# AUGUST 2019 RECAP

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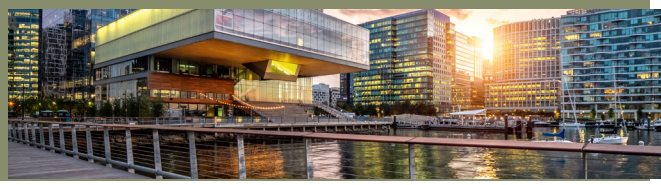


Equity markets declined in August as the S&P 500 dropped by -1.6%. Despite the monthly decline, the market is still up +18.3% in 2019. Volatility increased during the month as 11 of 22 trading days saw the S&P 500 close +/- 1%. To put this in context, the S&P 500 closed +/- 1% only 8 times in all of 2017.

The two competing forces driving markets, the US/China Trade War and Federal Reserve policy, dominated the headlines again in August. The events of the month can best be summarized in a timeline:

| US Equity Markets | | | | | |
|---|---|---|---|---|---|
| **Index** | **August** | **YTD** | **1YR** | **3YR** | **5YR** |
| S&P 500 | -1.58% | 18.34% | 2.92% | 12.69% | 10.10% |
| Russell 3000 | -2.04% | 18.02% | 1.30% | 12.23% | 9.58% |
| Dow Jones Industrial Average | -1.32% | 15.14% | 4.12% | 15.49% | 11.75% |
| Nasdaq | -2.46% | 20.90% | -0.69% | 16.49% | 13.05% |
| S&P 400 | -4.19% | 14.35% | -6.45% | 8.04% | 7.21% |
| Russell 2000 | -4.94% | 11.83% | -12.92% | 7.86% | 6.39% |
| | | | | | |
| **International Equity Markets** | | | | | |
| **MSCI Index** | **August** | **YTD** | **1YR** | **3YR** | **5YR** |
| EAFE | -2.59% | 9.66% | -3.26% | 5.91% | 1.89% |
| Europe | -2.31% | 10.93% | -5.15% | 6.50% | 1.74% |
| Japan | -1.01% | 6.81% | -5.61% | 5.38% | 4.62% |
| China | -4.10% | 7.73% | -5.41% | 9.00% | 4.88% |
| Emerging Markets | -4.88% | 3.90% | -4.36% | 5.76% | 0.38% |
| ACWI ex US | -3.09% | 8.76% | -3.27% | 5.87% | 1.37% |
| | | | | | |
| **Fixed Income Markets** | | | | | |
| **Bloomberg Barclays US Bond Index** | **August** | **YTD** | **1YR** | **3YR** | **5YR** |
| Bloomberg Barclays US Agg | 2.59% | 9.10% | 10.17% | 3.09% | 3.35% |
| Corporates | 3.14% | 13.94% | 13.33% | 4.64% | 4.55% |
| High Yield | 0.40% | 11.00% | 6.56% | 6.17% | 4.85% |
| Munis | 1.58% | 7.61% | 8.72% | 3.30% | 3.84% |

**7/31**

The FOMC cut the federal funds range by 0.25% to 2.00% - 2.25%. The Fed statement maintained that the committee "will act as appropriate to sustain the expansion."

**8/1**

President Trump announced on Twitter that the US will place 10% tariffs on the remaining ~$270B worth of Chinese imports beginning on September 1st.

**8/4**

China devalued their currency (yuan) past the psychologically important 7.0 per dollar level. Letting the yuan weaken past 7.0 suggests China is preparing for a prolonged trade fight.

**8/13**

The Trump Administration announces that some of the 10% tariffs set to go into effect on 9/1 will be delayed until 12/15. Upcoming tariff schedule; 9/1: 10% on $110B worth of imports and 12/15: 10% tariffs on $160B worth of imports.

**8/23**

China announces retaliatory tariffs on $75 billion worth of US good beginning on 9/1 and 12/15.

In a speech at the Jackson Hole Symposium on Monetary Policy, Chairman Powell stated that "fitting trade policy uncertainty" into the Fed's framework is a new challenge and there are "no recent precedents to guide any policy response to the current situation."

President Trump tweets, "As usual, the Fed did NOTHING! My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?"

President Trump raises tariffs again by tweeting, "Starting on October 1st, the 250 BILLION DOLLARS of goods and products from China, currently being taxed at 25%, will be taxed at 30%. Additionally, the remaining 300 BILLION DOLLARS of goods and products from China, that was being taxed from September 1st at 10%, will now be taxed at 15%."

**8/29**

Chinese Ministry of Commerce Spokesman Gao Feng indicates that China will not immediately retaliate against the latest tariff increase.

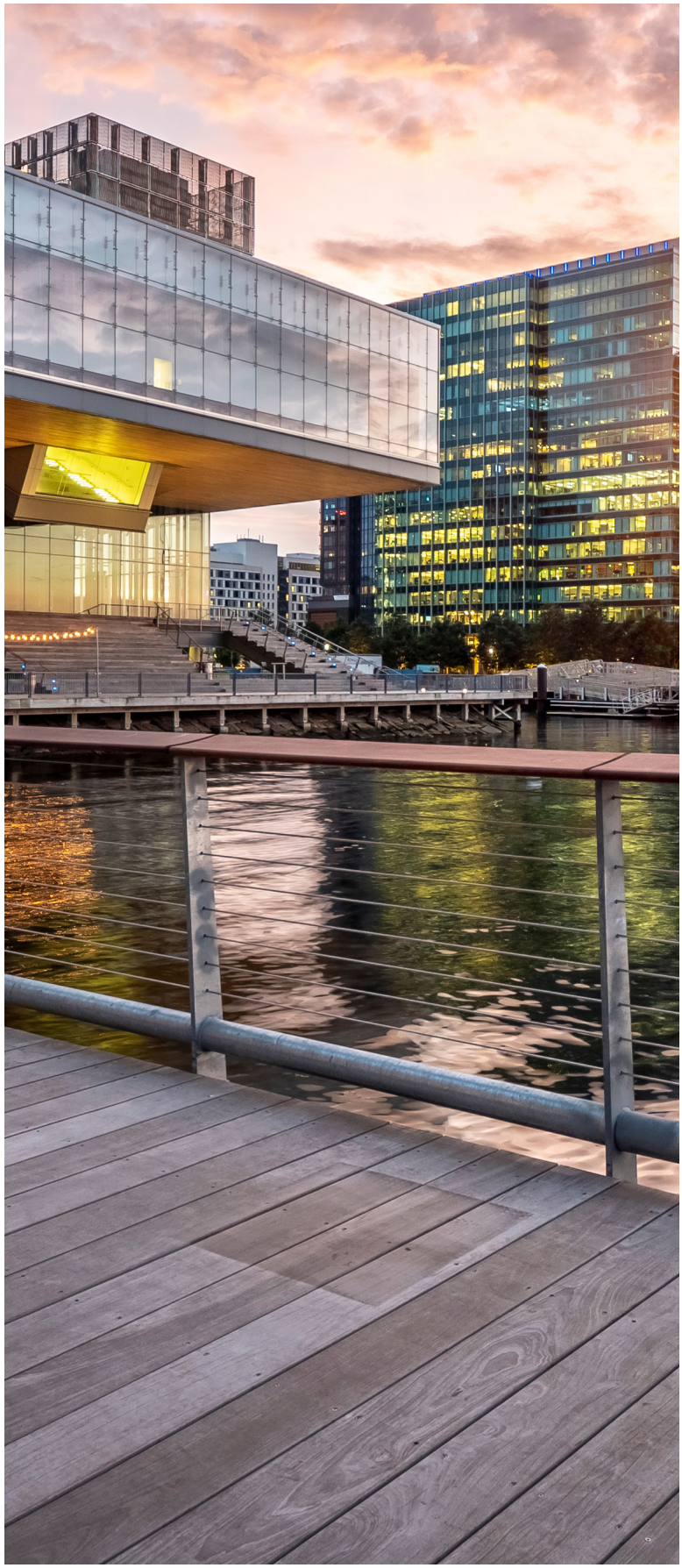
**9/1**

The US and China both implemented the next round of tariffs as scheduled.

To sum up the events of August, the ongoing trade war with China and resulting economic weakness has forced the Fed to lower interest rates to guard against a material slowdown in the United States. The longer that tariffs remain in place and the more President Trump threatens or implements new tariffs, the more likely the Fed will lower interest rates in response. If the US and China trade talks did not fall apart in May and the two sides reached an agreement as most investors expected at that time, we highly doubt the Fed would have lowered rates in July or would be getting ready to cut again at the September 18th meeting. President Trump has been critical of the Fed and Chairman Powell by calling for quicker and deeper rate cuts. Our take is that President Trump is creating a readymade scapegoat in case the economy enters a recession before next year's election. While it is not unheard of for a sitting president to criticize the Fed or its Chairman, Trump has taken the practice to a new public level through his incessant tweets.

Our view is that the Trump Administration is simultaneously hitting the gas and brake on the stock market and the economy. The gas is lower individual and corporate tax rates, deregulation, high government spending, and low interest rates, which are supporting a strong labor market and consumer. The brake is the trade war and tariffs, which are leading to manufacturing sector weakness and business uncertainty.

We would expect President Trump to take his foot off the brake before November 2020 as a recession would not help his re-election chances. Our outlook moving forward remains balanced, but we will turn more cautious if the trade war keeps escalating. In the current environment, tariffs can change on a tweet so maintaining flexibility is critically important. We will continue to incorporate new market developments with long-term asset allocation targets as part of our overall investment process.



**DISCLOSURES:**
The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt

The 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 US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures a large and mid cap representation across 22 or 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries. With 2,211 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs. With 495 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 5% of their free float adjusted market capitalization.

Investing involves risk including loss of principal. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.