FINANCIAL MARKET SNAPSHOT

China, Brexit, & Economy

September 3, 2019

Threats of additional trade tariffs exacerbated the worry over the state of the global economy.

Meanwhile, investors noted the impact of falling rates on global investment condition and drew a bit cautious as a result.

Central bankers telegraphed that more accommodation may be on the way.

U.S./China trade concerns were the key contributor to the negative global equity performance in August. Risky asset indices were generally flat-to-weaker as investors took some risk off the table for the month. Meanwhile, U.S. Treasuries gained, leading the Bloomberg Barclays U.S. Aggregate Bond Index higher in a "flight-to-quality" trade. Downward pressure on developed sovereign rates across much of the globe helped maintain a bid for the higher-yielding Treasury. Investors continued to price in the likelihood for more monetary policy action from leading central bankers. At the annual Jackson Hole Economic Symposium, Federal Reserve Chairman Jerome Powell indicated his central bank would act as appropriate to sustain the expansion. Fed funds futures markets are currently implying rate cuts in the last three FOMC meetings this year (Sept., Oct., and Dec.). Trade tensions and additional signs of weakness (PMI Composites being one) in many economies likely increase the odds of further policy action from the Fed and others.

Table 1: Notable Returns / Yields / Spreads: May — August 2019

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month
High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

	May '19	Jun '19	Jul '19	Aug '19
S&P 500 Index	-6.35%	7.05%	1.44%	-1.58%
MSCI EAFE Index	-4.68%	5.97%	-1.25%	-2.56%
MSCI Emerging Markets Index	-7.23%	6.28%	-1.15%	-4.85%
BBG Barc U.S. Aggregate Bond Index	1.78%	1.26%	0.22%	2.59%
10-Year Treasury Yield	2.13%	2.01%	2.02%	1.50%
U.S. HY Corp Spread (10Yr)	4.45%	3.86%	3.84%	4.22%

Elsewhere, investors also paused a bit on hard-line developments emanating from the U.K., where Prime Minister Boris Johnson seems set on executing a "hard Brexit", if necessary, to separate from the European Union by October 31. While there are political hurdles yet to cross for this to happen, talk of a hard-Brexit, and the uncertainty it would likely uncover, left investors a bit disjointed.

Finally, and no less important, is the state of the global economy, which continues to deteriorate according to high-frequency data. The U.S. remains in the best order economically, but even domestic economic indicators are unveiling a slowing economic progression. What is

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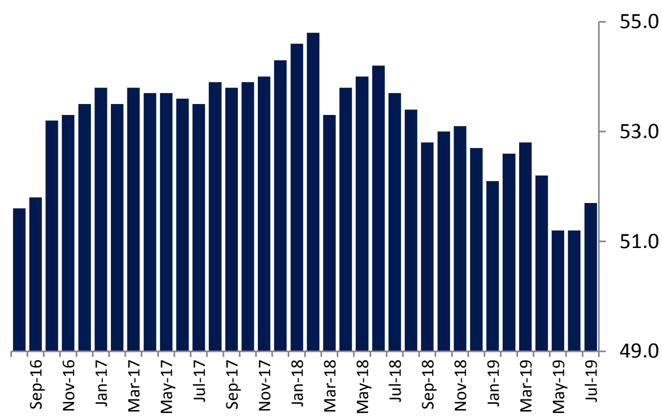
supporting the U.S. economy of late is strong employment and a robust consumer. Elsewhere, U.S. business decision-makers are apparently pausing, due to the global uncertainties we have mentioned. In Europe and Japan, the economic slowing is more pronounced.

Our investment positioning has remained relatively steady as we have been operating with muted expectations for second-half 2019 returns. We have been suggesting modest equity risk across the board and have thus held on to a bit more cash in reserve to buffer against some of the recent developments. Intermediate-term equity trends remain positive, but the bullish trajectory has again begun to fade. Fundamentally, we are anticipating further support from global central banks, which may yet offer another boost of assistance for risky asset prices. We believe the Federal Reserve and the European Central Bank will initiate accommodative policy actions as we move through the second half of the year. In all, friendly monetary policy, accompanying with some uneasy macro signs leaves us cautiously optimistic but aware that further cash buffering levers could be pulled if policy fails to right the ship.

PMI numbers below 50 indicate economic contraction; above 50 equals expansion

Figure 1: JP Morgan Global Composite PMI

Source: JP Morgan, Markit



Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

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The S&P 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 the major sectors of the U.S. economy.

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.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

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