GuideStone Capital Management

Monthly Market Perspective

GuideStoneFunds.com

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Equities

- **U.S. equity markets continued to rally in February, with the S&P 500® gaining 3.21%.** Markets were driven higher this month on sustained optimism about a pause in the Fed rate hike cycle and progress in the ongoing U.S./China trade saga.
- According to Goldman Sachs, strong gains in the S&P 500® to start a year – much like we've seen over the first two months of 2019 – historically indicate further strength on the horizon. While markets this year have so far been defined by a clear risk-on sentiment, **weaker corporate earnings and slowing U.S. and global economic growth could negatively impact financial markets as the year progresses.** Despite the feel-good nature of the current market environment, most, if not all, of the good news has likely been priced in. As such, **we believe the likelihood of another correction has increased.**
- **Both Developed Market and Emerging Market equities were positive in February** as the U.S. dollar weakened and the U.S. and China inched closer to a trade deal.
- As a result of substantial progress in trade negotiations with China, **President Trump postponed a scheduled increase of U.S. tariffs on $200 billion worth of Chinese goods.** Stocks responded positively to the news, as expectations are high that the two nations will soon reach a comprehensive trade agreement.

Fixed Income

- **U.S. 10-year Treasury yields increased in February,** finishing the month at 2.73%. Yields rose less than expected, however, given the higher risk appetite seen in the stock market, and the yield curve failed to steepen materially. This is a trend that bears watching, especially if economic growth weakens.
- **U.S. Investment Grade bonds were slightly negative in February, while High Yield bonds were positive** as spreads continued to narrow.

Macroeconomic

- **Job growth was significantly above expectations in January** as 304k jobs were added, marking 100 consecutive months of job gains. The unemployment rate rose slightly to 4.0%, and the labor force participation rate jumped to its highest level since 2013. Wage growth remained at 3.2% year-over-year, the highest level of the recovery but still below the peak seen during prior expansions.
- No Fed meeting occurred in February, but Fed chairman Powell testified before Congress at the end of the month. During this semiannual monetary policy report, Powell stated that **slowing global growth, muted inflationary pressures and a Fed Funds rate "in the range of neutral" lend support to the Fed's patient, data-dependent approach** to future interest rate adjustments.
- Additionally, Powell indicated in his testimony that **the Fed would soon put forth a plan to formally end the runoff of its balance sheet (i.e., quantitative tightening).** The stoppage is expected to occur sometime later this year, which is a couple of years ahead of the Fed's original anticipated schedule. Markets responded positively to this news.
- Amid weaker consumer spending and a slowdown in the housing market, **U.S. real GDP decelerated in the fourth quarter, falling to an annualized rate of 2.6%** – down from 3.5% in the third quarter. With growing uncertainty – driven in part by slowing global growth and the waning effects of the Trump tax cuts – most forecasts project growth to continue softening in 2019. In addition, **corporate earnings growth estimates have fallen** to 4.5% for 2019, compared to a 20% gain in 2018.

Real Assets

- **WTI crude oil futures rose in February, closing the month at approximately $57/bbl.** Oil prices were driven up in large part by optimism about a potential U.S./China trade deal, while ongoing supply cuts from OPEC and its allies ("OPEC+") also helped.

Equities

Market Performance (%)	Level	1 Mth	YTD	3 Yr
S&P 500®	2,784	3.21	11.48	15.28
Russell 1000® Value	1,211	3.20	11.23	12.80
Russell 1000® Growth	1,481	3.58	12.89	17.99
Russell 2000®	1,576	5.20	17.03	16.67
DJIA	25,916	4.03	11.62	19.04
MSCI EAFE	5,746	2.55	9.29	9.32
MSCI EM	486	0.22	9.00	15.04

Fixed Income

Market Performance (%)	Yield	1 Mth	YTD	3 Yr
U.S. Aggregate	3.21	-0.06	1.00	1.69
U.S. IG Corporates	3.91	0.22	2.57	3.73
U.S. HY Corporates	6.54	1.66	6.26	9.81
Global Aggregate	1.96	-0.58	0.94	1.97
U.S. 90-Day Treasury	2.44			
U.S. 2 Yr. Treasury	2.52			
U.S. 10 Yr. Treasury	2.72			

Currencies

Exchange Rates	Latest	12/31/18	9/28/18	6/29/18
€ (Euro) per $	1.14	1.15	1.16	1.17
£ (Pound) per $	1.33	1.28	1.30	1.32
$ per ¥ (Yen)	111.39	109.69	113.70	110.76

Interesting Facts

- **Are exploding shoes actually a thing?** Nike made headlines this month when a pair of their shoes came apart during a college basketball game. Unfortunately for Nike, this was a very high-profile product malfunction, as the game – Duke vs. North Carolina – was hyped as the must-watch game of the season, and the player – Zion Williamson – is the nation's best college basketball player. Nike called this an isolated incident, but multiple brands have had shoe explosions in recent years, affecting both college and professional basketball players. In fact, a pair of Adidas shoes experienced a similar explosion just a few days after the Nike incident.

See next page for important disclosures

Disclosures

Source: Bloomberg, Payden and Rygel

Performance greater than one year is annualized.

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Dow – Dow Jones Industrial Average is a price-weighted average of 30 significant U.S. stocks.

S&P 500® Index is an unmanaged index (with no defined investment objective) of common stocks, includes reinvestment of dividends and is a registered trademark of McGraw-Hill Co., Inc. The S&P 500® Index includes 500 of the largest stocks (in terms of market value) in the United States.

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U.S. Aggregate – Bloomberg Barclays Aggregate Bond Index represents securities that are registered with the Securities and Exchange Commission ("SEC"), taxable and dollar denominated. The index covers the U.S. investment grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

U.S. Government – Bloomberg Barclays US Government Index includes U.S. Treasury and U.S. government agency securities with remaining maturities of one year or more.

U.S. IG Corporate – Bloomberg Barclays U.S. Corporate Bond Index (Investment Grade) consists of publicly issued U.S. corporate and specified foreign debentures that are registered with the SEC and meet specific maturity, liquidity and quality requirements.

U.S. High Yield – Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index is an issuer-constrained version of the Bloomberg Barclays U.S. Corporate High Yield Index that measures the market of U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bonds. The index follows the same rules as the uncapped index but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index-wide on a pro rata basis.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

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

Global Aggregate – Bloomberg Barclays Global Aggregate Bond Index Unhedged is a broad-based measure of the global investment-grade fixed rate debt markets.