FINANCIAL MARKET SNAPSHOT

Waiting on Policy, Earnings

August 6, 2019

Global equity market gains were mixed in July as investors stepped back to wait on policy follow-through.

Further economic weakness and China trade concerns proved to be the two primary worries that prevailed through the month.

Global financial markets paused just a bit in July as investors took some time to recalibrate expectations following notable gains in June. Global equities were mixed, with U.S. markets again leading the world. Economic concerns in the developed world continued, and investors began paying some more attention to weakening data in the U.S. as well. Non-domestic equity markets were also hurt by some profit-taking that followed June's rally, and indications the U.K.'s separation from the European Union could be more abrupt under new Prime Minister Boris Johnson. U.S. market participants, on the other hand, looked to monetary policy expectations and some good China trade deal news as catalysts for modest equity gains. U.S. markets were also buoyed by Q2 company earnings reports that were a bit better than previously-lowered expectations. To-date and with approximately 70% of S&P 500 companies having reported, it appears U.S. corporations could deliver low-single-digit earnings growth for the second quarter.

Table 1: Notable Returns / Yields / Spreads - April—July 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)

	Apr '19	May '19	Jun '19	Jul '19
S&P 500 Index	4.05%	-6.35%	7.05%	1.44%
MSCI EAFE Index	2.89%	-4.68%	5.97%	-1.25%
MSCI Emerging Markets Index	2.12%	-7.23%	6.28%	-1.15%
BBG Barc U.S. Aggregate Bond Index	0.26%	1.78%	1.26%	0.22%
10-Year Treasury Yield	2.50%	2.13%	2.01%	2.02%
U.S. HY Corp Spread (10Yr)	3.62%	4.45%	3.86%	3.84%

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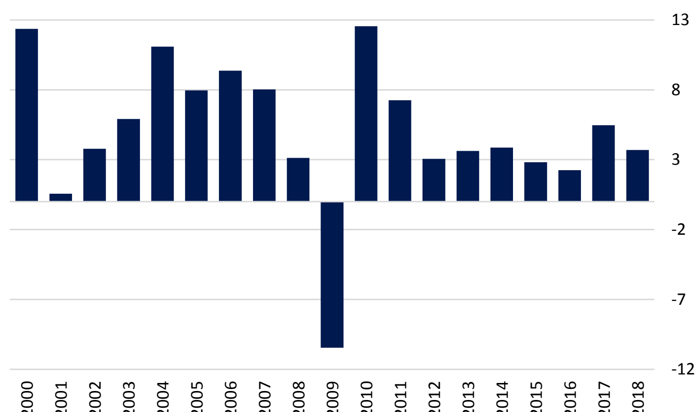
On the last day of July, investors got what they had been pricing in for the past few months; a Federal Reserve rate cut. The Fed lowered its funds rate by 25 basis points; a move that most investors had expected. However, the action disappointed some who perhaps had a misplaced view the Fed was poised to move by 50 basis points. Further, policymakers hinted that the 25 basis point cut was likely not the beginning of a new easing cycle. This caused some consternation as well. In our view, the Fed could continue to ease if it believes the U.S./China trade negotiations pose a continued or greater threat to the economy. Overall, we believe a bias toward accommodative policy from the Federal Reserve, the European

Central Bank, and other major central banks could provide some offset should trade concerns become prolonged.

Tactically, our investment models have been holding steady with modest amounts of excess cash on hand. The cash position is driven by equity price trends that are positive over the intermediate –term, but have proven to be a bit choppy of late. While overall equity trends leave us optimistic regarding the possibility of further equity returns, we believe the excess cash serves as a slight buffer should price trends or fundamentals deteriorate. We are already cautious over the recent weakness in the many economic data points we watch, and we are cognizant that trade and other economic risks pose a threat to our modestly bullish view. As such, we stand tactically prepared to shift portfolio positioning if central banks are unable to offset some of the trade risk and engineer a soft economic landing (our base-case).

While "trade war" continues to serve as two primary buzzwords, data seems to show that trade activity, while weaker than in recent years, still grows at modest rates.

Figure 1: IMF World Trade Volume of Goods & Services - YoY % Chg.
Source: International Monetary Fund



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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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.

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