DeMarche Dashboard

Data and Commentary for Periods Ended 6/30/2019

Global Overview

- **Markets** – Markets rebounded from May's losses during the month of June, as both broad equity markets and bond markets had one of the strongest monthly performances in 2019. Late in the month, President Donald Trump and President Xi Jinping agreed to halt enacting any further tariffs on one another, sparking a jump in global asset prices. Global treasury/sovereign rates continued to fall lower, positively impacting bond investors. Commodities had a surprise rally in June as supply cuts in oil and increasing precious metal prices were positives for investors.

- **Developed Markets** – Equity markets in the U.S. and in the Eurozone/Japan had one of their best months of the year on the back of easy monetary policy and sound labor markets. The materials sector, including companies selling goods such as construction materials, glass, containers and packaging, etc., was the strongest performing sector in both the U.S. and developed non-U.S. markets during June. Yields on U.S. Treasuries fell further and the yield curve continued to be inverted throughout June. Equity investors were not unnerved, and bondholders saw strong monthly returns. Sovereign yields also fell in developed nations such as the UK, France, Germany, and Australia.

- **Emerging Markets** – Emerging market equities rallied alongside developed markets as a perceived cooling of trade tensions positively impacted the emerging economies late in the month. Emerging market debt (hard currency), comprised of both sovereign and corporate issues, was up 2.9% in June on a weakening U.S. dollar and narrowing credit spreads. Exports in nations such as Thailand, Vietnam, and Korea have grown materially throughout the year as the economies are benefiting from the residual impacts of U.S. and Chinese disputes.

U.S. Economy and Markets

- Markets climbed in June with the S&P 500 Index finishing the month up 7.1%. Strong performance in June erased losses seen in May as the likelihood of an upcoming rate cut in July increased further, elevating markets in anticipation. The Index finished the quarter up 4.3% and has returned 18.5% year-to-date.
  - All 11 S&P 500 sectors finished the month positive with materials (+11.7%), information technology (+9.1%), and energy (+9.3%) leading the way. Large cap value outperformed large cap growth during June yet still lags by over 5% year-to-date.
- The Russell 2000 Index performed in line with the larger cap stocks, returning 7.1% in June on the way to a quarterly return of 2.1%. Contrary to their large cap counterparts, small cap growth stocks outperformed small cap value stocks during the month. Mid cap growth continued to produce robust results, returning 26.1% year-to-date.
  - Each sector returned at least 3.5% during June, as materials (+14.0%), energy (+9.4%), and health care (9.9%) led the way. Having been hit harder by trade tension and tariffs earlier in the year, many small cap industries more susceptible to the effects of tariffs were able to recover losses seen in the month prior.
- Bond investors experienced a strong month as the Bloomberg Barclays Aggregate Index was up 1.3% due to a continued decline in treasury yields and narrowing credit spreads. The 10-year U.S. Treasury yield finished the month at 2.0%, the lowest level seen since late-2016. The yield curve (3-month to 10-year) has been inverted since May 23rd with the gap between bills and bonds widening further to 12 basis points. High yield credit spreads tightened throughout June and provided investors with a positive return, as the ICE BofA Merril Lynch High Yield Index gained 2.5% and is up over 10% year-to-date.

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- Nonfarm payrolls rose by 224,000 in June exceeding expectations of 165,000. The May jobs report, which was the weakest of 2019 at 75,000 jobs added, was further revised downward to 72,000. Unemployment grew to 3.7% as labor force participation increased. Wage growth increased from the month prior by 0.2% as average hourly earnings grew 3.1% year-over-year. Despite the growth in wages and strong jobs numbers, the Fed is still expected to cut rates at the July meeting due to worries of a slowdown. Economic indicators continue to be conflicted, particularly between consumers and builders. The May readings for building permits, new housing starts, and existing home sales continued to be worse year-over-year despite marginally increasing over the latest month's reading. On the other hand, U.S. consumers have the largest amount of disposable personal income on record, consumer sentiment reached its highest level since 2000, and personal consumption is at an all-time high. Building data is typically seen as a leading indicator while consumer data can range between leading/coinciding/lagging depending on the specific reading. A potential slowdown in GDP and some weak production data (in both manufacturing and building) has caught the attention of Fed officials but does not seemed to have trickled over to the U.S. consumer or employers.

- Gold continued its climb throughout 2019 as prices climbed over $1,400/oz. in June. Speculation on whether the Federal Reserve may look to cut rates has helped gold sustain its recent rally to six-year highs. The commodity has also drawn the interest of speculators, as indicated by open interest in gold futures, which increased by 26% in June principally from ETF holdings. Prices in oil rose as well during the month, spurred on by news that OPEC and peers (known as OPEC+) will likely look to extend supply cuts through the remainder of 2019 and possibly further. Many believe that the decision by OPEC+ was motivated by the weakening of the global economy, the increase in American production, as well as potentially weaker demand driven by the U.S.-China trade dispute.

International Markets

- The MSCI EAFE Index (USD) returned 5.9% in June as investors continue to shake off the lack of GDP growth prospects in some of the largest constituents of the Index such as Japan and the UK. Among the major players in the Index, France (+8.4%), Germany (+7.3%), and Switzerland (7.0%) were among the strongest performers. The purchasing managers index (PMI), a measure showing raw materials and other purchases in the manufacturing and services sectors, turned into contraction territory in the Eurozone and Japan during June. The PMI reading suggests that the health of the economy in the Eurozone and Japan is consistent with that of a recessionary period and points to further weakness in those economies in the future. In political news, Boris Johnson appears to be the favorite to succeed former British Prime Minister Theresa May after her resignation in early June. The former foreign secretary is a "hard-Brexiteer" and favors Britain leave the EU without a deal come October 31st, the last day of the Brexit extension granted by the EU.

- The MSCI Emerging Market Index (USD) finished June up 6.2% and closed the quarter slightly positive at 0.6%. The Emerging Market Index was principally helped by strong returns out of China (8.0%), and Korea (8.8%), its two largest constituents. China, now representing nearly 32% of the broad index, has felt the impacts from the trade war more so than their U.S. trade partners as the MSCI China Index was down 4.0% in the past quarter. The Chinese economy has been slowed in the near term by weakening manufacturing data, falling year-over-year imports and exports, and declining fixed asset investment. Despite the agreement from the world's two largest economies late in the month, the impacts have been felt by Chinese consumers in the short term. The weakening of the U.S. dollar was a major tailwind for emerging market economies in June, as nations reliant on foreign investment and imports from the U.S. were positively impacted.

Looking Forward

- As of June 28th, the Federal Reserve Bank of Richmond's president, Tom Barkin, stated that uncertainty over the U.S. trade policy could weaken business sentiment and depress investment, which would increase the risk of destabilizing U.S. economic growth. Citing it was too soon to determine whether the central bank should cut interest rates at their next meeting in July, Mr. Barkin stated, "We're still in a very sound place. I think emotions have gotten far out in front of the data in terms of where we sit in the economy." Most Fed officials still believe U.S. economic growth will slow to 2% this year as compared to 3% last year. Mr. Barkin also stated that if consumer spending remains strong and business development is flat, "that's not a nerve-racking world, and that could be what we see. On the other hand, if you see businesses start to cut back, and therefore consumption starts shrinking, that's another world." Mr. Barkin said the biggest worry regarding U.S. economic growth stems from uncertainty on global trade and other political developments, which include fiscal policy and Brexit. These statements came just one day before President Trump and Chinese President Xi agreed to a cease-fire on trade on June 29th, indefinitely putting off any additional tariffs on Chinese goods in return for China agreeing to an increase in their imports of U.S. agriculture products. At their June policy meeting, Fed officials left their short-term benchmark rate unchanged but Fed Chairman Jerome Powell suggested officials would cut the rate in the months ahead if the U.S. economic outlook had not improved in terms of trade uncertainty. The subsequent run-up in equity markets during June were partially due to the comments made by Powell as expectations for a 25 basis point rate cut in July are priced in at nearly 100% on the futures market.

- Second quarter earnings season kicks off in early July with PepsiCo and Levi Strauss among the first household names to report earnings. Given the GDP expectations for the second quarter and the Fed's concern over certain economic readings, the 6/30/2019 earnings season should be telling for the direction of the U.S. equity markets. Although earnings growth expectations are lower in 2019 than they were in 2018, equity market participants are certainly not expecting to see a major slowdown in earnings on the horizon.

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	3.70	2.00	-	-	2.13
China	6.40	6.20	6.01	3.70	3.27	6.87	6.62	2.57
Japan	0.90	0.66	0.61	2.40	-0.10	96.42	106.17	0.89
United Kingdom	1.80	1.22	0.98	3.80	1.13	1.65	1.99	1.89
Euro Area	1.20	1.20	1.40	7.50	0.25	1.14	1.16	1.29
Germany	0.70	0.74	1.20	3.10	-0.13	1.14	1.16	2.04
France	1.20	1.30	1.25	8.60	0.30	1.14	1.16	1.00
Italy	-0.10	0.04	0.55	9.90	2.62	1.14	1.16	0.95
Canada	1.30	1.27	1.99	5.40	1.67	1.31	1.33	1.93
India	5.80	7.16	7.43	7.90	6.25	69.39	67.79	8.33
Mexico	1.20	1.63	2.02	3.50	8.24	19.21	19.83	4.41
Brazil	0.50	1.36	2.27	12.30	6.51	3.83	3.85	4.66

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

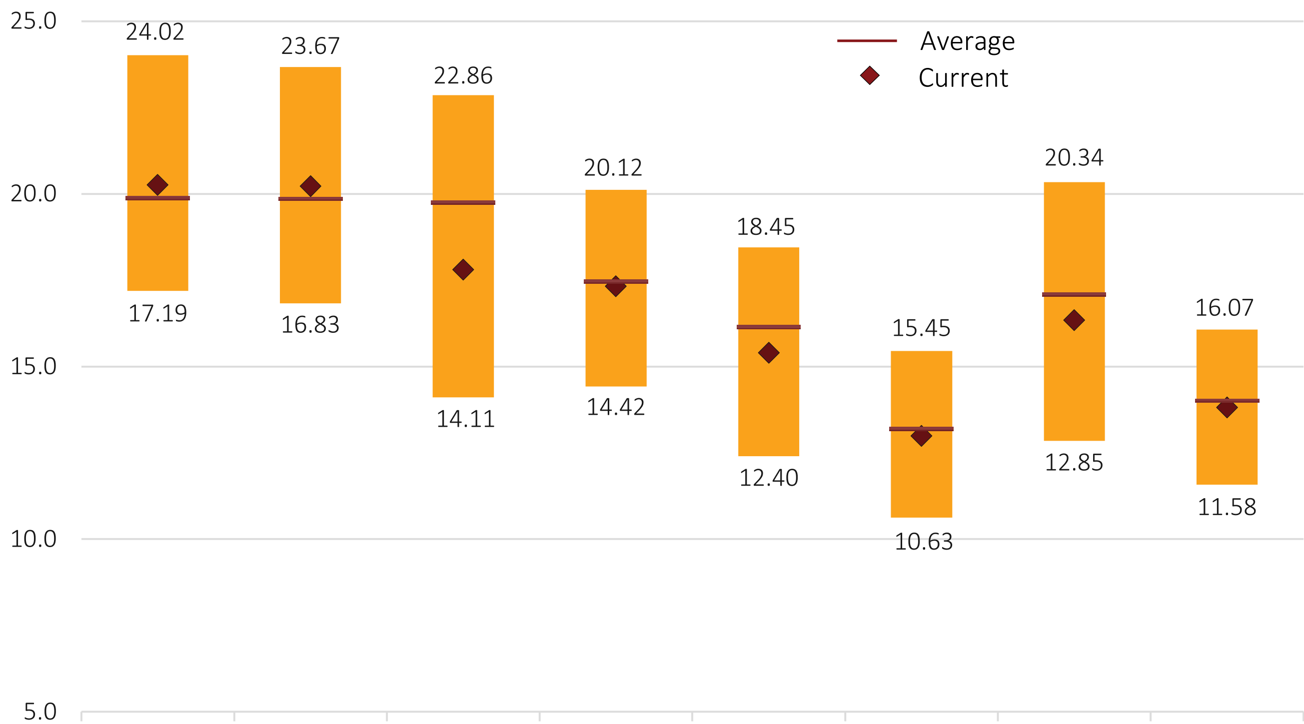
		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	6.59	4.00	16.98	6.33	11.77	6.60	10.72
	BBgBarc US Agg Bond TR USD	1.26	3.08	6.11	7.87	2.31	2.95	3.90
	Russell 3000 TR USD	7.02	4.10	18.71	8.98	14.02	10.19	14.67
	DJ Industrial Average TR USD	7.31	3.21	15.40	12.20	16.80	12.29	15.03
	NASDAQ Composite PR USD	7.42	3.58	20.66	6.60	18.24	12.68	15.87
	MSCI EAFE NR USD	5.93	3.68	14.03	1.08	9.11	2.25	6.90
	FTSE Treasury Bill 3 Mon USD	0.20	0.61	1.21	2.30	1.36	0.84	0.46
	Bloomberg Commodity TR USD	2.69	(1.19)	5.06	(6.75)	(2.18)	(9.15)	(3.74)
Domestic Equities	S&P 500 TR USD	7.05	4.30	18.54	10.42	14.19	10.71	14.70
	S&P MidCap 400 TR	7.64	3.05	17.97	1.36	10.90	8.02	14.64
	S&P SmallCap 600 TR USD	7.45	1.87	13.69	(4.88)	11.97	8.41	14.99
	Russell 1000 TR USD	7.02	4.25	18.84	10.02	14.15	10.45	14.77
	Russell 1000 Growth TR USD	6.87	4.64	21.49	11.56	18.07	13.39	16.28
	Russell 1000 Value TR USD	7.18	3.84	16.24	8.46	10.19	7.46	13.19
	Russell Mid Cap TR USD	6.87	4.13	21.35	7.83	12.16	8.63	15.16
	Russell Mid Cap Growth TR USD	7.02	5.40	26.08	13.94	16.49	11.10	16.02
	Russell Mid Cap Value TR USD	6.75	3.19	18.02	3.68	8.95	6.72	14.56
	Russell 2000 TR USD	7.07	2.10	16.98	(3.31)	12.30	7.06	13.45
	Russell 2000 Growth TR USD	7.70	2.75	20.36	(0.49)	14.69	8.63	14.41
	Russell 2000 Value TR USD	6.37	1.38	13.47	(6.24)	9.81	5.39	12.40
International Equities	MSCI ACWI Ex USA NR USD	6.02	2.98	13.60	1.29	9.39	2.16	6.54
	MSCI EAFE NR USD	5.93	3.68	14.03	1.08	9.11	2.25	6.90
	MSCI EAFE Growth NR USD	6.50	5.73	18.47	4.24	9.68	4.39	8.23
	MSCI EAFE Value NR USD	5.33	1.54	9.58	(2.10)	8.46	0.05	5.50
	MSCI Japan NR USD	3.74	1.02	7.75	(4.19)	8.06	4.47	5.85
	MSCI AC Asia Ex Japan NR USD	6.58	(0.66)	10.70	(0.48)	11.50	4.84	7.87
	MSCI Europe NR USD	6.72	4.48	15.80	1.88	9.11	1.27	6.99
	MSCI United Kingdom NR USD	4.99	0.91	12.91	(2.05)	6.90	(0.31)	6.82
	MSCI EAFE Small Cap NR USD	4.24	1.71	12.55	(6.35)	9.06	4.40	9.67
	MSCI EM NR USD	6.24	0.61	10.58	1.21	10.66	2.49	5.81
Fixed Income	BBgBarc US Govt/Credit TR USD	1.48	3.53	6.90	8.52	2.41	3.11	4.09
	BBgBarc US Govt/Credit Interm TR USD	1.07	2.59	4.97	6.93	1.99	2.39	3.24
	BBgBarc US Govt/Credit Long TR USD	2.78	6.59	13.46	13.82	3.76	5.68	7.62
	ICE BofAML US High Yield TR USD	2.45	2.57	10.16	7.58	7.54	4.70	9.22
	Credit Suisse HY USD	2.42	2.55	9.95	7.12	7.55	4.50	9.03
	S&P/LSTA Leveraged Loan TR	0.24	1.68	5.74	3.97	5.24	3.68	6.17
	FTSE WGBI NonUSD USD	3.21	3.93	5.50	4.54	0.83	0.19	1.88
	BBgBarc Gbl Agg Ex USD TR USD	2.98	3.42	4.99	4.10	0.97	(0.12)	2.10
REITs	FTSE Nareit All REITs TR	1.63	1.77	18.77	12.65	6.17	8.78	15.63
	Wilshire US REIT TR USD	1.42	1.63	17.92	10.53	4.11	7.84	15.66

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

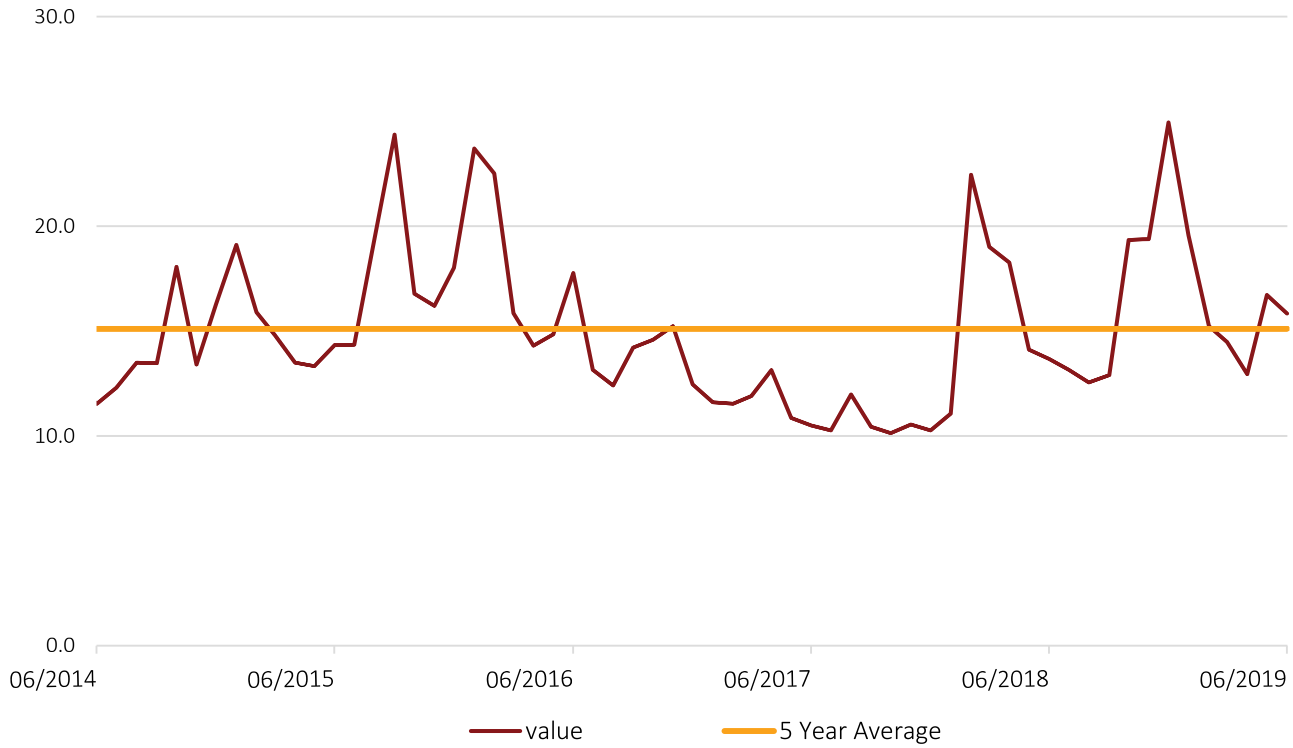
Current P/E vs. Trailing 5-Year High, Low, Average



	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

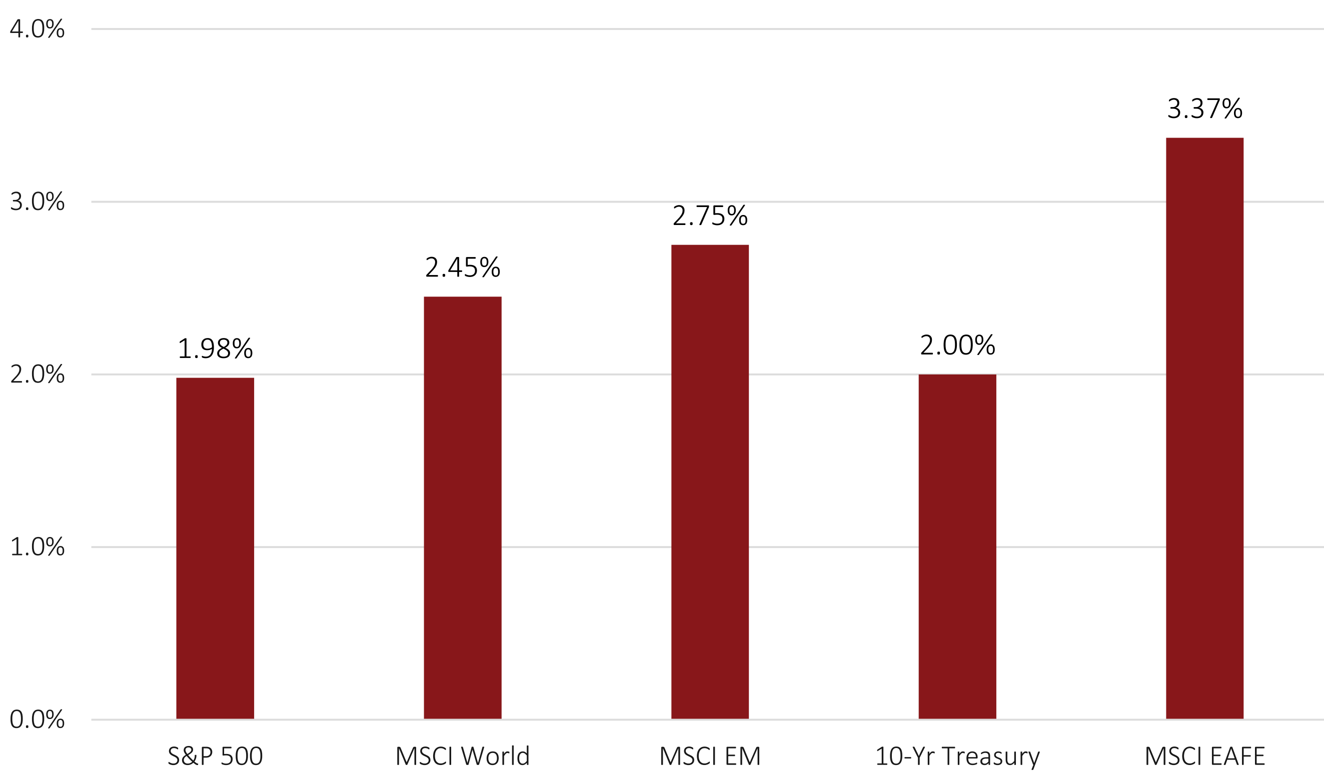
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX



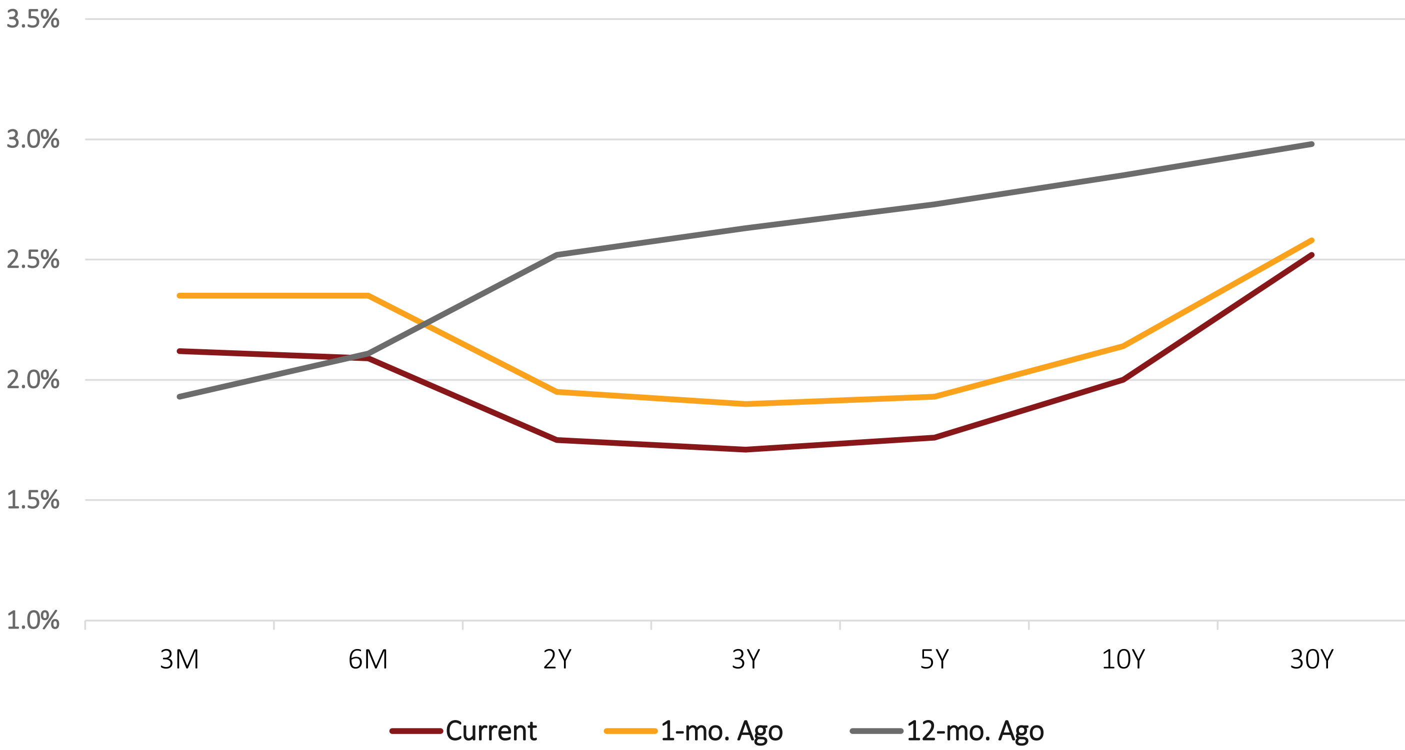
Source: CBOE Global Markets, Inc.

Current Yields



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

U.S. Treasury Yield Curves



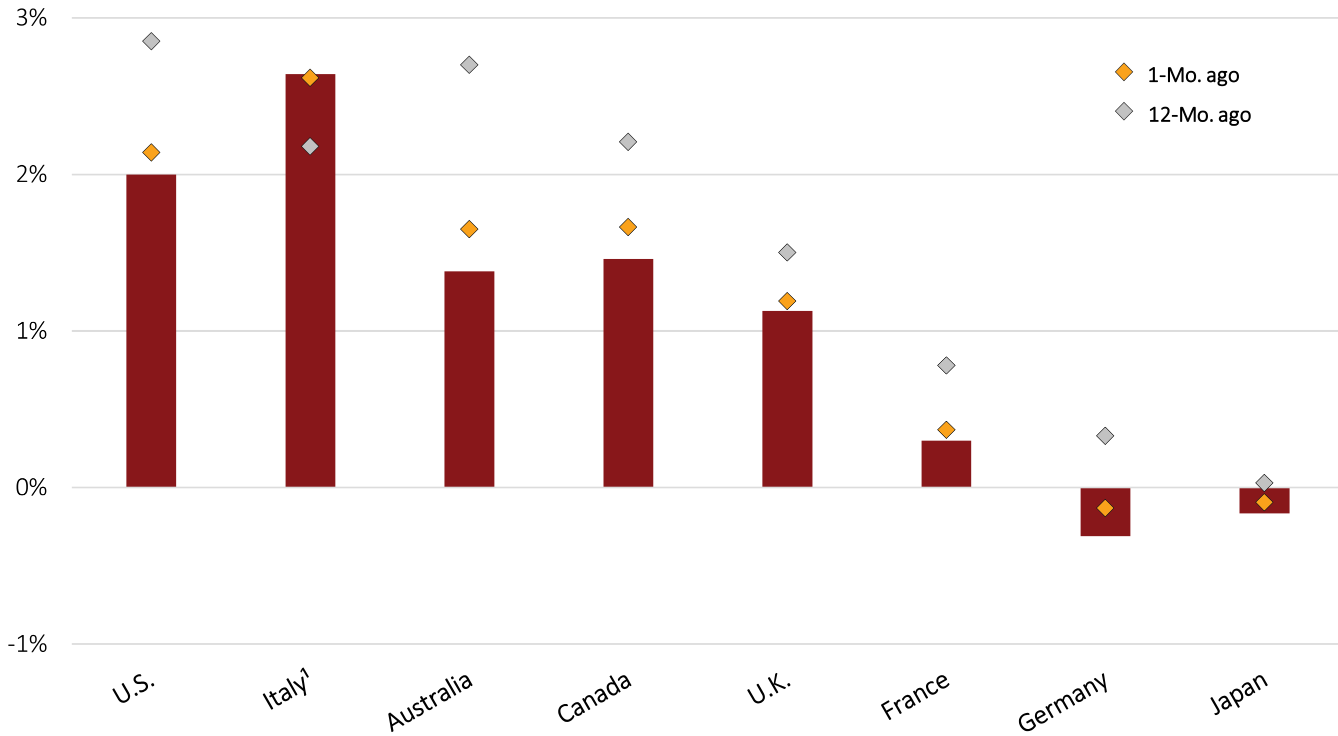
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo. Ago
3-mo. Treasury	2.12	2.35	1.93
6-mo. Treasury	2.09	2.35	2.11
2-yr. Treasury	1.75	1.95	2.52
3-yr. Treasury	1.71	1.90	2.63
5-yr. Treasury	1.76	1.93	2.73
10-yr. Treasury	2.00	2.14	2.85
30-yr. Treasury	2.52	2.58	2.98

Source: Federal Reserve Bank of St. Louis

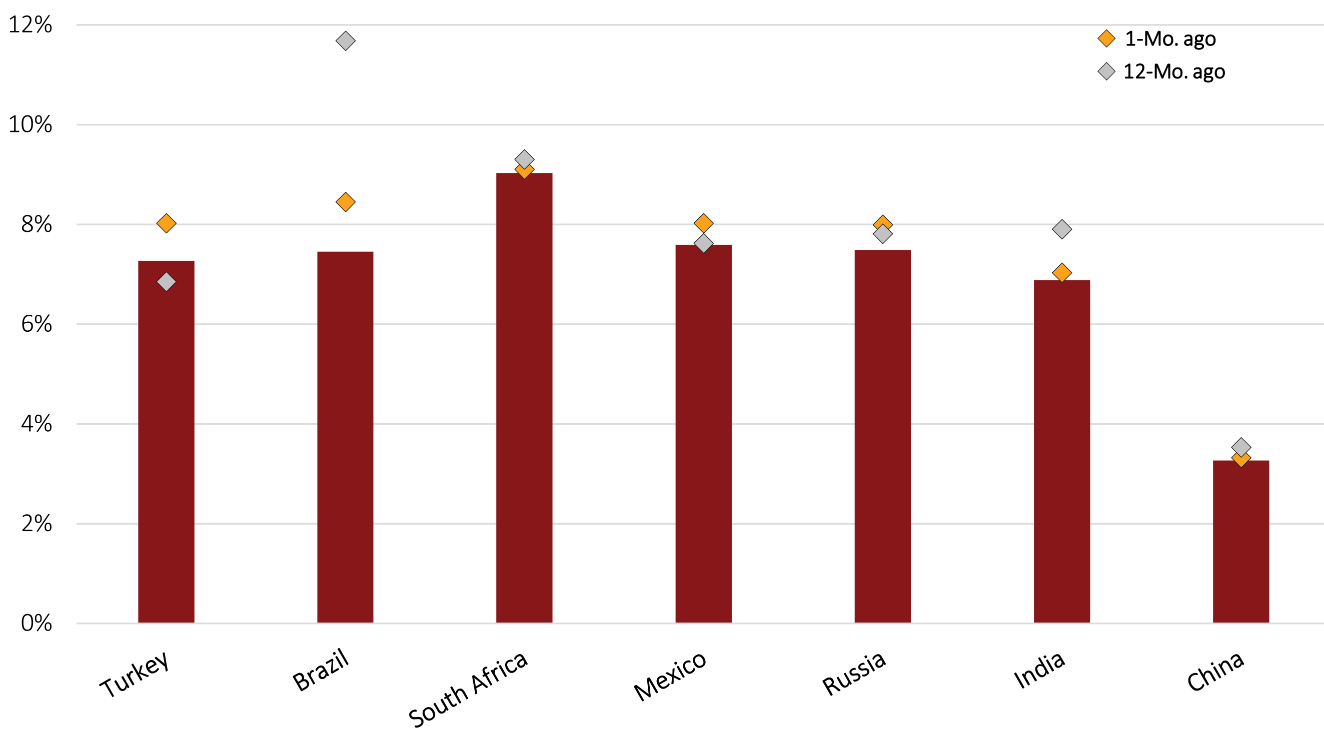
Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis

1. France, U.K., and Italy's 10 Year Sovereign Yield as of 5/31/2019.

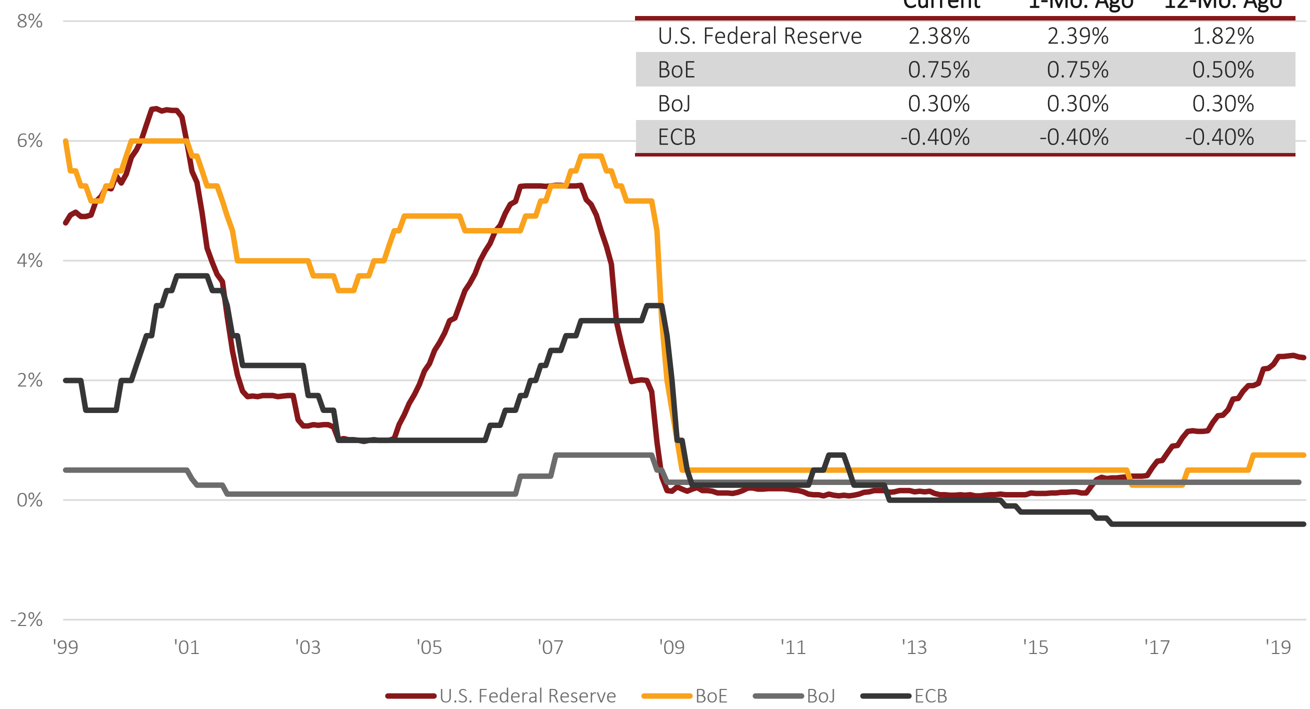
Emerging Markets 10 Year Sovereign Yields



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

Central Bank Policy Rates

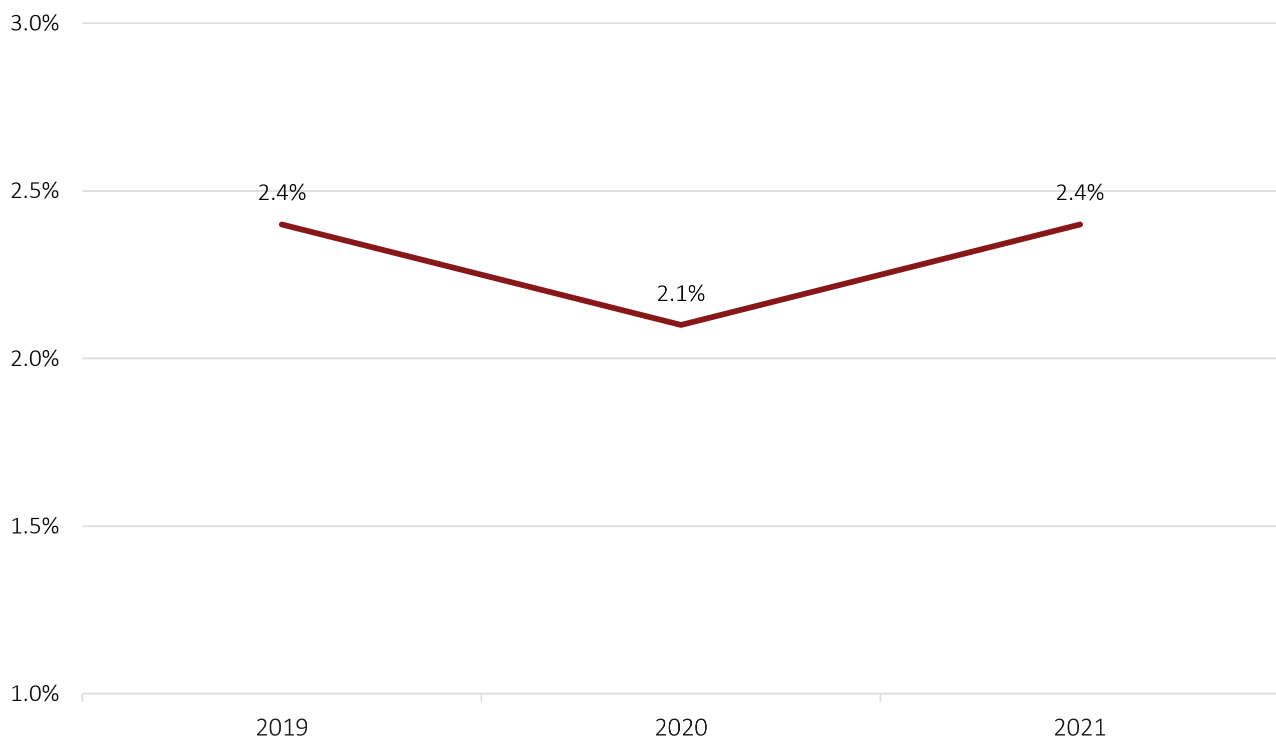
	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	2.38%	2.39%	1.82%
BoE	0.75%	0.75%	0.50%
BoJ	0.30%	0.30%	0.30%
ECB	-0.40%	-0.40%	-0.40%



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

1. BoJ as of 5/31/2019

Summary of Economic Projections of Federal Funds Rate

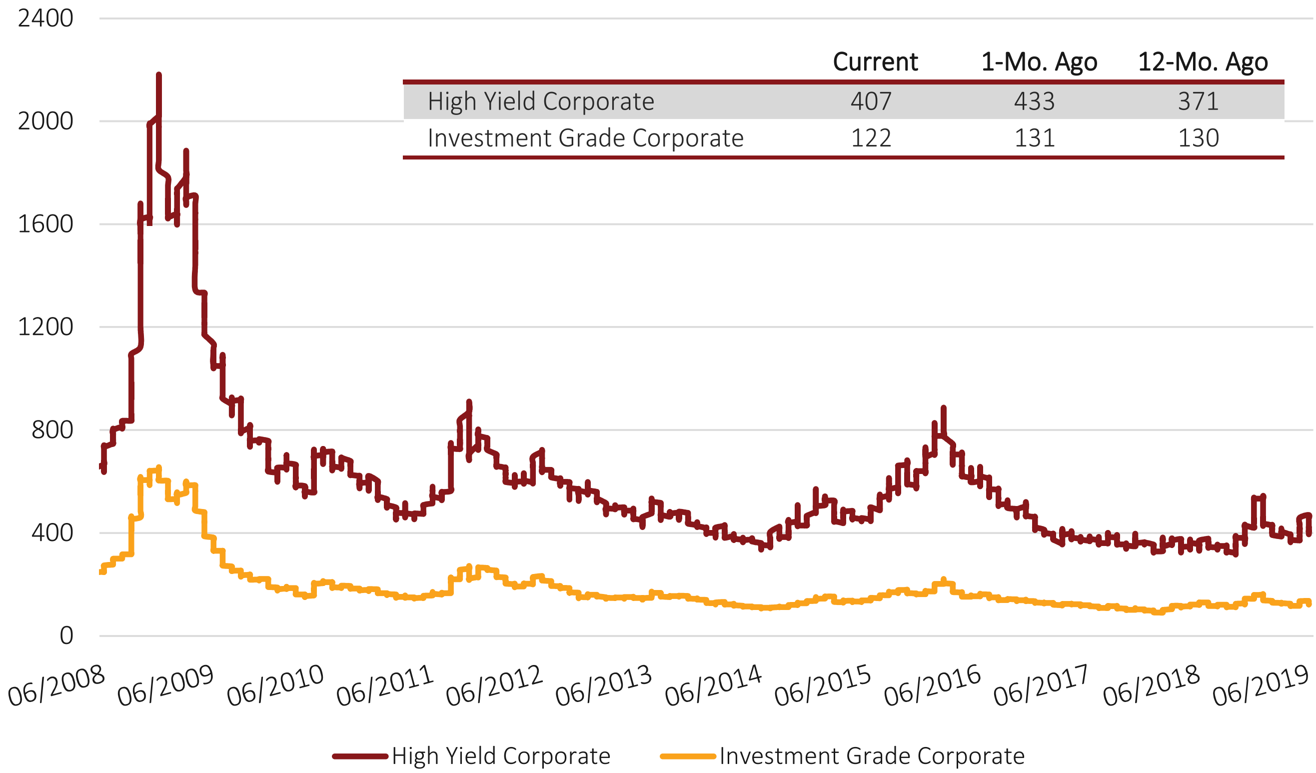


Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).

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

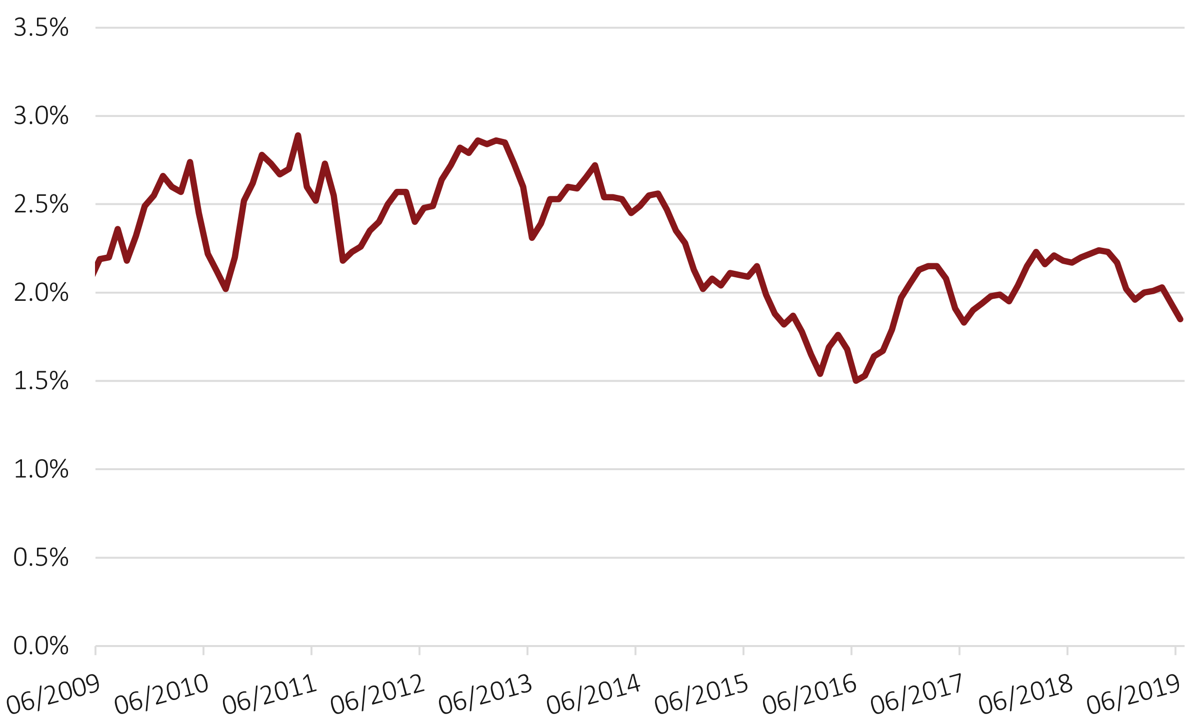
Corporate Bond Average Spread (bps)

	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	407	433	371
Investment Grade Corporate	122	131	130



Source: Bank of America

5-Year Forward Inflation Expectation Rate



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