

ECONOMIC & MARKET REVIEW

First Quarter 2019

Stocks had their best quarterly gains in nearly a decade following one of the worst fourth quarters ever. The S&P 500 posted a 13.65% increase in Q1, while small cap stocks surged 14.58%, followed by international developed market stocks with a gain of 9.98% and emerging market stocks up 9.91%. Showing just how perplexed investors became, bond prices also went up during the quarter with the U.S. Bloomberg Barclays index up 2.94%.

Q1 Investment Performance

First Quarter	
S&P 500	+13.65%
Russell 2000	+14.58%
Barclays Agg.	+2.94%
MSCI EAFE	+9.98%
MSCI EM	+9.91%



Last year ended on a cacophony of sour notes as global growth turned down, the U.K. exit from the European Union was stuck, China's economic growth slowed and the Federal Reserve had just raised rates for the ninth time in three years. The Q1 turnaround was sparked in part by the Fed's January

announcement that they would, for now, delay further rate hikes.

In addition, they laid out a plan to pause the runoff of securities from their balance sheet of nearly \$4 trillion – that's trillion with a "t." Markets correctly reasoned that a central bank policy on hold is more appropriate than the tightening policy that was threatening to derail the economic expansion and stoke recession fears. In hindsight, it's clear that the December rate hike was too much. The Fed has repeatedly said they are "data dependent". If so... just where did they see the inflation alarms? The fact is there were none, and the markets saw the December rate hike as a mistake. Raising rates when growth was tepid and inflation was stable, if not declining, was a head scratcher.

2019 Fed watch – what's next?

So what do I expect from the Fed this year? Not much. A rate hike is possible **IF** inflation were to move higher, but equally probable is a rate cut later in the year. Using Fed funds futures as a guide, the market thinks the Fed is done hiking rates for now and that a cut is more probable. Just last week a Federal Reserve member said the Fed should not raise rates until inflation hits 2.5%. Given that inflation hasn't hit 2.5% in the last 25 years, I doubt we're going to see that anytime in the near future.

As goes China, so goes the world economy

Equally important is economic growth in China. The Chinese have been stimulating their economy to offset slower growth. Much of the weakness is attributable to slower growth in Europe and softness in the domestic Chinese economy. Trade issues with the U.S. are also a headwind. If the Chinese economy responds to the stimulus and growth moves up, it will take a significant amount of pressure off concerns about

the possibility of a global recession. A resumption of growth in China would be good news for everyone.

That's why a trade deal, while not the only issue, would be a relief for global growth. It would also have positive implications for energy. It seems clear that a conclusion to the trade negotiations has been difficult. I have no idea what the deal will look like or if we are even going to be able to reach a deal. The issues we have with China are legitimate, important and complicated, which makes getting to "yes" for both sides more difficult. This could take time.

On the home front, the economic train rolls on

In the U.S., our economy continues to chug along. The most important piece of the story is employment. The 10-year recovery has been a job producing machine. I expect the employment growth rate to slow some; but if the economy grows from 2 to 2.5% this year, employment will remain solid. As I mentioned earlier, the Fed has moved to the sideline for now. There should be little friction from the central bank, but it always boils down to profits and rates. I have little reason to think intermediate and longer term rates will spike. But what about earnings? Expectations for 2019 earnings growth rates are in the 2-3% range – not huge, but remember we are coming off last year where we saw earnings grow at 10 times that rate with a 23% spike. It's not realistic to expect that kind of growth two years in a row. Inflation is not an issue, and consumer confidence, while off its previous highs, is still in good shape. Business confidence did take a hit at year-end but seems to be stabilizing given the Fed's return to logic and reason.

Across the pond, the struggle continues

Europe is struggling. Growth is nonexistent and political turmoil can be found everywhere. The BREXIT issue has proven difficult to solve. At this time there is no solution, so I can only guess as to what the implications might be. Once an agreement has passed, we can assess the impact on the U.K. and the rest of Europe.

U.S. recession chances are still slight

The chances for a recession in the U.S. are small. A more productive exercise is to consider how many more years the recovery will last, not how many months until the next recession begins. Growth should be steady, earnings are OK and inflation remains low. The Federal Reserve's preferred

inflation gauge is the core PCE (personal consumption expenditures). In January it stood at 1.8%, and will probably drop from that level at the next update. Bank loans are growing 5.8% year over year. It will be worth watching the movement of interest rates – if any – this spring and summer, as rates seem to be telling a different story than the equity market.



Jim Huntzinger
Chief Investment Officer
BOK Financial Corporation
April 1, 2019

Disclosures

The information provided in this was prepared by Jim Huntzinger, Chief Investment Officer of BOK Financial Corporation. The information provided herein is intended to be informative and not intended to be advice relative to any investment or portfolio offered through BOK Financial Corporation (NASDAQ:BOKF). The views expressed in this commentary reflect the opinion of the author based on data available as of the date this report was written and is subject to change without notice. This commentary is not a complete analysis of any sector, industry or security. Individual investors should consult with their financial advisor before implementing changes in their portfolio based on opinions expressed. The information provided in this commentary is not a solicitation for the investment management services of any BOKF subsidiary.

© BOK Financial. Services provided by BOKF, NA. Member FDIC. BOK Financial's banking subsidiary, BOKF, NA, is among the top 25 nationally chartered U.S.-based commercial banks based on assets as of June 30, 2018, according to the U.S. Federal Reserve.

BOK Financial Corporation (BOKF) offers wealth management and trust services through various affiliate companies and non-bank subsidiaries including advisory services offered by BOKF, NA and its subsidiaries BOK Financial Asset Management, Inc. and Cavanal Hill Investment Management, Inc., each an SEC registered investment adviser. BOKF offers additional investment services and products through its subsidiary, BOK Financial Securities, a broker/dealer, member FINRA/SIPC, and an SEC registered investment adviser and The Milestone Group, also an SEC registered investment adviser.

Investments are not insured by the FDIC and are not guaranteed by BOKF, NA or any of its affiliates. Investments are subject to risks, including the possible loss of the principal amount invested.

All data presented is as of last quarter, unless otherwise noted.

This report may not be reproduced, redistributed, retransmitted or disclosed, or referred to in any publication, in whole or in part, or in any form or manner, without the express written consent of BOKF. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report.