

Monthly Market Commentary

Equity markets posted positive returns for the month of April after strong first quarter performance. Advance estimate for the first quarter GDP surprised to the upside at 3.21%, which compares to 2.97% in the fourth quarter of 2018. Most of this upside came from net exports, a build in inventories, and muted inflation depicted by the deflator. Economic data continues to be mixed with a healthy employment and service sector, while consumption and capital spending is weak. Optimism on a trade deal between the U.S and China has been one of the factors driving strong equity returns this year. Further, consensus expects the Chinese stimulus efforts to lead to a positive inflection in global growth. However, data suggests the effects of stimulus to be driving a rebound in consumption rather than its secondary industries, which historically has driven growth globally. Halfway through 1Q19, sales and earnings growth are currently tracking at 3.97% and 1.92%, respectively. This compares to sales and earnings in 4Q18 of 6% and 12.6%, respectively. We continue to remain of the opinion that earnings will slow further in 2019 as companies compare against stimulus induced earnings in 2018. Stocks are expensive when we consider that consensus estimates for 2019 S&P 500 earnings have fallen to 3% from 10% estimated last year. Further, stocks are trading at a high forward price to earnings ratio. As always, we will continue to monitor the markets and make adjustments when necessary.

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