DeMarche Dashboard

Data and Commentary for Periods Ended 5/31/2019

Global Overview

- **Markets** – Equity markets were hit hard in May as several headwinds negatively impacted major economies across the globe. A sharp increase in trade tensions between the U.S. and China erased investors' optimism earlier this spring that a deal was a forgone conclusion. Both countries levied new tariffs and raised existing ones. Bond investors were rewarded, as treasury yields (and their comparable global counterparts) fell sharply due to increased uncertainty regarding trade and future growth.

- **Developed Markets** – Both U.S. and developed non-U.S. stock markets had their worst months of the year in the wake of the deepening trade conflict. Energy stocks were hit hard globally as oil entered into a bear market due to a supply glut and the expectations of slowing GDP. Sovereign yields fell throughout the developed markets with Japan and Germany posting a negative 10-year yield at times during May. Falling sovereign yields were positive for bond investors, particularly on the long end of the curve. Developed non-U.S. REITs trailed U.S. REITs, though both remain among the best performing sectors of year-to-date.

- **Emerging Markets** – Emerging market equities fell in parallel with broader equity markets. The impact of trade tensions were felt strongly by the Chinese market, with the MSCI China Index positing a negative return of 13.1% for the month. Export economies such as Taiwan, Thailand, and Korea were all negative as a result of the weakening free trade conditions. Emerging market debt performed positively in the month.

U.S. Economy and Markets

- After reaching an all-time high on April 30th, the S&P 500 Index went on to close the month down 6.4%. The decline was largely attributable to the worsening trade tensions with China. Despite the large drop in May, the S&P 500 Index still sits above 10.7% year-to-date.
  - Ten out of eleven S&P sectors were negative in the month. Energy (-11.1%), information technology (-8.7%), and materials (-8.2%) were hit the hardest as a result of a sharp drop in oil prices, intellectual property disputes with China, and an increase in tariffs. The only sector somewhat insulated from trade concerns was the real estate (+1.2%), which is the best performing S&P 500 sector of 2019, up 18.3% year-to-date.
- Small cap stocks fared even worse than large caps during the May sell-off, as the Russell 2000 Index finished down 7.8%. Small growth stocks lost 7.4% and small value stocks lost 8.2%.
  - No sector provided positive returns as energy (-15.6%), telecomm/communication services (-15.7%), materials (-12.8%), and information technology (-10.9%) were the poorest performers.
- Bond investors experienced a strong month in terms of returns, as the Bloomberg Barclays Aggregate Index was up 1.8% due to a sharp drop in treasury yields. Yields were in a free-fall during May due to the same trade concerns agitating equity markets, as long yields fell substantially with the 10-year U.S. Treasury yield declined to 2.14% from 2.51% at the end of April. The yield curve (3-month to 10-year) inverted for the final six trading days of the month and the gap in yields stretched as low as -12 basis points, the widest inversion since pre-financial crisis. A sustained yield curve inversion has long been thought of as predictor of a looming recession in the next 12-18 months. Credit spreads, defined as the difference between credit securities and treasury securities of the same maturity, widened in May to reflect the increase in uncertainty surrounding U.S. capital markets, particularly in high yield issues. High yield bonds posted their first negative monthly return of 2019.

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- The U.S. economy added just 75,000 jobs in May, well below consensus expectations of 180,000. The strong jobs reports in both March and April were both revised downward for a total reduction of 75,000 jobs. While the drop in job creation may have been coincidental with the increase in market volatility, the reading does not paint a better picture for the U.S. economy from an economic standpoint. The chances of two or more rate cuts in the remainder of the year have risen sharply, as the Fed may take action to simulate growth in the U.S. economy as early as the June or July meetings in reaction to the increase in trade tensions. Conversely, some think Fed officials may be waiting for a more tangible confirmation that growth is slowing before enacting any monetary policy decisions. The purchasing managers index (PMI), a measure of prevailing economic trends in the manufacturing sector, is dangerously close to being in contraction territory (< 50.0) as the reading dropped from 52.6 in April to 50.5 in May. The strength of the labor market, strong corporate earnings, and a happy consumer have been regarded among the fundamental reasons behind market strength in the last number of years. These factors will be tested as we enter unchartered territory with the escalation of trade disputes with both China and Mexico.

- Oil prices dropped precipitously towards the end of May as the result of global inventory levels being higher than expected. U.S. crude oil production continued to hover near record-high levels, despite recent heavy rains and flooding in the Midwest and Great Plains leading to a number of refiners pulling back production plans. A sharp decline in U.S. equities and concerns with exports contributed to the volatility of the U.S. dollar during the month of May, which led to many investors moving into gold as a safe-haven investment. Gold, which subsequently increased in price as a result of the flight to safety, is seen by many investors as a store of value and its price has historically been negatively correlated to the performance of the US dollar.

International Markets

- The MSCI EAFE Index (USD), an index of the 21 developed market large and mid cap companies, finished the month down 4.8% amid uncertainty surrounding trade tensions that may have both direct and residual impacts on global growth prospects. Australia was the sole positive returner in the month, while all of the major constituents of the Index produced negative returns for investors including the UK (-6.0%), Japan (-4.0%), Germany (-6.1%), and France (-5.6%). A positive factor for the Eurozone is that the U.S. has put potential tariffs on the automotive industry on pause for at least six months, which allows more time for negotiation of trade policies. The EU remains steadfast in their ruling on the Italian budgetary concerns, as Italy's debt burden rises above approved levels. The EU could impose up to $4 billion (Euro) of fines on the struggling nation, though they've never given out a fine of that size.

- The MSCI Emerging Market Index (USD) fell 7.3% in May principally due to its largest constituent, China, posting a monthly return of -13.1%. Chinese equities fell hard in the wake of upcoming tariffs imposed by the U.S. and concerns that China's expansionary monetary and fiscal policy may not be able to achieve its expected results if the trade tensions persist in their current state. A bright spot in the emerging market index was Russia (+3.6%), which has provided strong results year-to-date due partly to the increasing likelihood of the EU and Russia finalizing details on the Nord Stream 2 – a natural gas pipeline from Russia to Germany that runs beneath the Baltic Sea. U.S. officials have threatened sanctions on Russia and Germany due to the unfair treatment of Ukraine, whose infrastructure would be bypassed as a result. Indian markets were slightly positive coming off of an election period that resulted in the incumbent (conservative) Bharatiya Janata party maintaining control.

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Looking Forward

- Coming into the month of May, many market participants and elected officials believed that a trade agreement with China was nearing its conclusion after months of disagreement on issues such as intellectual property rights and supply chain monopolization. Furthermore, the Executive Office announced they will immediately be placing a 5% tariff on all Mexican imports which could rise to 25% unless the Mexican government imposed new immigration controls. Globally, there are tariffs already in place on all imported steel, aluminum, and washing machines, as well as the potential for a 25% tariff on imported cars which could severely hurt economies in the Eurozone and Japan. For now, the focus remains on the U.S. and China as the world's two largest economies have levied tariffs on over $360 billion in goods (and counting) in the two-way trade dispute. China has threatened additional tariffs on rare earth elements, which could be the largest blow yet to the U.S. economy. China controls a majority of the world's rare earth elements which are a key raw material in many manufactured goods such as cell phones, electric cars, renewable energy equipment, and most notably high-grade weapons used for national defense. U.S. President Donald Trump and Chinese President Xi Jinping are scheduled to meet at the G20 summit in Osaka, Japan in late-June, a week in which market participants will be on edge to see if any resolution can be reached.

- United Kingdom Prime Minister Theresa May announced she will be stepping down from her position as Conservative Party leader on June 7th in response to parliament refusing to accept her deals to leave the European Union. May will remain as Prime Minister until a new leader is selected. Theresa May's decision to step down from her position was not an unexpected one and both the equity market and the Pound were relatively quiet after the announcement. With the moderately conservative Theresa May no longer at the helm, the market feels there is an increasing likelihood that either a hardline conservative will lead to the UK towards a "no deal" exit from EU or a general election could be called which would open the door to the opposition Labour party to take control.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates *per US $*		Inflation[2]
	Latest	2019[1]	2020[1]		*Sovereign Bonds, 10 Year*	Current	1 Year Ago	*(Most recently available)*
United States	3.20	2.82	2.28	3.60	2.14	-	-	1.99
China	6.40	6.20	6.01	3.70	3.32	6.90	6.41	2.57
Japan	0.80	0.66	0.61	2.40	-0.05	95.55	105.52	0.50
United Kingdom	1.80	1.22	0.98	3.80	1.19	1.62	1.98	1.81
Euro Area	1.20	1.20	1.40	7.60	0.25	1.11	1.17	0.77
Germany	0.70	0.74	1.20	3.20	-0.04	1.11	1.17	1.26
France	1.20	1.30	1.25	8.70	0.37	1.11	1.17	1.19
Italy	-0.10	0.04	0.55	10.20	2.69	1.11	1.17	0.95
Canada	1.30	1.27	2.00	5.70	1.72	1.35	1.30	1.94
India	5.80	7.16	7.43	7.20	6.50	69.78	67.51	7.67
Mexico	1.20	1.63	2.02	3.50	8.01	19.65	20.00	4.41
Brazil	0.50	1.36	2.27	12.50	6.51	3.92	3.73	4.58

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data from The World Bank, all other data from OECD

2. In terms of CPI All Items

Capital Markets Overview

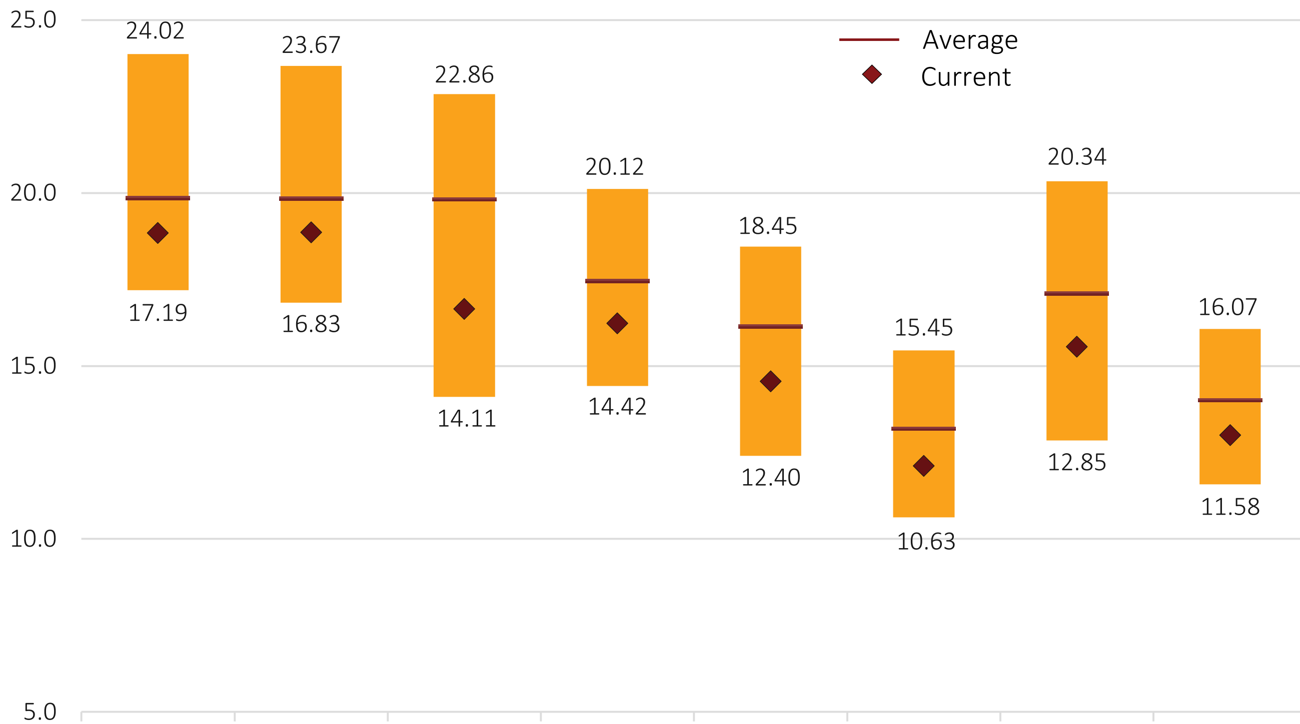
		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	(5.77)	(1.15)	9.75	(0.29)	9.00	5.62	9.96
	BBgBarc US Agg Bond TR USD	1.78	3.76	4.80	6.40	2.50	2.70	3.83
	Russell 3000 TR USD	(6.47)	(1.32)	10.92	2.50	11.55	9.25	13.93
	DJ Industrial Average TR USD	(6.32)	(3.66)	7.54	4.05	14.45	10.88	14.17
	NASDAQ Composite PR USD	(7.93)	(1.05)	12.33	0.15	14.63	11.93	15.43
	MSCI EAFE NR USD	(4.80)	(1.51)	7.64	(5.75)	5.82	1.27	6.23
	FTSE Treasury Bill 3 Mon USD	0.21	0.62	1.01	2.24	1.29	0.80	0.44
	Bloomberg Commodity TR USD	(3.36)	(3.94)	2.31	(12.37)	(1.73)	(9.52)	(4.18)
Domestic Equities	S&P 500 TR USD	(6.35)	(0.67)	10.74	3.78	11.72	9.66	13.95
	S&P MidCap 400 TR	(7.97)	(4.82)	9.60	(5.44)	8.36	7.31	13.87
	S&P SmallCap 600 TR USD	(8.73)	(8.35)	5.81	(10.47)	9.54	7.85	14.33
	Russell 1000 TR USD	(6.37)	(0.90)	11.05	3.47	11.68	9.45	14.02
	Russell 1000 Growth TR USD	(6.32)	0.70	13.68	5.39	15.33	12.33	15.64
	Russell 1000 Value TR USD	(6.43)	(2.49)	8.45	1.45	7.98	6.53	12.33
	Russell Mid Cap TR USD	(6.14)	(1.73)	13.55	1.59	9.87	7.89	14.43
	Russell Mid Cap Growth TR USD	(5.75)	(0.19)	17.81	6.87	13.88	10.28	15.29
	Russell Mid Cap Value TR USD	(6.42)	(2.85)	10.56	(2.09)	6.92	6.05	13.84
	Russell 2000 TR USD	(7.78)	(6.64)	9.26	(9.04)	9.75	6.71	12.84
	Russell 2000 Growth TR USD	(7.42)	(5.89)	11.76	(6.88)	11.72	8.32	13.93
	Russell 2000 Value TR USD	(8.17)	(7.44)	6.67	(11.32)	7.68	5.00	11.67
International Equities	MSCI ACWI Ex USA NR USD	(5.37)	(2.29)	7.15	(6.26)	6.72	1.31	5.80
	MSCI EAFE NR USD	(4.80)	(1.51)	7.64	(5.75)	5.82	1.27	6.23
	MSCI EAFE Growth NR USD	(3.87)	1.02	11.24	(3.27)	6.77	3.23	7.54
	MSCI EAFE Value NR USD	(5.79)	(4.08)	4.04	(8.23)	4.81	(0.75)	4.85
	MSCI Japan NR USD	(3.96)	(2.08)	3.86	(9.97)	5.86	4.77	5.64
	MSCI AC Asia Ex Japan NR USD	(8.53)	(5.19)	3.86	(11.10)	10.12	3.99	7.14
	MSCI Europe NR USD	(5.48)	(1.50)	8.51	(5.17)	5.17	(0.06)	6.09
	MSCI United Kingdom NR USD	(6.00)	(2.87)	7.54	(7.60)	3.90	(1.15)	6.17
	MSCI EAFE Small Cap NR USD	(5.29)	(2.28)	7.97	(11.91)	5.64	3.84	9.43
	MSCI EM NR USD	(7.26)	(4.51)	4.09	(8.70)	9.88	1.79	5.03
Fixed Income	BBgBarc US Govt/Credit TR USD	1.96	4.18	5.34	6.73	2.65	2.80	4.03
	BBgBarc US Govt/Credit Interm TR USD	1.31	2.87	3.86	5.73	2.11	2.16	3.18
	BBgBarc US Govt/Credit Long TR USD	4.13	8.58	10.40	10.05	4.48	5.12	7.61
	ICE BofAML US High Yield TR USD	(1.27)	1.09	7.52	5.37	7.06	4.37	9.30
	Credit Suisse HY USD	(1.37)	1.10	7.35	4.99	7.12	4.18	9.15
	S&P/LSTA Leveraged Loan TR	(0.22)	1.25	5.49	3.83	5.16	3.75	6.60
	FTSE WGBI NonUSD USD	1.33	1.58	2.22	0.83	1.22	(0.21)	1.57
	BBgBarc Gbl Agg Ex USD TR USD	1.04	1.14	1.95	0.39	1.24	(0.47)	1.83
REITs	FTSE Nareit All REITs TR	0.20	4.37	16.86	15.35	7.90	8.68	15.16
	Wilshire US REIT TR USD	0.39	3.42	16.27	13.84	5.82	7.75	15.09

USD - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

S&P 500 Price Level

Source: Standard & Poors

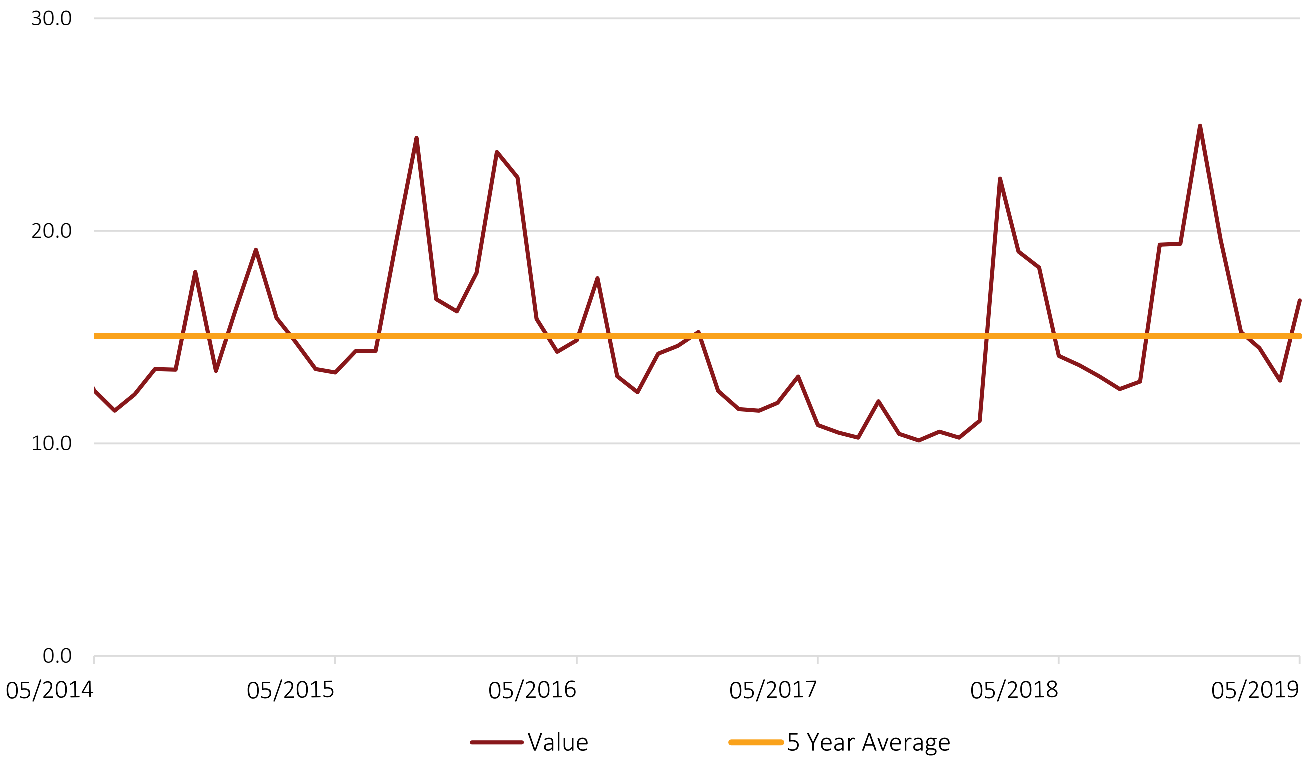
Current P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Month	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

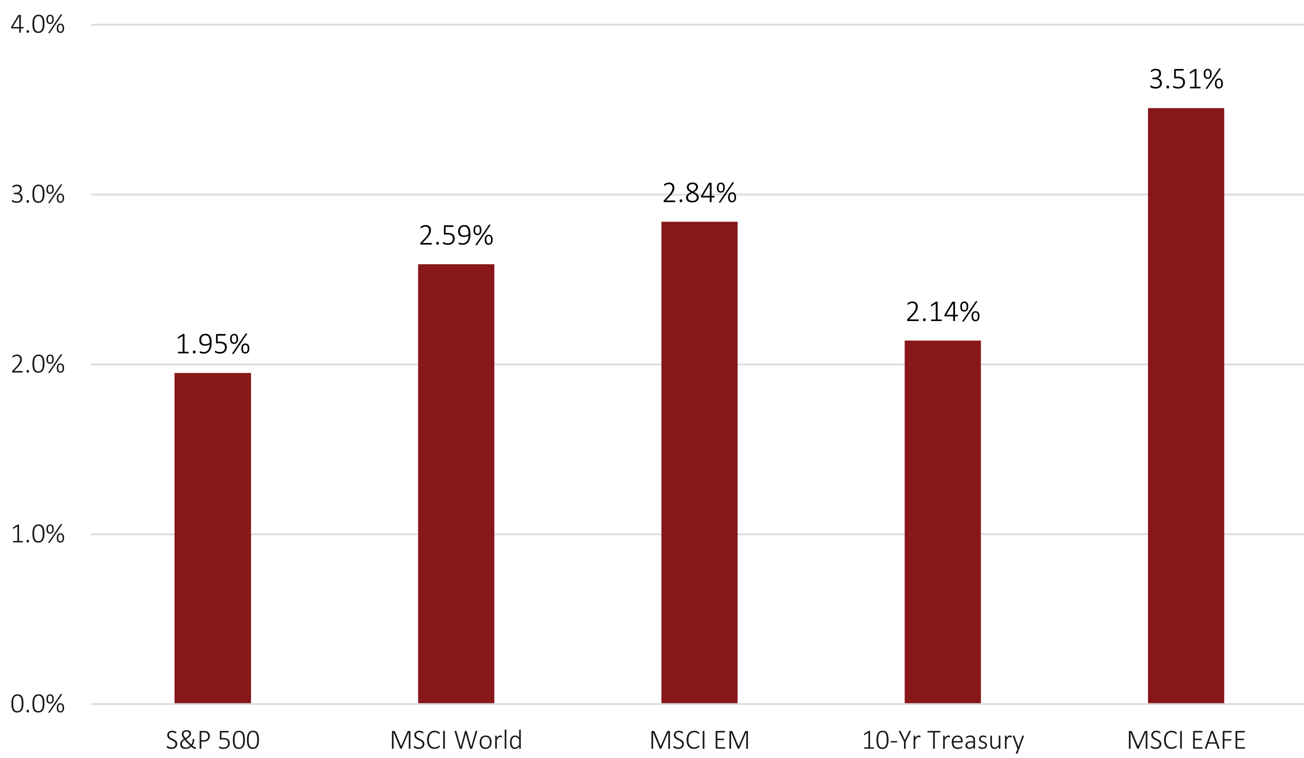
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX



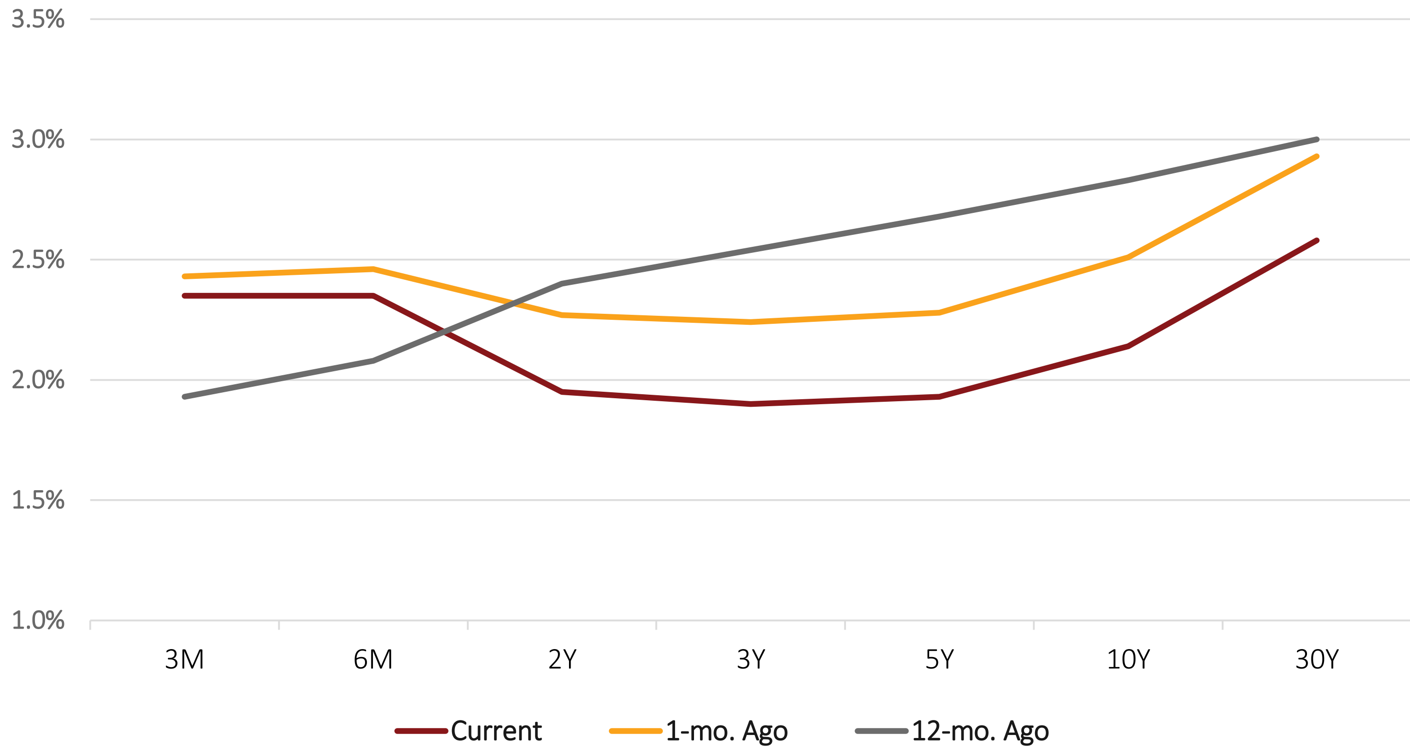
Source: CBOE Global Markets, Inc.

Current Yields



Source: Federal Reserve Bank of St. Louis, Standard & Poors, MSCI

U.S. Treasury Yield Curves



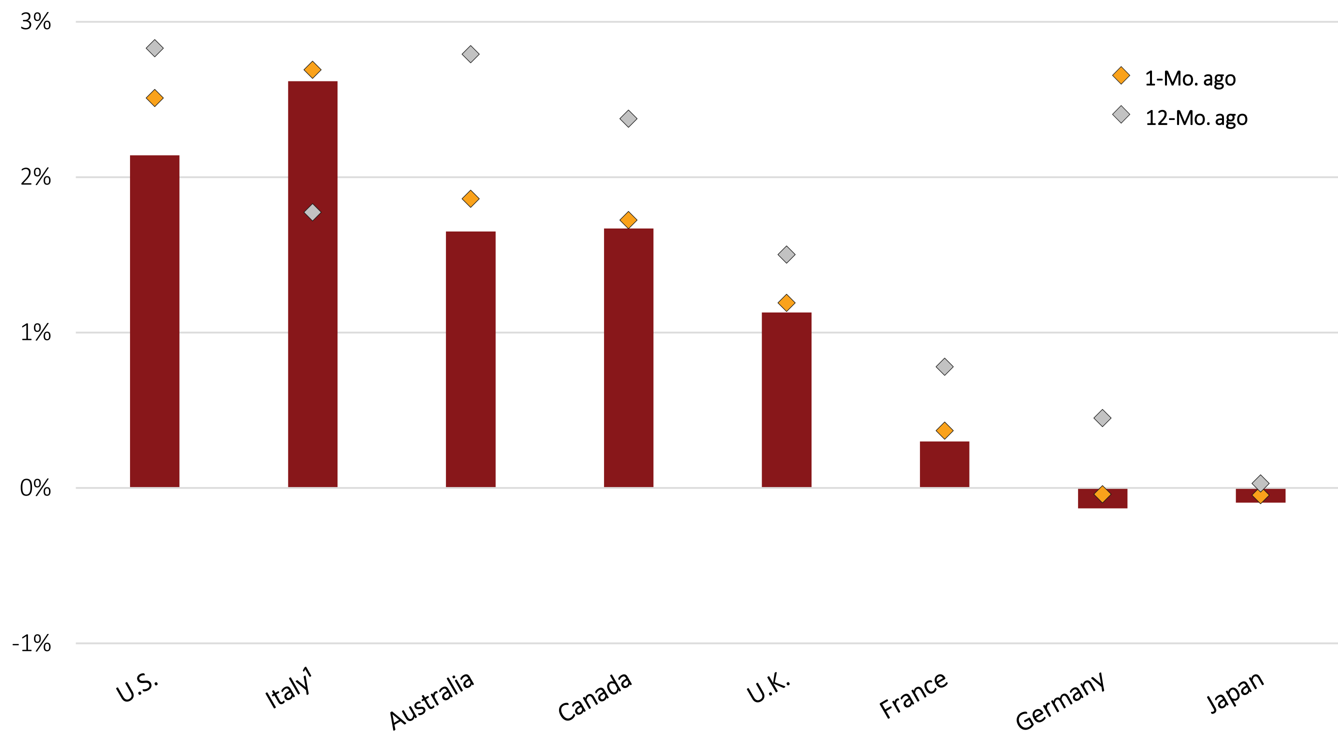
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo. Ago
3-mo. Treasury	2.35	2.43	1.93
6-mo. Treasury	2.35	2.46	2.08
2-yr. Treasury	1.95	2.27	2.40
3-yr. Treasury	1.90	2.24	2.54
5-yr. Treasury	1.93	2.28	2.68
10-yr. Treasury	2.14	2.51	2.83
30-yr. Treasury	2.58	2.93	3.00

Source: Federal Reserve Bank of St. Louis

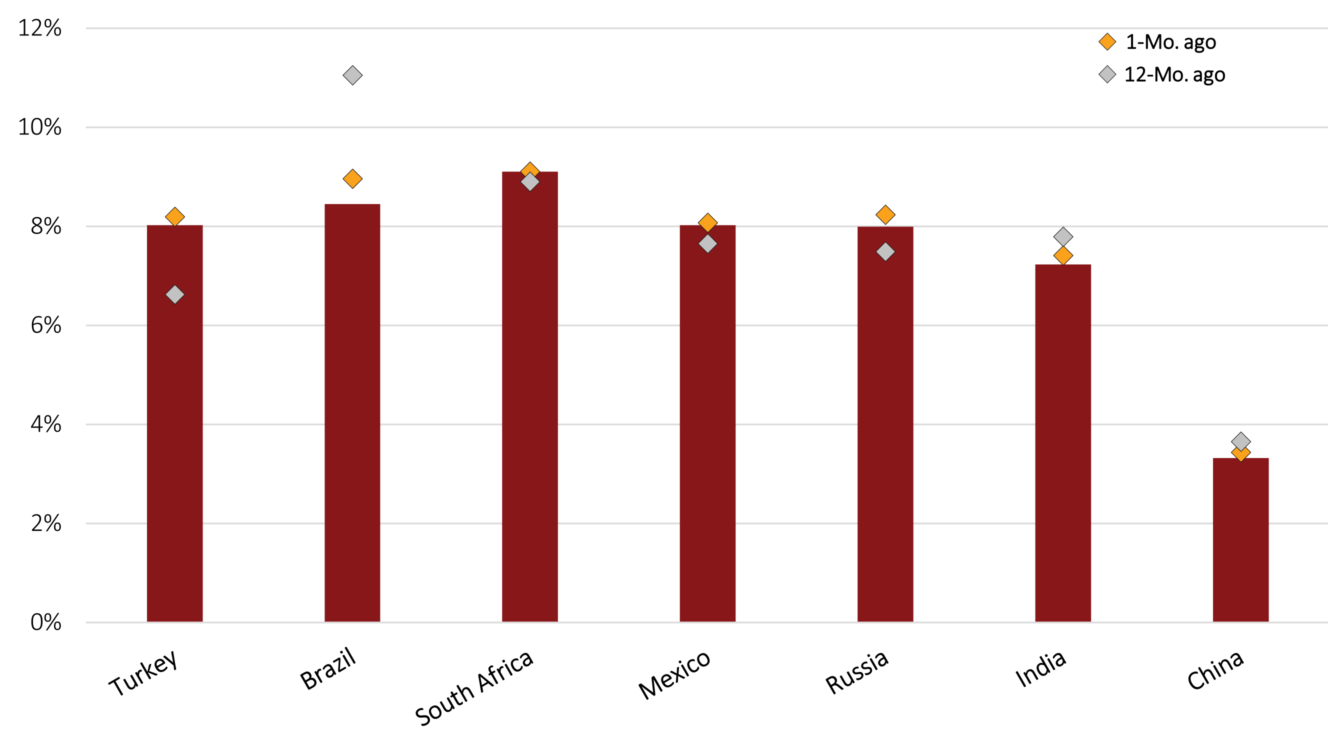
Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis

1. Italy's 10 Year Sovereign Yield as of 4/30/2019.

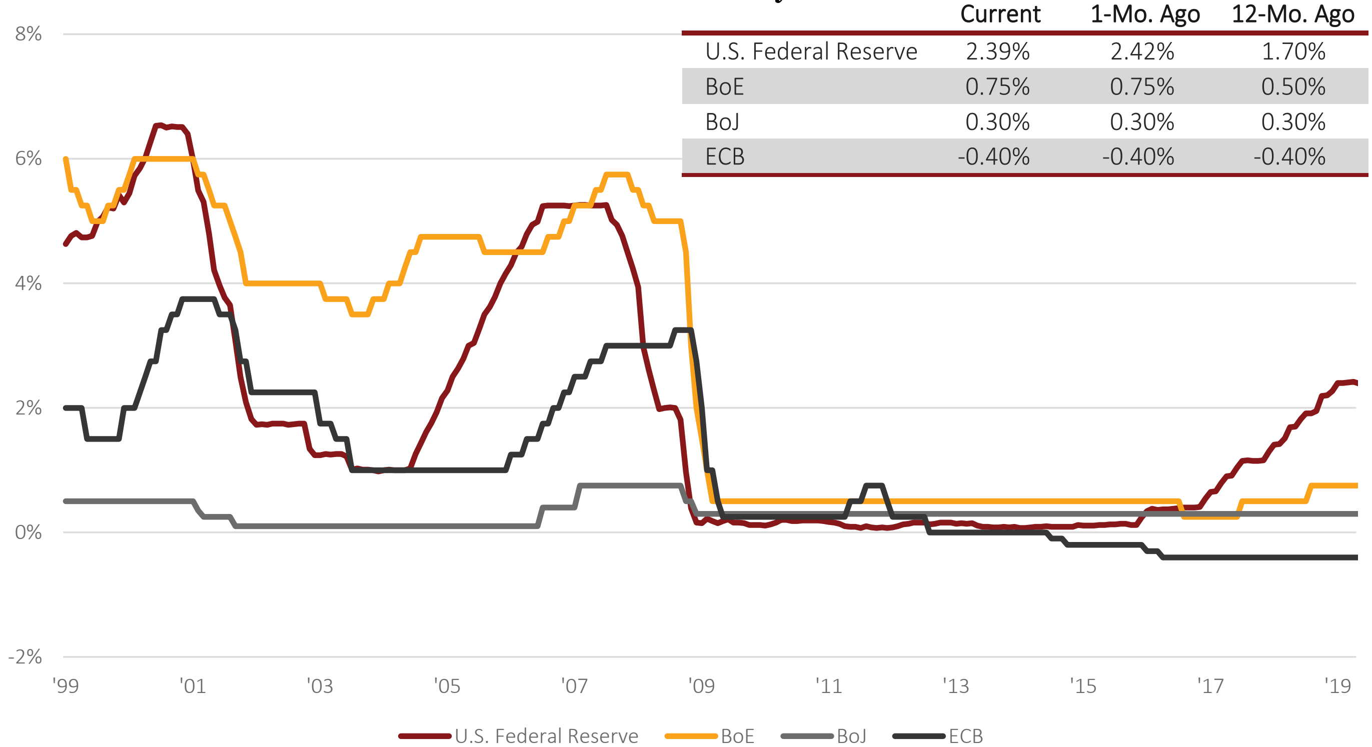
Emerging Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg, Wall Street Journal, Central Bank of Russia

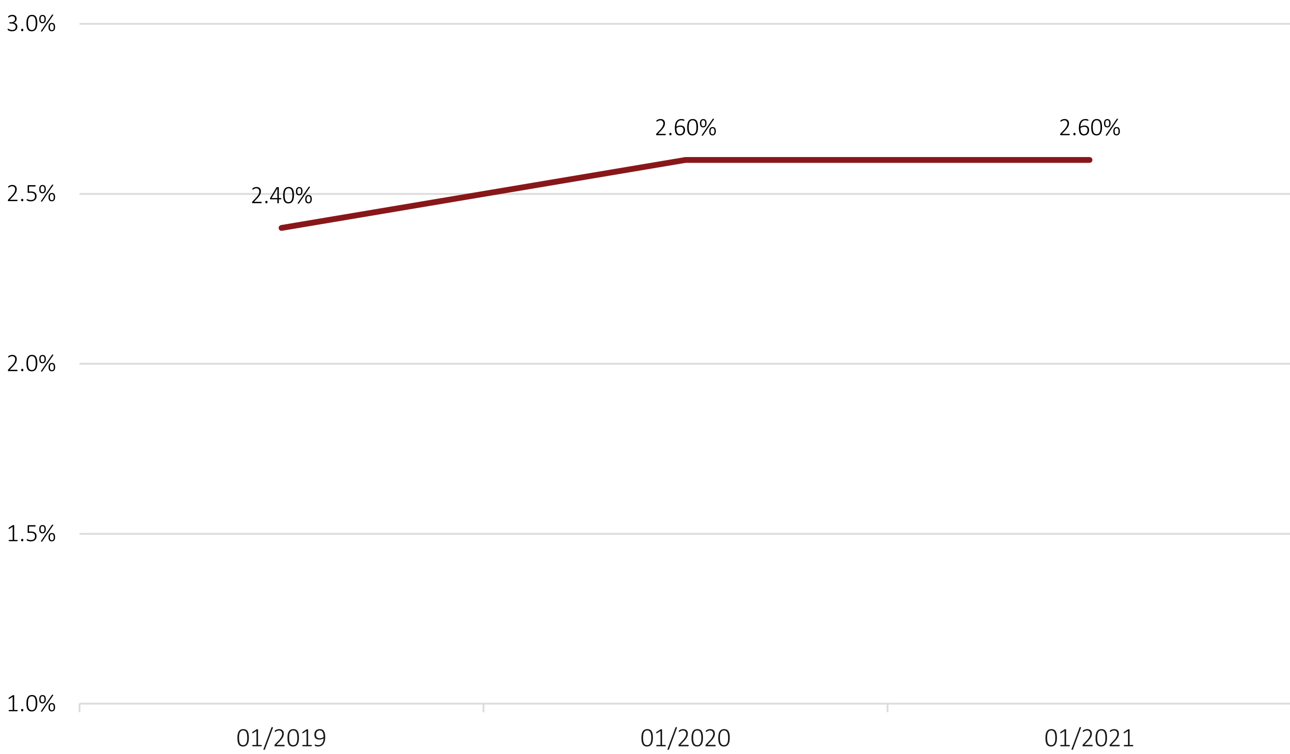
Central Bank Policy Rates

	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	2.39%	2.42%	1.70%
BoE	0.75%	0.75%	0.50%
BoJ	0.30%	0.30%	0.30%
ECB	-0.40%	-0.40%	-0.40%



Source: Federal Reserve Bank, Bank of England, European Central Bank

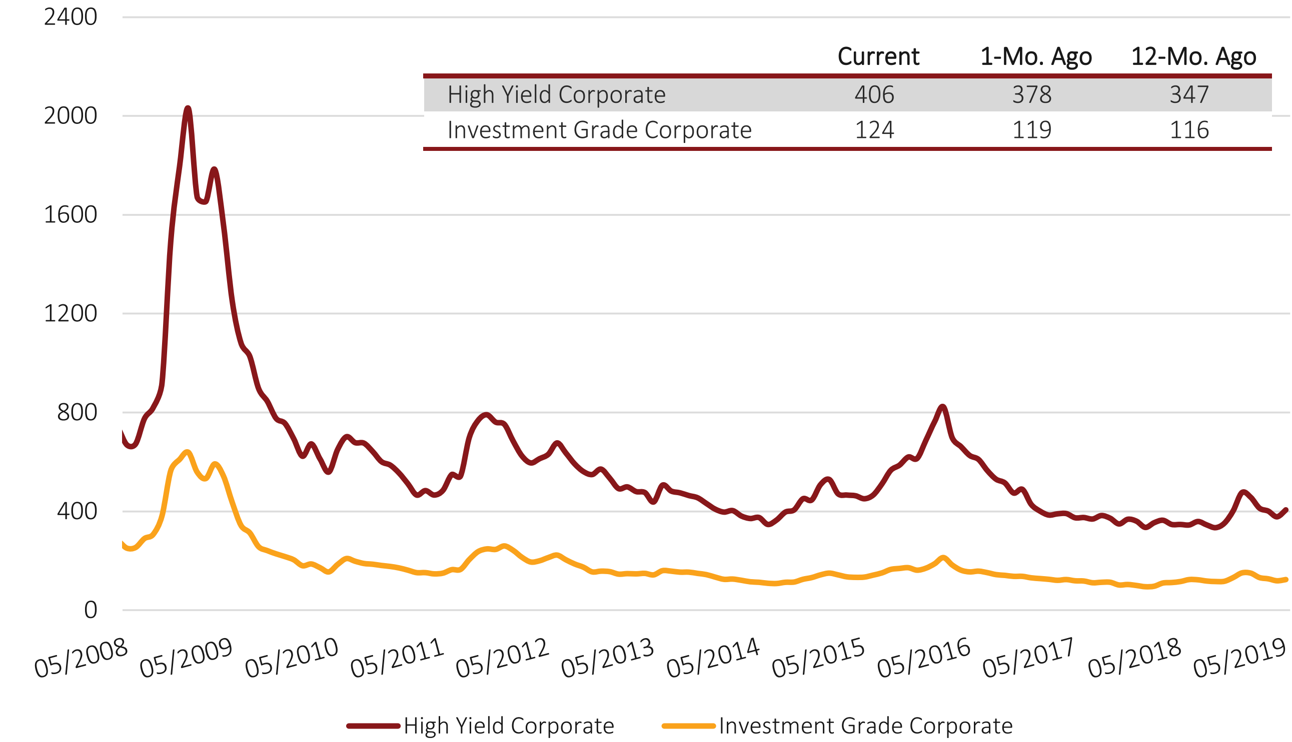
Summary of Economic Projections of Federal Funds Rate



Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).

Represents the median value of the range forecast of the federal funds rate established by the FOMC.

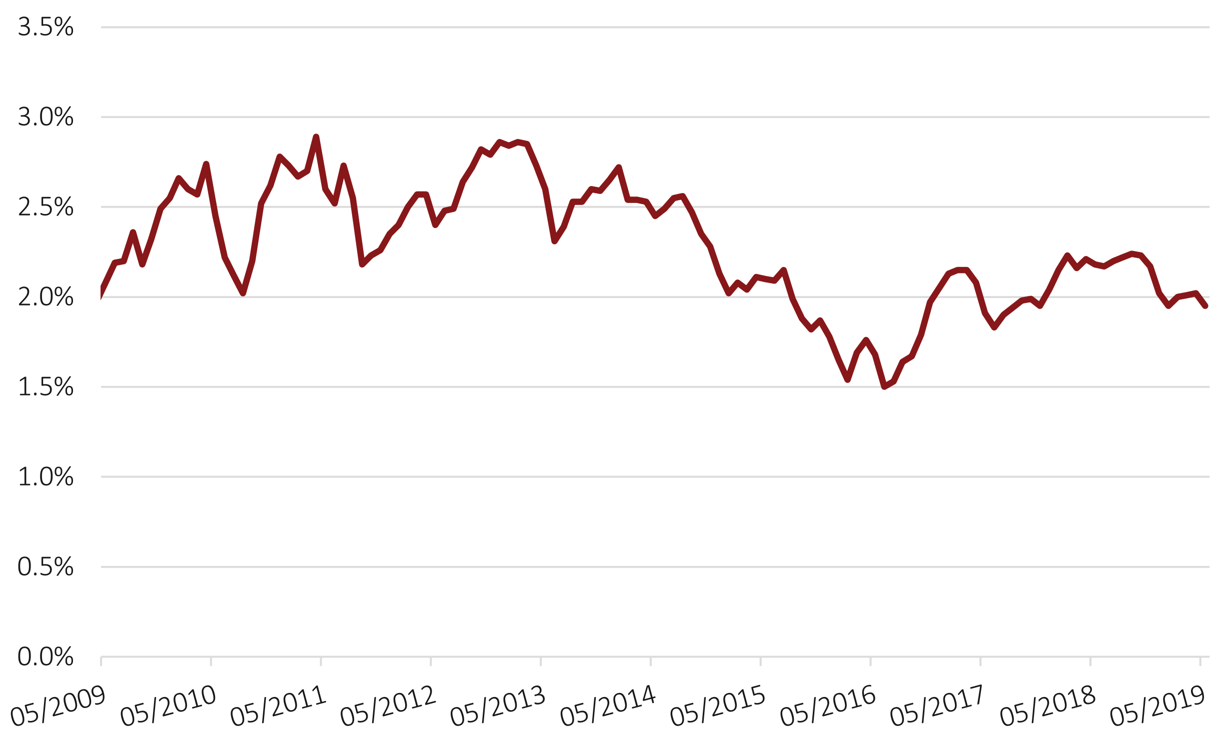
Corporate Bond Average Spread (bps)



	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	406	378	347
Investment Grade Corporate	124	119	116

Source: Bank of America

5-Year Forward Inflation Expection Rate



Source: Federal Reserve Bank of St. Louis. Measure of expected inflation, on average, over the next five year period.