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SHENKMAN

Beyond Expectations

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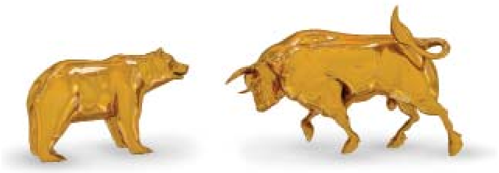
The most unloved bull market in decades continued to roar in April. With most major indices grinding upwards last month, the equity markets recorded their best initial start to a year since 1987. By the end of 2018, many investors feared that the Fed's march toward higher rates would eventually lead to a slowdown and an earnings recession in 2019. However, once the new year rolled in, investor sentiment quickly shifted with the Fed's pivotal pronouncement of a neutral rate policy for 2019. The markets have been propelled by the 3% factor -- 3.2% GDP, 3.6% unemployment, 3.2% real wage growth, and 3.6% productivity gains -- resulting in a rocket-lit rally, particularly in risk assets. At the same time, with tepid inflation, stable interest rates, and strong demand for higher yield, the credit markets have also flourished as the fires of inflation have stubbornly remained below 2%. Few pundits had forecast that the U.S. economy would have gained such momentum in the first quarter, but by most measurements, the economic data has been beyond expectations.



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