

**ECONOMY:**  
**MIXED ECONOMIC SIGNALS CONTINUE  
IN MARCH**

U.S. economic data were mixed in March, although leading indicators signaled low odds of a recession in the coming year [Figure 1]. The Conference Board’s Leading Economic Index, an aggregate of ten leading indicators, rose 0.2% in February for its first gain in five months and 3% year over year.

February’s jobs report, released March 8, was disappointing at first glance. Nonfarm payrolls rose in February, but the headline number missed consensus estimates by a wide margin. However, the weak jobs gain followed the biggest two-month increase in jobs created in 2.5 years. There were also signs of weather effects, as the number of non-agricultural employees unable to work was above the February average. The unemployment rate dropped to 3.8%, while the

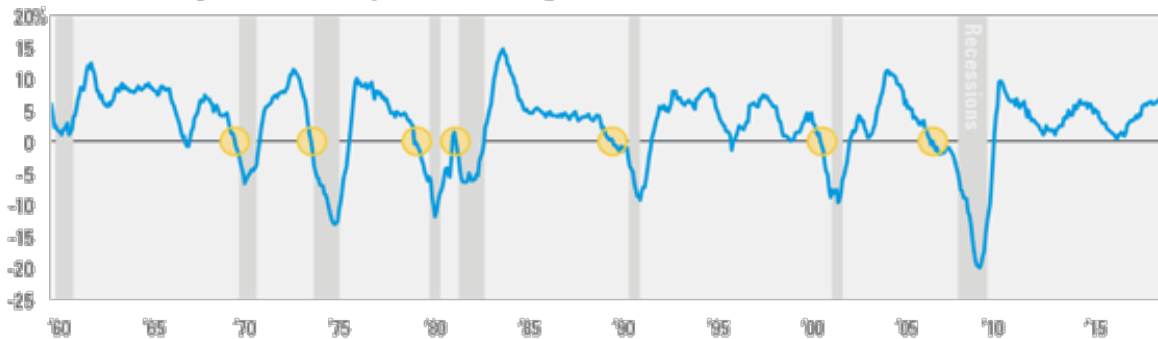
participation rate hovered around its highest point since 2013.

Inflation remained at manageable levels. Average hourly earnings grew 3.4% year over year in February, around the fastest pace of the cycle, but below the 4% growth that has historically threatened economic output. Growth in unit labor costs remains muted, so the current pace of wage growth is healthy but manageable for U.S. corporations. Pricing gauges also showed contained inflationary pressures. The core Consumer Price Index, which includes food and energy, increased 2.1% year over year, while the core Producer Price Index, which excludes food and energy prices, climbed 2.7% year over year. Core personal consumption expenditures (PCE), the Federal Reserve’s (Fed) preferred inflation gauge, rose 1.8% year over year in January. While annual growth in core PCE tapered off, it is still rising at a healthy pace.

Manufacturing activity slowed in February. The Institute for Supply Management’s (ISM) manufacturing Purchasing Managers Index (PMI), a gauge of U.S.

**1 POWERFUL SIGN THE ECONOMY IS ON FIRM FOOTING**

● Index of Leading Economic Indicators, Year-over-Year % Change



Source: UPL Research, FactSet 3/27/19

Past performance is no guarantee of future results.

manufacturing health, slid to its lowest point since November 2016 but remained solidly in expansive territory. Markit’s PMI fell to its lowest level since August 2017, and preliminary March data showed PMI slipped further in the month. A decline in new orders continued to weigh on U.S. manufacturing as trade and political headwinds curbed global demand.

Confidence gauges remain generally positive but have pulled back from their highs, reflecting U.S. consumers’ and business’s uncertainty amid global headwinds. The Conference Board’s Consumer Confidence Index climbed in February before sliding again in March. Consumer confidence and a healthy job market supported strong retail sales increases in January after December’s slide. Retail sales rose 0.2% in January, showing that consumer activity rebounded at the beginning of 2019.

The National Federation of Independent Business’s (NFIB) measure of business confidence rose slightly in February after five straight months of declines.

**Fed Doubles Down on Patience**

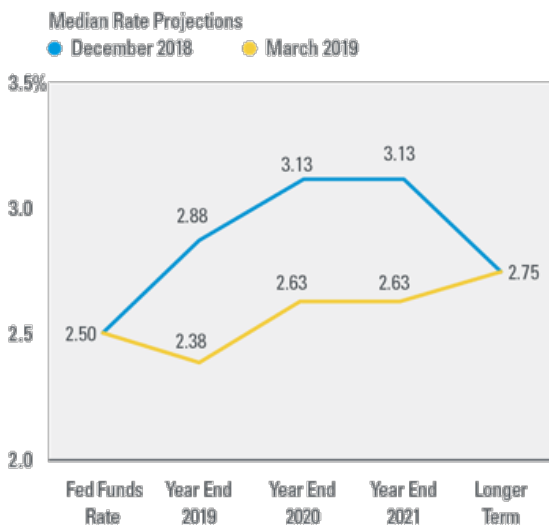
The Fed doubled down on its patient stance at the conclusion of its March 19–20 meeting. Policymakers left rates unchanged and signaled a complete pause in policy, with a nod to a slowing pace of growth and global uncertainty. In the latest dot plot, Fed voting members projected unchanged to slightly lower interest rates this

year, with one more rate hike in 2020 or later to lift the long-term rate to 2.75% [Figure 2]. Policymakers also lowered their gross domestic product growth projections to 2.1% for 2019 and 1.9% for 2020, while Fed Chair Jerome Powell acknowledged that global weakness could be a notable headwind to the U.S. economy.

Still, Powell conveyed significant faith in U.S. economic fundamentals, noting in his press conference that “it’s a great time to be patient,” as the labor market remains strong, confidence has improved back to encouraging levels, and the outlook remains positive.

The European Central Bank (ECB) also adjusted its policy amid signs of slowing growth. On March 7, the ECB lowered its rate outlook for 2019, while announcing plans to start a new bank loan program in September to help stimulate economic growth. The Bank of Japan kept its benchmark rate negative at the conclusion of its March 14–15 meeting and continued asset purchases.

**2 DOT PLOT ALIGNS WITH A FEDERAL RESERVE U-TURN**



Source: LPL Research, Federal Reserve 03/20/19

## GLOBAL EQUITIES

### STOCKS ENJOYING BEST START TO A YEAR SINCE 1998

The S&P 500 Index returned 1.9% in March and 13.7% (including dividends) in the first quarter of 2019 in its best start to a year since 1998. The Nasdaq fared even better, having returned 2.7% in March and 16.8% year to date, including a 10-week winning streak along the way. The Dow Jones Industrials Average lagged with just a 0.2% return for the month and an 11.8% year-to-date return. The bull market, now the longest in history, celebrated its tenth birthday March 9, 2019.

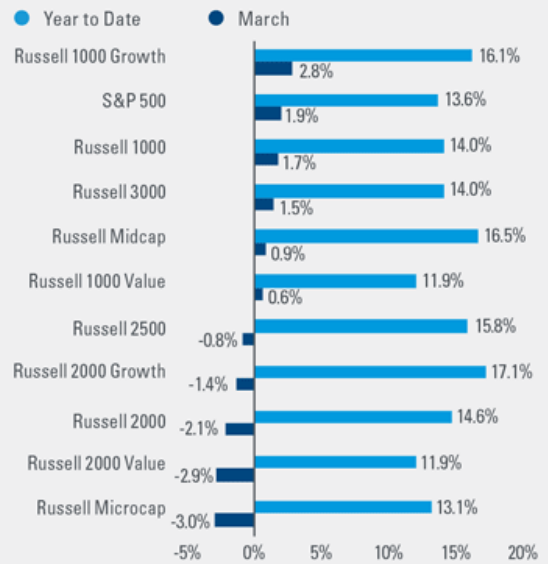
Key drivers for stock market gains during the month included increasing optimism surrounding a U.S.-China trade deal and the Federal Reserve’s (Fed) pause in rate hikes. These factors helped offset additional evidence that the U.S. economy hit a soft patch in the first quarter, including the weak February jobs report and concerns about the yield curve. The release of the Mueller report may have had a slightly positive impact on market sentiment, but it did not appear to be material.

U.S. and China negotiations progressed during March. As April began, investors expected a resolution of the most difficult issues as soon as month end, followed by a possible meeting between President Trump and President Xi in June. Key components of the expected agreement included Chinese commitments to purchase U.S. goods, greater market access for U.S. companies, intellectual property protections, and the elimination of forced transfers of technology in joint ventures between U.S. and Chinese companies.

The Fed doubled down on its patient stance in its March 20 rate announcement, as policymakers signaled a complete pause in policy while acknowledging a slowing pace of growth and global uncertainty. The dovish statement sent interest rates sharply lower, even as Fed Chair Jerome Powell expressed significant faith in U.S. economic fundamentals.

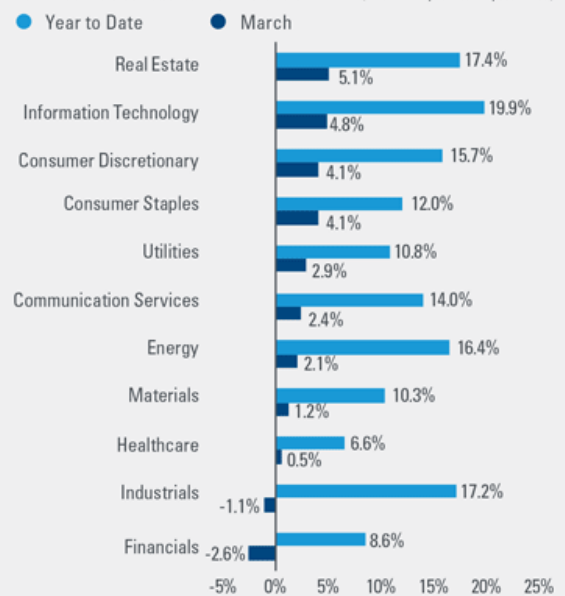
The inversion of the 10-year/3-month Treasury yield curve (the long-term interest rate fell below the short-term rate) understandably caused concern among market participants given the yield curve’s prior effectiveness as a recession signal. We wouldn’t dismiss this signal, but there are reasons to think the concerns

#### DOMEST IC INDEX PERFORMANCE (Sorted by Monthly Return)



Source: LPL Research, FactSet 03/31/19

#### S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



Source: LPL Research, FactSet 03/31/19

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

might be overdone. Only parts of the yield curve have inverted, the inversions have been minimal and short-lived to date, and credit markets remain generally healthy.

Despite the market’s gains, small cap stocks underperformed their large cap counterparts during the month. The large cap Russell 1000 Index returned 1.7%, above the 0.9% return for the Russell Midcap Index and 2.1% loss for the small cap Russell 2000 Index. Large cap outperformance was driven by strength in the technology and consumer discretionary sectors, possibly reflecting the market’s view that larger, more global companies will likely benefit more from a U.S.-China trade deal.

Growth outpaced value for the third straight month, as the Russell 1000 Growth Index returned 2.9%, ahead of the 0.6% return for the Russell 1000 Value Index. The growth style benefited from strength in technology and consumer discretionary stocks, while the value style was weighed down by financials sector underperformance.

March saw a mix of cyclical sectors (consumer discretionary and technology) and defensive sectors (consumer staples and real estate) atop the sector rankings. Hardware (led by Apple) powered technology, while internet retail (led by Amazon) drove consumer discretionary gains, and cell tower providers (led by American Tower) propelled real estate to strong gains. Weakness in Boeing’s shares weighed on industrials while the yield curve remained a drag on the financials sector.

### International

Neither international developed-market nor emerging market (EM) equities were able to keep up with U.S. equities in March, as the MSCI EAFE and EM indexes returned 0.7% and 0.9% for the month, respectively. Ongoing economic weakness in Europe and Japan and a strong U.S. dollar weighed on international equities. The European Central Bank lowered its European economic growth forecasts and extended its commitment not to raise rates into 2020.

Leadership among developed markets came from Switzerland and Hong Kong, based on the MSCI country indexes, while Germany was a source of weakness as its 10-year bund yield fell below zero for the first time since

October 2016. Brexit uncertainty had limited impact on U.K. stocks, which slightly outperformed the broad developed international equity index.

Within EM, China clearly benefited from trade progress, as the MSCI China Index returned 2.4% during March, bested only by India (9.1%) among more liquid emerging country markets. However, China’s gains were offset by losses in South Korea and Brazil.



## FIXED INCOME

### 10-YEAR TREASURY YIELD SLIDES MOST SINCE 2016

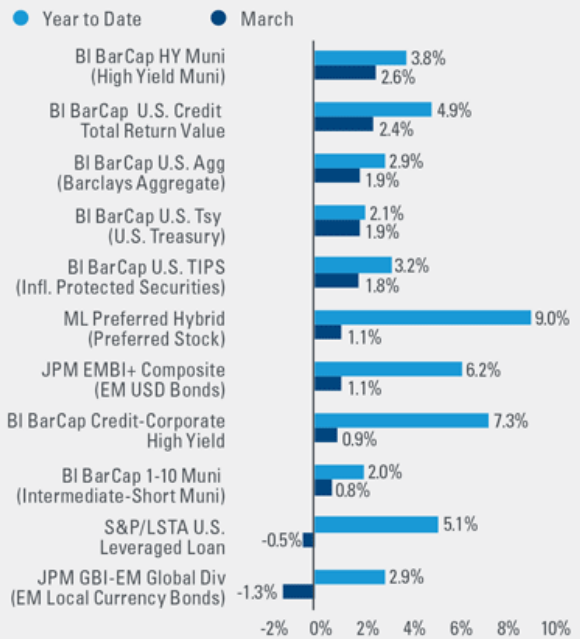
Treasury prices jumped in March as fixed income investors bought U.S. debt in the search for yield amid falling global rates. The 10-year yield slid 31 basis points (0.31%), its biggest monthly drop since June 2016. The benchmark yield fell as low as 2.37%, a 15-month low, before rebounding slightly through the end of the month to close at 2.41%. The yield curve briefly inverted, as the 10-year yield fell below the 3-month yield for the first time since August 2007 before closing slightly positive at the end of March.

Other parts of the yield curve flattened while remaining positive. The spread between the 2-year and 10-year yields fell to 14 basis points (0.14%).

Nine of the 11 fixed income asset classes we track rose in March (as shown in the Fixed Income Performance Table). Investment-grade debt (represented by the Bloomberg Barclays U.S. Aggregate Credit Index) led with a 2.4% gain during the month, while Treasuries and the broader Bloomberg Barclays U.S. Aggregate Bond Index rose 1.9%. High-yield corporate bonds climbed 0.9%, while bank loans slid 0.5%. Dollar-based emerging market (EM) debt rose 1.1%, its fourth straight monthly gain, while local currency EM debt lost 1.3%.

#### FIXED INCOME PERFORMANCE

(Sorted by Monthly Return)



#### U.S. TREASURY YIELDS

Security	02/28/19	03/31/19	Change in Yield
3 Month	2.45	2.40	-0.05
2 Year	2.52	2.27	-0.25
5 Year	2.52	2.23	-0.29
10 Year	2.73	2.41	-0.32
30 Year	3.09	2.81	-0.28

#### AAA MUNICIPAL YIELDS

Security	02/28/19	03/31/19	Change in Yield
2 Year	1.65	1.52	-0.13
5 Year	1.85	1.67	-0.18
10 Year	2.35	2.12	-0.23
20 Year	2.92	2.62	-0.30
30 Year	3.06	2.76	-0.30

Source: LPL Research, Bloomberg, FactSet 03/31/19

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

## ALTERNATIVE INVESTMENTS

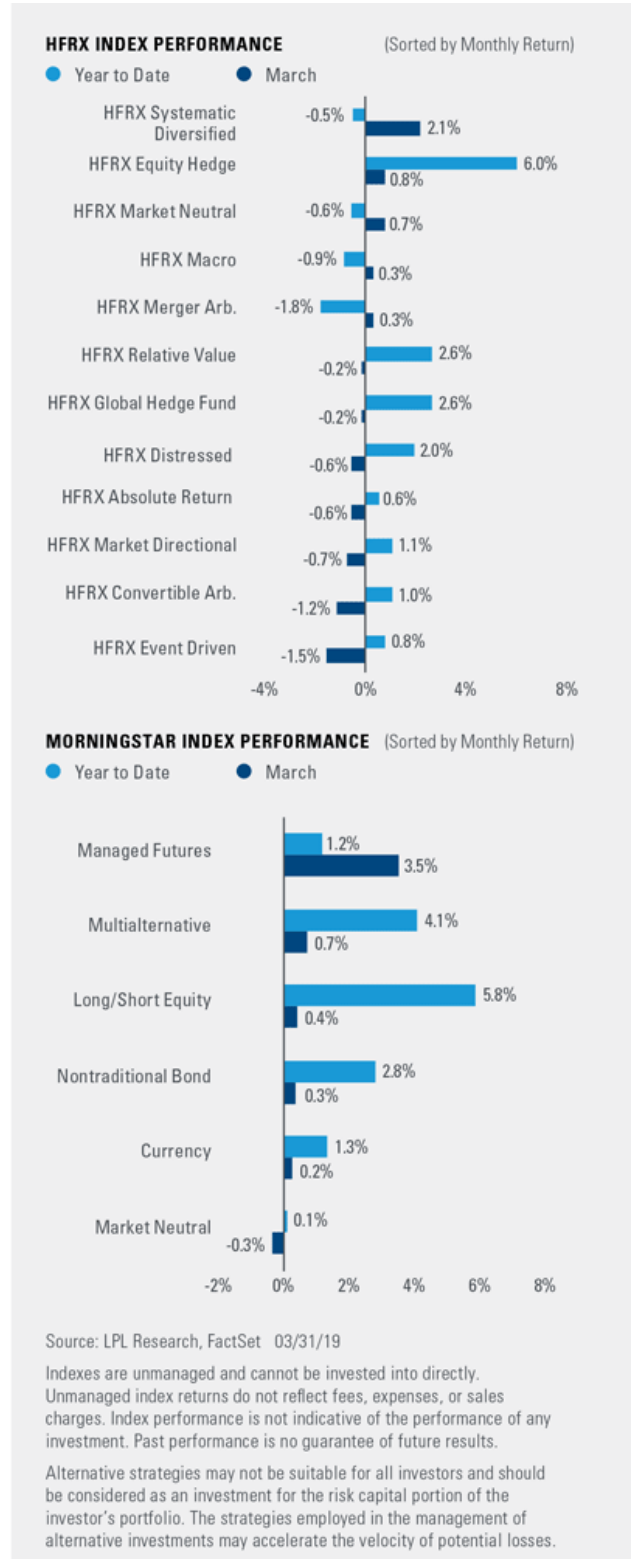
### MANAGED FUTURES REBOUND AND LONG/SHORT STRENGTH CONTINUES

Long/short equity strategies performed in line with their net market exposure, as the HFRX Equity Hedge Index gained 0.8%, which represents an upside capture ratio of just over 40%. The industry’s continued overweight to the information technology (4.8%) and consumer discretionary (4.1%) sectors supported monthly returns. For the quarter, the HFRX Equity Hedge Index gained 6.0%, its best period since the fourth quarter of 2010, and its best start in more than 20 years.

As measured by the 2.1% gain in the HFRX Macro: Systematic Diversified Index, managed futures also performed well, benefiting from trends in fixed income markets and select commodity contracts. Within fixed income, long exposure across U.S. Treasury notes and bonds, as well as the 10-year in the United Kingdom, Germany, Australia, and Japan contributed to gains, as yields continued to fall globally. Additionally, short exposure to corn and natural gas markets provided profits during the month.

The HFRX Merger Arbitrage Index gained 0.3%, rebounding from a difficult February; however, the index still remains negative on the year, down 1.8%. A large pharmaceutical deal has had significant impact on year-to-date performance, as several large shareholders and an activist hedge fund were initially opposed to the transaction. However, recent performance has been indicative of a more receptive endorsement of the acquisition, as the target firm saw a sharp rally in March ahead of the mid-April vote.

The HFRX Relative Value Index declined 0.2% during March. Many strategies within this index include underlying exposures to prepayment-sensitive mortgage-backed securities. This sector of the structured credit market has faced recent headwinds due to the continued decline in Treasury yields and the subsequent potential of home-loan refinancing.





## REAL ASSETS

### STRONG MONTH FOR REAL ESTATE AND MLPs

All liquid real asset categories we track rose in March except commodities. Real estate—both U.S. and international—and master limited partnerships (MLP) performed best and outpaced the broad domestic and international equity benchmarks. Commodities fell slightly on weakness in precious metals and agriculture.

#### Master Limited Partnerships

MLPs outperformed the broad equity market in March, as the Alerian MLP index returned 3.4%, bringing the asset class’s year-to-date total return to a stellar 16.8%. In addition to higher oil prices, the group benefited from lower interest rates, which make income-oriented equities relatively more attractive.

#### REITs and Global Infrastructure

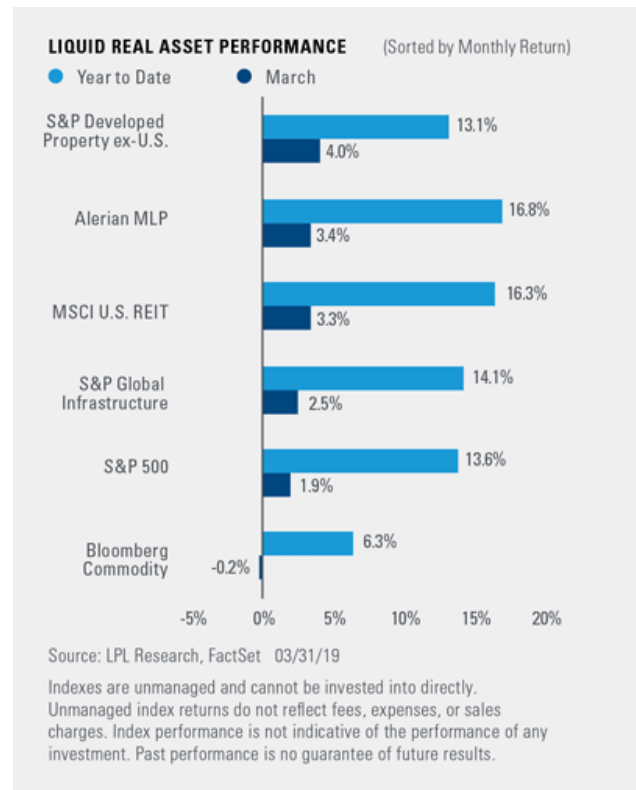
Domestic real estate investment trusts (REIT) produced solid returns in March, aided by falling interest rates. The MSCI U.S. REIT Index returned 3.3% in March and 16.3% year to date, putting it ahead of the S&P 500 and global equity indexes. As with MLPs, better performance from more defensive, interest-rate sensitive sectors provided a tailwind. Self-storage was the top performing sector for the month, benefiting from elevated transaction volume and solid revenue growth, while lodging/hotels lagged. International real estate, measured by the S&P Developed Property ex U.S. Index, fared better than U.S. real estate in March with a 4% return, even though international equities lagged U.S. equities broadly.

The S&P Global Infrastructure Index gained 2.5% during March. Performance within the utilities and energy sectors supported the index’s performance, while industrial-related names were the predominant laggards. Year to date, the S&P Global Infrastructure Index’s 14.1% return is ahead of both the S&P 500 and the global MSCI ACWI indexes.

#### Commodities

The Bloomberg Commodity Index slipped 0.2% in March, bringing its year-to-date advance to 6.3%. Crude oil rose 4.6% amid OPEC and Russian production cuts, including disruptions in Venezuela, and further optimism that the U.S.-China trade dispute was nearing resolution.

Industrial metals outperformed precious metals, reflecting economic optimism, while a strong U.S. dollar weighed on gold and silver prices. Agriculture commodity prices were weak overall, but lean hog prices surged on strong Chinese demand driven by swine flu-related shortages. Grain prices remain in downtrends but showed some early signs of stabilization in late March. Soft commodities were lower overall, but cotton and cocoa managed gains.





## **IMPORTANT DISCLOSURES**

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### **Stock and Pooled Investment Risks**

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. The prices of small and mid-cap stocks are generally more volatile than large cap stocks. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

### **Bond and Debt Security Risks**

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.



## INDEX DEFINITIONS

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

The Russell 1000 Index measures the performance of the large cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

The HFRX Equity Hedge Index is designed to be representative of the overall composition of the equity hedge segment of the hedge fund universe. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities.