# JULY 2019 RECAP

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Equity markets moved higher again in July as the S&P 500 increased by +1.4% and is now up 20.2% for 2019. The S&P is off to its best calendar year start since 1998 and six out of seven months have produced positive results. The market reached a new all-time high on July 26th when the S&P hit 3,028.

Equity markets increased over the past several weeks in anticipation that Fed rate cuts would provide a boost to asset prices (see below for Fed recap). The ongoing trade war with China and resulting global economic weakness has forced the Fed to lower interest rates to guard against a material slowdown in the United States. Fed Chairman Powell is fond of saying "an ounce of prevention is worth a pound of cure." 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. On August 1st, President Trump threatened to place 10% tariffs on the remaining $300 billion worth of Chinese goods beginning on September 1st. Negotiations are expected to continue in August and the two sides will meet again in person in September. While it is somewhat positive that trade talks will continue and the new tariffs are only threatened (Trump has threatened tariffs and then rescinded before), it seems unlikely an agreement will happen soon. To put the current environment in perspective, the S&P 500 price reflects the optimistic view that lower interest rates will offset the economic damage caused by the trade war.

| US Equity Markets | | | | | |
|---|---|---|---|---|---|
| **Index** | **July** | **YTD** | **1YR** | **3YR** | **5YR** |
| S&P 500 | 1.44% | 20.24% | 7.98% | 13.35% | 11.32% |
| Russell 3000 | 1.49% | 20.48% | 7.04% | 13.10% | 10.94% |
| Dow Jones Industrial Average | 1.12% | 16.69% | 8.22% | 16.10% | 12.85% |
| Nasdaq | 2.16% | 23.95% | 7.77% | 17.92% | 14.73% |
| S&P 400 | 1.18% | 19.36% | 0.77% | 9.78% | 9.21% |
| Russell 2000 | 0.57% | 17.64% | -4.45% | 10.34% | 8.51% |
| | | | | | |
| **International Equity Markets** | | | | | |
| **MSCI Index** | **July** | **YTD** | **1YR** | **3YR** | **5YR** |
| EAFE | -1.27% | 12.58% | -2.60% | 6.87% | 2.39% |
| Europe | -2.09% | 13.54% | -6.02% | 7.67% | 2.22% |
| Japan | 0.14% | 7.90% | -4.44% | 5.87% | 4.38% |
| China | -0.34% | 12.33% | -5.09% | 13.16% | 5.81% |
| Emerging Markets | -1.22% | 9.23% | -2.18% | 8.42% | 1.84% |
| ACWI ex US | -1.21% | 12.22% | -2.27% | 7.20% | 2.12% |
| | | | | | |
| **Fixed Income Markets** | | | | | |
| **Bloomberg Barclays US Bond Index** | **July** | **YTD** | **1YR** | **3YR** | **5YR** |
| Bloomberg Barclays US Agg | 0.22% | 6.35% | 8.08% | 2.17% | 3.04% |
| Corporates | 0.56% | 10.47% | 10.42% | 3.64% | 4.21% |
| High Yield | 0.56% | 10.56% | 6.92% | 6.77% | 5.09% |
| Munis | 0.81% | 5.94% | 7.31% | 2.80% | 3.77% |

SOURCE: Bloomberg (2019)

**Our equity market outlook has not changed much from last month.** We still have a balanced viewpoint and would become more optimistic if the US and China agree to a trade deal where all tariffs are removed, the Fed remains accommodative, and/or economic and corporate earnings growth start to accelerate. We would turn more cautious if trade talks breakdown. 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.

## Q2 2019 GDP

The United States economy continued at a decent pace as Q2 GDP increased by a +2.1% seasonally adjusted annual rate- better than the expected +1.8% consensus estimate. The economy slowed from +3.1% in the first quarter, however, most of the deceleration was driven by anticipated declines in inventories and exports. Both components surged in the first quarter as companies raced to get ahead of tariff increases and then reversed in the second quarter.
Consumer spending drove most of the second quarter growth. Consumer spending, which accounts for close to 70% of GDP, increased by +4.3%- up from +1.1% in Q1 and the best reading since 2017. The consumer is supported by a strong labor market and low unemployment.

The Gross Domestic Product (GDP) report is released by the Commerce Department's Bureau of Economic Analysis (BEA). The BEA defines GDP as the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment. The BEA releases three estimates for each quarter's GDP – the first estimate occurs about a month after the quarter ends.

## FOMC Cuts Rates

At the July 31st meeting, the Federal Open Market Committee (FOMC) cut the federal funds rate to 2.00% to 2.25%- this was the first rate cut since December 2008. The rate cut was widely expected and well telegraphed. Fed Chairman Powell cited three reasons for the cut: slowing global growth, trade policy uncertainty, and muted inflation. The statement still contained the phrase the Fed "will act as appropriate to sustain the expansion." Given the rate cut, the Fed also decided to end their balance sheet runoff in August rather than September. The size of the Fed's balance sheet is currently about $3.8 trillion and it will likely stay at these levels for the foreseeable future.

There is some confusion among investors regarding future rate cuts. In the press conference, Chairman Powell described the cut as a "mid-cycle policy adjustment" and he deliberately tried to be noncommittal regarding future rate moves. Powell said, "this is not the beginning of a long rate cutting cycle" and when asked for clarification he stated, "I didn't say it's just one cut." The takeaway is the Fed is trying to remain flexible. We expect future rate cuts will be dependent on the outcome of the US and China trade negotiations and incoming economic data.

## 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.

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