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CONY Flash Macro Note **April 26, 2019**

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Flash Macro Update (04/26/2019)

Another positive surprise came from the GDP front in the US today, while earning season continues. According to the data, US economy grew by 3.2% in the first quarter of 2019 compared to expectations of 2.0% after growing by 2.9% overall in 2018. Please note that GDP growth in 2017 was 2.2%. In fact, the recent high frequency data already hinted that first quarter GDP growth could beat expectations and it did.

When we look at the details of the data, we observe mixed signals though. In other words, not all components contributed positively to the first quarter GDP growth in 1Q19. Personal consumption expenditures, net exports, inventories, business investment and intellectual property contributed positively to overall GDP in the first quarter, whereas durables contracted by more than 5% in 1Q19 and home investments also shrank. It is worth highlighting that the 1Q19 data will be revised in the coming period. In other words, it is not the final data yet.

Consumer spending was up by 1.2%; durables were down by 5.3%. More importantly, business investments, which could be seen as footsteps of further growth in future, were up by 2.7% in 1Q19. But it is worth highlighting that sizeable inventory build-up in 1Q19 could mean that the first quarter 'stole' growth from the second quarter.

Most interesting part of the data was the US PCE and core PCI price indices that tell us whether growth was inflationary or not. In 1Q19, US PCE price index posted an increase of 1.4% y-o-y that was 1.9% y-o-y in the previous quarter. Moreover, core PCE recorded a y-o-y increase of 1.7% in 1Q19 compared to 1.9% in 4Q18. The price reading indicates that US economy continued to grow by around 3% without creating inflation despite trade talks, China related concerns, Brexit fears in 1Q19.

On the FED front, we think that the first quarter GDP data should not be a serious game changer. FED already employed a 'wait and see' approach in its monetary policy while maintaining its balance sheet contraction that will end at the beginning of 4Q19. Growing without serious inflationary pressure is positive for all US asset classes including equities, fixed income and USD, in our view.

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