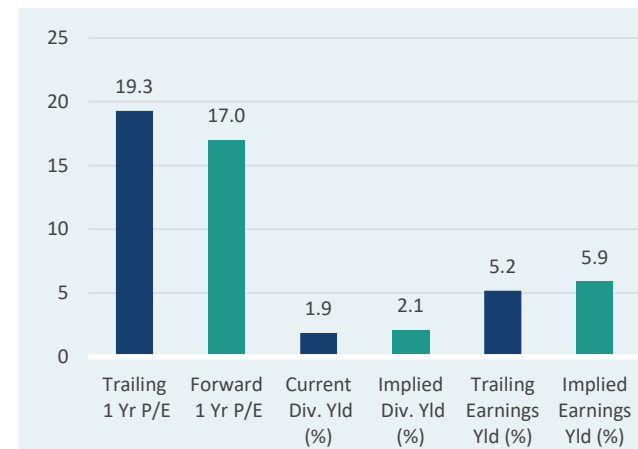
Source: Bloomberg, as of 4/30/19

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 4/30/19

S&P 500 VALUATION SNAPSHOT

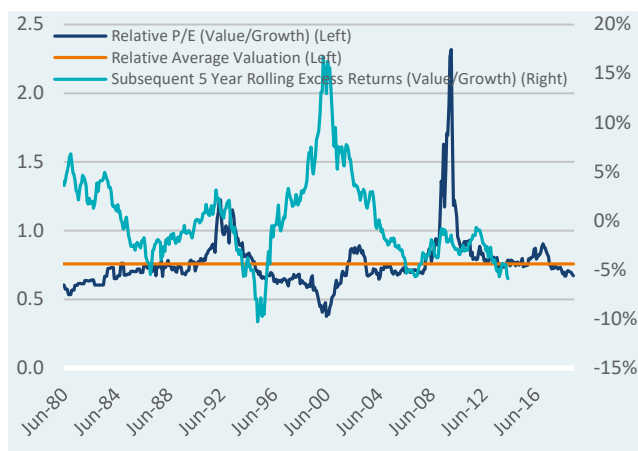


Source: Bloomberg, as of 4/30/19

Domestic equity size and style

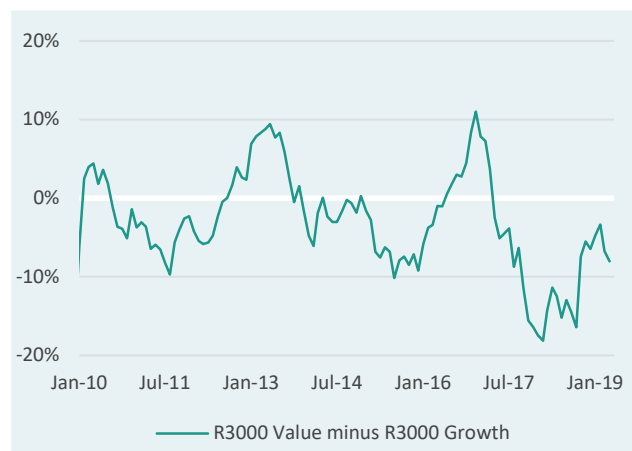
- Large-cap stocks picked up where they left off in March, and outperformed small-cap stocks. The Russell 1000 Index returned 4.0% while the Russell 2000 Index returned 3.4%.
- Large-cap stocks' outperformance of small-cap stocks was most evident within the Telecommunication Services sector. The Russell 1000 Telecom Sub-Index advanced 13.0%, significantly outpacing its small-cap counterpart, which registered a 7.3% advance.
- Growth stocks continued to outperform value stocks. The Russell 3000 Growth Index returned 4.4%, while the Russell 3000 Value Index returned 3.6%. The underperformance of the Russell 3000 Value Index was fueled by its lower relative weights to the IT and Consumer Discretionary sectors, as well as its higher relative weight to the Real Estate sector.
- The MSCI USA Cyclical-Defensives Return Spread Index delivered performance of 6.5% in April, its largest monthly return since January 2012.

VALUE VS. GROWTH RELATIVE VALUATIONS



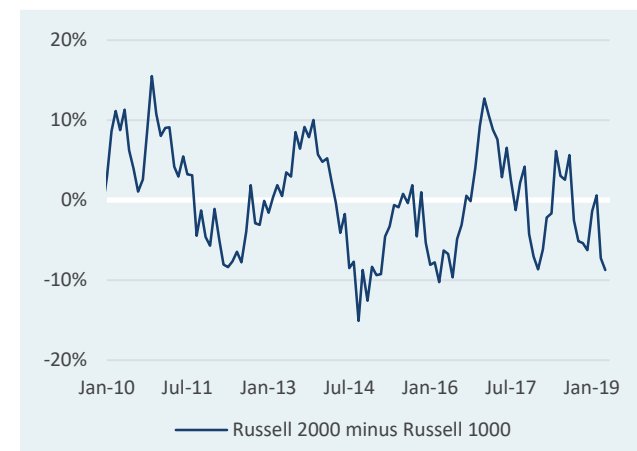
Source: Russell, Bloomberg, as of 4/30/19

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 4/30/19

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE

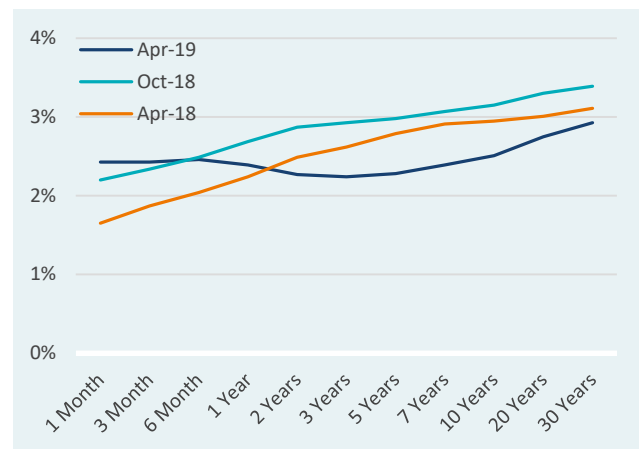


Source: FTSE, as of 4/30/19

Fixed income

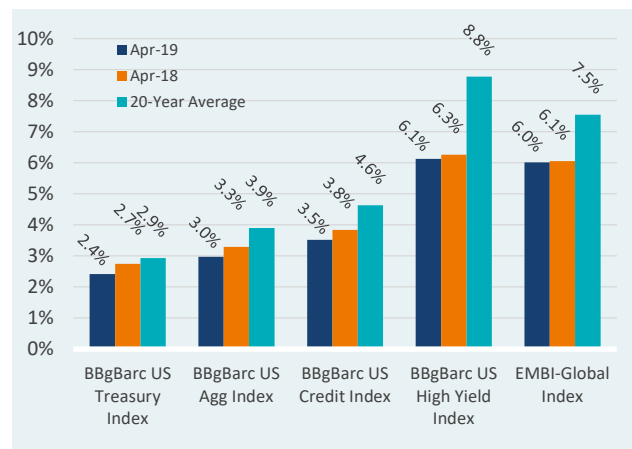
- Ten-year Treasury yields rose from 2.41% to 2.50%, while two-year Treasury yields moved from 2.26% to 2.27%. The spread between the 10- and 2-year yields steepened 8 bps to 23 bps.
- Fed funds futures pricing in April illuminated a market undecided on the future path of interest rates. At the beginning of the month, the futures-implied probability of a rate cut by the end of the year was 70%. Mid-month, that probability touched as low as 39%, and by the end of the month, the probability was up to 67%.
- The J.P. Morgan EMBI Global Diversified Index gained 0.2% in April, while the J.P. Morgan GBI-EM Global Diversified Index declined 0.2%, indicating that emerging market currency movements presented headwinds for unhedged U.S.-based investors in emerging market debt.
- U.S. core CPI rose 0.1% (exp. 0.2%) from the previous month in April. Over the last year, core CPI expanded 2.1%, in line with expectations, and in support of the Fed's stated patient approach on interest rate policy.

U.S. TREASURY YIELD CURVE



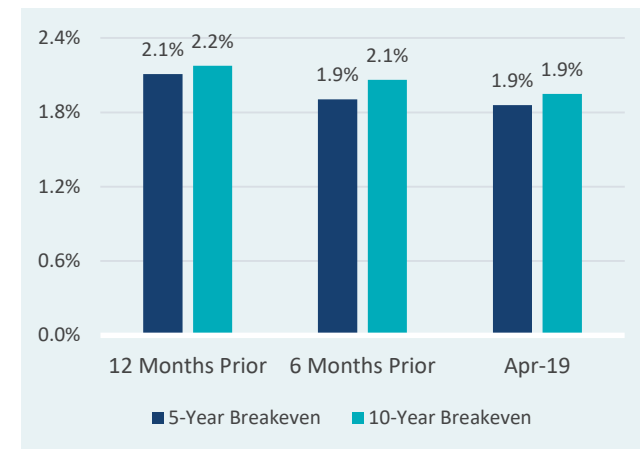
Source: Bloomberg, as of 4/30/19

NOMINAL YIELDS



Source: Morningstar, as of 4/30/19

BREAKEVEN INFLATION RATES

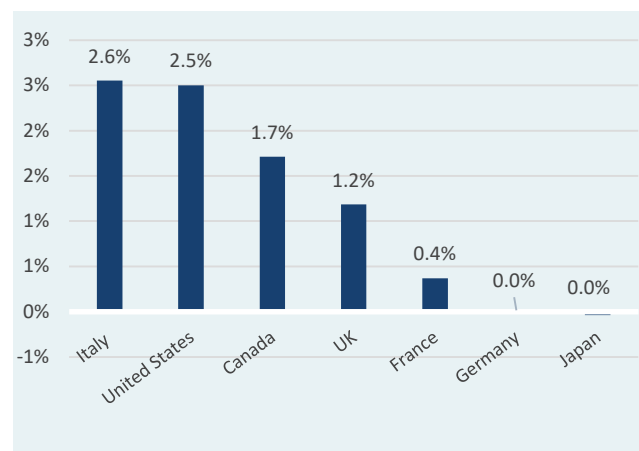


Source: Bloomberg, as of 4/30/19

Global markets

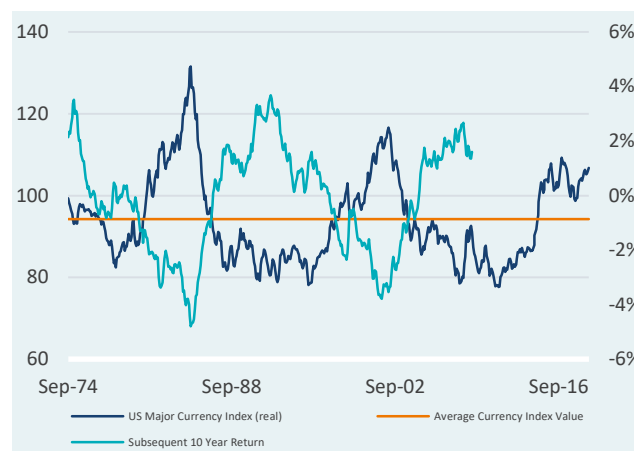
- Chinese GDP expanded at a rate of 6.4% year-over-year in Q1, beating expectations for 6.3% growth. In March, industrial production expanded 8.5% YoY (exp. 5.9%), and retail sales grew 8.7% YoY (exp. 8.4%), signaling a stronger-than-expected economic picture in China.
- Global sovereign yields mostly ticked higher in April. Yields on 10-year U.K. bonds rose from 0.99% to 1.18%, as the most recent extension of the Brexit deadline from April 12th to October 31st likely emboldened investors to lean in to riskier assets for the time being.
- Over the month, U.S. stocks outperformed international and emerging markets stocks. The S&P 500 Index gained 4.0%, ahead of the MSCI EAFE Index (2.8%) and the MSCI EM Index (2.1%).
- Since March, the 3-month average trailing P/FCF ratio of the MSCI U.S. Index rose from 18.9 to 20.4 while the equivalent MSCI EM Index ratio fell from 17.4 to 16.8. The widening in the P/FCF spread between the two indices indicates investors in U.S. stocks are paying more for free-cash-flow than investors in EM equities.

GLOBAL SOVEREIGN 10-YEAR YIELDS



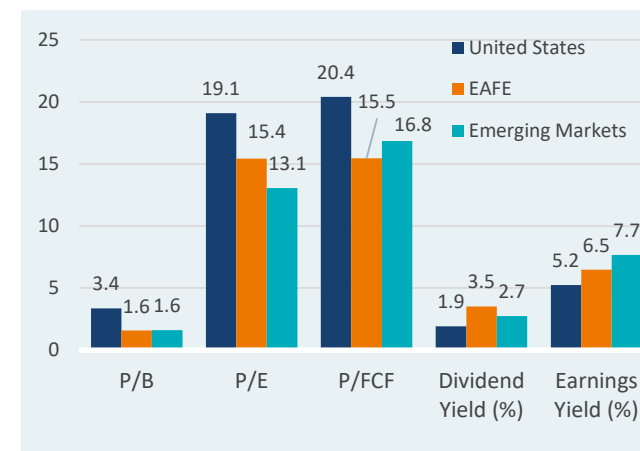
Source: Bloomberg, as of 4/30/19

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 4/30/19

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 4/30/19

Commodities

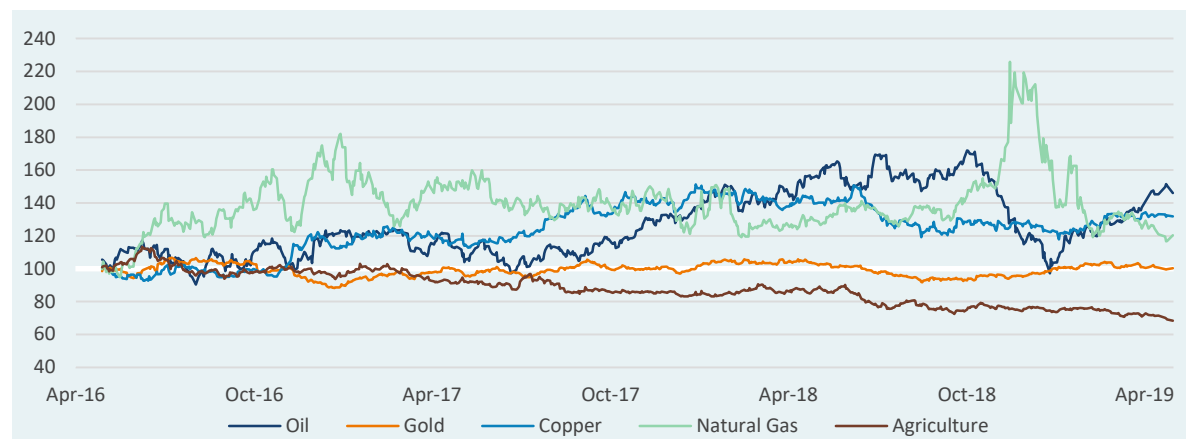
- The Bloomberg Commodity Index fell 0.4% over the month. The Petroleum (+7.1%) and Energy (+4.3%) Sub-Indexes significantly outperformed the overall index, while Grains (-3.9%) and Industrial Metals (-3.4%) underperformed.
- Crude oil continued its strong year-to-date advance, as WTI crude futures rose from \$60.28 to \$63.91. Expiring U.S. sanction waivers for Iranian crude oil imports, as well as speculation on a trade outcome between the U.S. and China were likely the largest factors moving oil markets.
- The Grains Sub-Index, which represents 23% of the overall index, declined 3.9% in April. Concerns over Chinese demand for U.S. agricultural goods, as well as fears that retaliatory Chinese tariffs could be levied on U.S. agricultural exports contributed to the decline.
- The Industrial Metals Sub-Index declined 3.4% and nickel was the poorest performer. Several analysts attributed the recent weakness in nickel to slower manufacturing activity in China, as well as the introduction to the market of cheaper alternatives such as nickel pig iron.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.4)	(0.4)	5.9	(8.0)	(0.7)	(9.4)	(2.7)
Bloomberg Agriculture	(3.3)	(3.3)	(6.4)	(20.2)	(11.1)	(13.6)	(3.6)
Bloomberg Energy	4.3	4.3	20.9	(1.2)	4.5	(16.5)	(9.1)
Bloomberg Grains	(3.9)	(3.9)	(9.4)	(22.4)	(13.1)	(15.3)	(5.3)
Bloomberg Industrial Metals	(3.4)	(3.4)	9.0	(9.6)	7.5	(1.2)	1.1
Bloomberg Livestock	(2.3)	(2.3)	2.2	11.2	1.1	(4.4)	(1.4)
Bloomberg Petroleum	7.1	7.1	34.8	(2.8)	8.9	(13.8)	(2.8)
Bloomberg Precious Metals	(0.9)	(0.9)	(0.9)	(4.7)	(2.4)	(2.1)	2.8
Bloomberg Softs	(2.6)	(2.6)	(2.2)	(15.0)	(10.2)	(13.9)	(3.4)

Source: Morningstar, as of 4/30/19

COMMODITY PERFORMANCE



Source: Bloomberg, as of 4/30/19

Appendix

Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	5-Year	10-Year
Large Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	21.3	14.5	17.0
Small Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	20.7	11.4	15.4
Large Cap Equity	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	18.6	10.2	15.2
Small Cap Equity	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	18.5	9.1	14.1
Small Cap Value	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	16.2	8.6	13.8
Large Cap Value	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	15.9	8.3	12.9
International Equity	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	13.1	6.9	8.5
Emerging Markets Equity	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	12.2	4.6	8.0
60/40 Global Portfolio	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	10.2	4.0	8.0
Commodities	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	5.9	2.6	7.5
Hedge Funds of Funds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	5.3	2.6	3.7
US Bonds	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	3.0	2.5	3.5
Real Estate	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	1.8	0.8	0.4
Cash	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	0.8	-9.4	-2.7

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

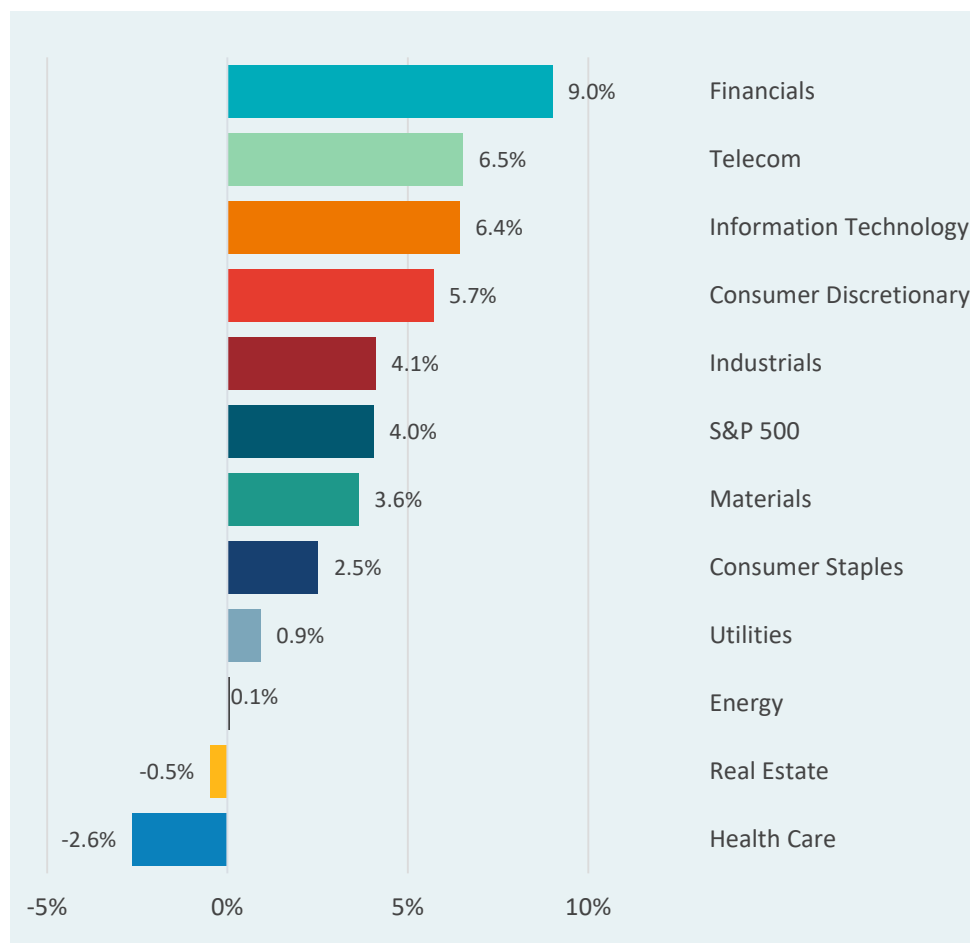
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 3/31/19.

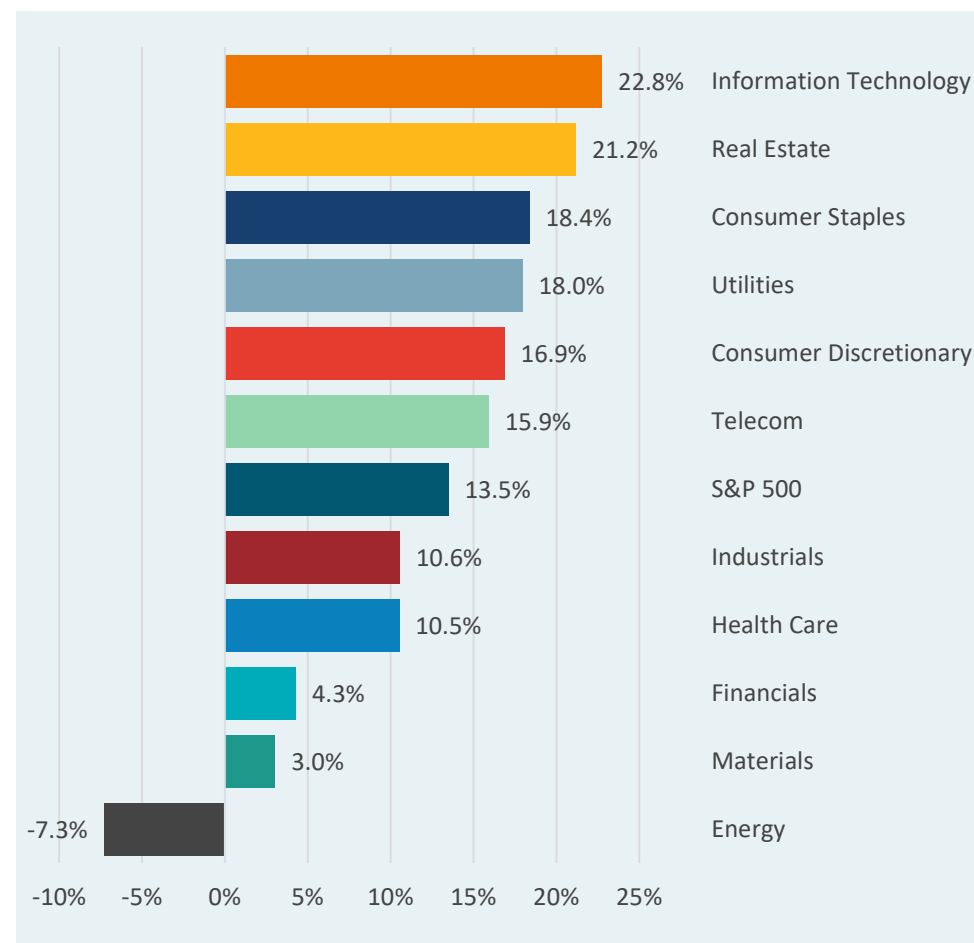
S&P 500 sector returns

QTD



Source: Morningstar, as of 4/30/19

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/19

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	4.0	4.0	18.2	13.5	14.9	11.6	15.3
S&P 500 Equal Weighted	3.6	3.6	19.0	10.6	12.9	10.2	16.2
DJ Industrial Average	2.7	2.7	14.8	12.6	17.2	12.6	15.4
Russell Top 200	4.1	4.1	17.7	14.4	15.6	12.1	15.3
Russell 1000	4.0	4.0	18.6	13.3	14.8	11.4	15.4
Russell 2000	3.4	3.4	18.5	4.6	13.6	8.6	14.1
Russell 3000	4.0	4.0	18.6	12.7	14.7	11.2	15.3
Russell Mid Cap	3.8	3.8	21.0	10.7	12.8	9.7	15.7
Style Index							
Russell 1000 Growth	4.5	4.5	21.3	17.4	18.6	14.5	17.0
Russell 1000 Value	3.5	3.5	15.9	9.1	11.0	8.3	13.8
Russell 2000 Growth	3.0	3.0	20.7	6.9	15.6	10.2	15.2
Russell 2000 Value	3.8	3.8	16.2	2.2	11.5	6.9	12.9

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	3.4	3.4	16.0	5.1	11.4	7.0	11.1
MSCI ACWI ex US	2.6	2.6	13.2	(3.2)	8.1	2.8	7.7
MSCI EAFE	2.8	2.8	13.1	(3.2)	7.2	2.6	8.0
MSCI EM	2.1	2.1	12.2	(5.0)	11.3	4.0	7.5
MSCI EAFE Small Cap	3.0	3.0	14.0	(7.9)	7.8	5.3	11.5
Style Index							
MSCI EAFE Growth	3.3	3.3	15.7	0.4	8.1	4.5	9.2
MSCI EAFE Value	2.3	2.3	10.4	(6.8)	6.3	0.7	6.7
Regional Index							
MSCI UK	2.3	2.3	14.4	(2.5)	5.9	0.2	8.2
MSCI Japan	1.4	1.4	8.1	(7.2)	6.9	6.5	7.1
MSCI Euro	5.1	5.1	15.4	(6.2)	7.7	1.2	6.5
MSCI EM Asia	1.8	1.8	13.1	(5.2)	12.9	6.6	9.3
MSCI EM Latin American	0.4	0.4	8.3	(5.1)	9.1	(0.7)	3.6

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	0.3	0.3	3.5	3.1	1.7	1.7	3.6
BBgBarc US Treasury Bills	0.2	0.2	0.8	2.2	1.2	0.8	0.5
BBgBarc US Agg Bond	0.0	0.0	3.0	5.3	1.9	2.6	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	0.2	0.2	1.2	3.1	1.0	1.0	1.1
BBgBarc US Treasury Long	(1.8)	(1.8)	2.8	6.4	1.0	4.6	5.5
BBgBarc US Treasury	(0.3)	(0.3)	1.8	4.8	1.0	2.0	2.6
Issuer							
BBgBarc US MBS	(0.1)	(0.1)	2.1	4.9	1.7	2.4	3.1
BBgBarc US Corp. High Yield	1.4	1.4	8.8	6.7	7.7	4.8	10.1
BBgBarc US Agency Interm	0.2	0.2	1.5	3.9	1.3	1.5	1.9
BBgBarc US Credit	0.5	0.5	5.4	6.4	3.2	3.5	6.0

OTHER

Index							
Bloomberg Commodity	(0.4)	(0.4)	5.9	(8.0)	(0.7)	(9.4)	(2.7)
Wilshire US REIT	(0.2)	(0.2)	15.8	17.5	6.4	8.2	15.3
CS Leveraged Loans	1.6	1.6	5.4	4.5	5.8	4.1	7.3
Alerian MLP	(1.2)	(1.2)	15.9	7.0	1.5	(5.1)	9.7
Regional Index							
JPM EMBI Global Div	0.2	0.2	7.2	6.0	5.3	5.2	8.0
JPM GBI-EM Global Div	(0.2)	(0.2)	2.7	(4.9)	2.3	(1.0)	3.5
Hedge Funds							
HFRI Composite	1.6	1.6	7.2	1.8	5.2	3.4	5.2
HFRI FOF Composite	0.6	0.6	5.3	0.6	4.0	2.5	3.5
Currency (Spot)							
Euro	(0.2)	(0.2)	(2.0)	(7.2)	(0.7)	(4.2)	(1.7)
Pound	0.0	0.0	2.4	(5.4)	(3.8)	(5.0)	(1.3)
Yen	(0.6)	(0.6)	(1.5)	(1.8)	(1.3)	(1.7)	(1.2)

Source: Morningstar, HFR, as of 4/30/19

Notices & disclosures

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