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After the disappointing end to 2018, the S&P 500 had the best first quarter showing since 1998 with a return of 13.65%. In addition, all eleven sectors had a positive return for the first time since 2014. The Dow rose 11.2%, and the NASDAQ was up 16.2%. The sharp correction last year was brought on by fears of a global recession being triggered by tighter U.S. monetary policy and the ongoing trade war with China. Both Germany's and China's manufacturing activity indexes, the PMI, fell below 50 in the first quarter which indicates that their industrial sectors contracted.

However, slowing growth both here and abroad caused the Federal Reserve to change their outlook on inflation and subsequent interest rate hikes. U.S. Q4 GDP came in at 2.2%, and it is estimated to be 1.2% in Q1 2019. The market rallied strongly after the March 20 FOMC minutes indicated that rate hikes were on hold for the rest of the year. In addition, commodity prices for copper and oil began to act better in the first quarter. Oil is now trading over $60 after hitting lows in the mid-$40s in late December. China's most recent PMI came in 50.5 which indicates that their economy is beginning to expand again.

Market participants were also concerned with the abrupt drop in the 10 year Treasury rate from a high of 3.25% at the end of the Q3 2018 to 2.75% in late December. It has continued to fall to a current level of 2.44%. This has reduced borrowing cost for both consumers and corporations, and the housing sector has started to revive as the average mortgage rate dropped to 4.0% from 5.0% several months ago. The yield curve briefly inverted last week which means that short term rates were higher than longer term rates. This is generally considered a sign of an impending recession, but credit spreads did not widen out as well which would indicate stress on borrowers. In a research piece last week discussing the yield curve and FOMC policy, noted strategist Ed Yardeni stated, "In our view, it is credit crunches that cause recessions, not inverted yield curves and aging expansions."

Now that the political uncertainty caused by the Mueller investigation seems to have lifted, the possibility of a favorable outcome to the trade talks with China has also helped lift market sentiment. To Mr. Yardeni's point above, this expansion has not generated high inflation figures which would cause the Fed to tighten dramatically and tip us over in to a recession. One of the Fed's key gauges of inflation, the PCE, or personal consumption expenditure number, grew at its slowest year over year rate since 2016 at 1.37%. A more accommodative Fed will give the market breathing room to see how the China trade talks evolve. It is in China's and Europe's best interests to remove this uncertainty from their economies.

We continue to favor information technology and industrials in our portfolios. We have pulled back somewhat from healthcare given all the talk from Washington of either price controls or Medicare for All. Thank you for your continued confidence in us. We look forward to meeting with you or visiting with you by phone at your convenience.

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