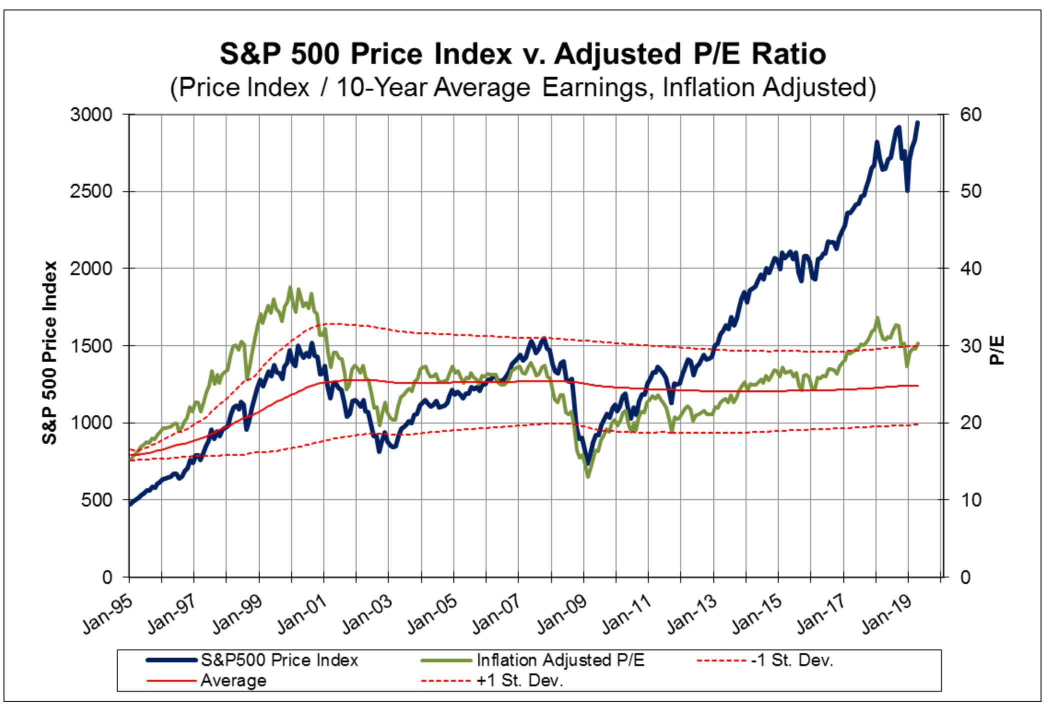
Monthly Market Comment
May 1, 2019

It was hard to find anything not to like about the financial markets in April. Stock prices rose smoothly throughout the month, with the key U.S. index reaching a new record high on the last day of April. Commodity prices also rose, while real estate investment trusts and bonds fell only slightly.

Stocks

Helped along by more signs of renewed growth in the economy and further suggestions the U.S.-China trade negotiations are still on track, U.S. stock prices rose steadily throughout April. In fact, the S&P 500 price index ended the month at a new record high of 2,945.83, up 3.9% from the end of March and a strong 11.2% higher than at the end of April 2018. Taking into account dividends, the total return on the S&P 500 was 4.0% in April and 13.5% over the last year.

Looking forward, we're getting more optimistic that the Federal Reserve's stand-down on further interest-rate hikes may have come just in the nick of time. The interest-rate hikes to date have apparently helped bring inflation back down to target, and if rates now remain stable or nearly so, the underlying momentum in the economy could keep corporate earnings and stock prices on the upswing. However, we still think it's possible that inflation could eventually accelerate again and force further rate hikes down the road, or that the inflation and rate hikes to date have already done their damage and economic growth, profits, and stocks could weaken from here. Just as important, slowing economic growth in China and Europe could be a problem, not so much because U.S. exports might fall, but because foreign production and sales are so important to large U.S. companies. There is also some risk that geopolitical tensions and trade disputes could worsen again.



In a good sign for near-term stock performance, technical indicators remain decidedly positive. For example, the S&P 500 index now stands above its 20-day simple moving average (SMA), which in turn stands above its 50-day SMA, which in turn stands above its 200-day SMA. We see that pattern as indicative of a strong, well-established uptrend. In addition, the share of S&P 500 stocks trading above their own 200-day SMA has now risen to more than 70%, which is the point at which we consider an uptrend to be "broad." Finally, the Dow Jones Transportation Index has recently been leading the overall market again, which has historically been a good sign for stocks. The only major technical indicators that suggest some reason for caution are the key short-term momentum gauges (such as the "moving average convergence/divergence," or MACD). Those indicators suggest stocks have become over-bought and may therefore be susceptible to a pullback at some point. If the S&P 500 continues to rise from here, we think its next significant resistance level will come at 3,000. If stock prices instead start to fall again, we think the next significant support levels would be at approximately 2,800 and 2,748.

S&P 500 Stock Price Index + "MACD" Momentum Indicator
Source: BigCharts.com

Bonds

In contrast with the previous month, even bond investors started to get more optimistic about the economy during April. Bond investors reversed some of their previous safe-haven buying, pushing down prices and boosting yields. The yield on the benchmark 10-Year Treasury Note rose to 2.51% at the end of April from 2.41% at the end of March. As measured by the S&P U.S. Aggregate Bond Index, the total return on investment-grade bonds was 0.0% in April and 4.5% over the last year.

We still see some chance that the Fed has stopped hiking interest rates too soon and might have to hike rates further in the coming months or quarters. However, we think it's more likely that the policymakers will be able to hold rates steady at their current level for some time. Then, if the inflation and rate hikes to date have already damaged the economy, their next move would likely be to cut rates at some point. In other words, we continue to think the balance of risks for bonds is toward flat-to-falling interest rates for the foreseeable future. In that case, the current rich pricing for bonds would seem justified, and it would likely make sense to hold longer-maturity obligations as opposed to the shorter maturities that we were favoring in 2018. Likewise, we continue to think the moderating economy and reduced inflation pressures argue for abandoning inflation-protected securities and favoring conventional, non-adjusted obligations.

Real Estate and Commodities

In April, publicly-traded real estate investment trusts (REITs) continued to benefit from renewed optimism about economic growth, but they were still undercut a bit by the uptick in bond yields. By the end of April, the FTSE NAREIT Price Index had fallen 0.4% below its level at the end of March, although it still stood 14.8% above its level at the end of April 2018. Reflecting their relatively high dividends, the total return on publicly-traded REITs was a negative 0.2% in April and a positive 19.6% over the last year. Looking ahead, we believe the continued economic expansion should keep REITs' operational dynamics healthy, while steady-to-falling bond yields will continue to help their price performance.

Physical commodities appreciated nicely in April, with the S&P GSCI Total Return Index rising 2.8% from its level at the end of March. That marked the fourth straight month of gains for commodities, although the index was still down 5.1% from April 2018. The overall rise in April came almost entirely from stronger prices for crude oil and its refined products, as rising demand and restricted production overseas helped offset the impact of rising U.S. output. In contrast, continued economic weakness in China and modestly rising interest rates here at home helped push down prices for both industrial and precious metals, while agricultural commodities depreciated across the board. Looking forward, we still see a fairly high risk that the commodity rally will be limited, especially if sky-high U.S. oil inventories and production lead to an oversupply of oil.

Patrick Fearon, CFA
Lead Portfolio Manager

Asset Class	Index	Ending Reading, Latest Month	1-Month Change	3-Month Change	12-Month Change
U.S. Stocks	S&P 500 Price Index	2,945.83	3.9%	8.9%	11.2%
Non-U.S. Stocks	MSCI All-Cap World Ex-U.S. Price Index	286.39	2.4%	4.3%	-5.8%
REITs	FTSE NAREIT All-Equity Price Index	727.15	-0.4%	3.8%	14.8%
Commodities	S&P GSCI Total Return Index	2,605.41	2.8%	8.5%	-5.1%
Bonds	S&P U.S. Aggregate Bond Index	198.48	0.0%	1.6%	4.5%