

# **DeMarche Dashboard**

Data and Commentary for Periods Ended 8/31/2019

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## **Global Overview**

On August 1<sup>st</sup>, the United States announced a surprising new 10% tariff on \$300 billion of Chinese imports and threatened to raise existing tariffs on \$250 billion worth of goods. The tariffs kicked off what would become a month of volatility and negative performance for global equities. China responded with retaliatory tariffs on U.S. goods which may more directly impact consumers, such as cell phones, tennis shoes, and televisions. Global sovereign yields fell throughout the month as investor demand for less risky assets grew. Crude Oil fell into bear market territory in August as the supply overload persisted and trade tensions weighed on prices.

## **U.S. Markets & Economy**

U.S. Markets were negative in August, largely due to the unexpected escalation of the trade war. The S&P 500 sold off 4.5% from July's close in just the first three trading days of the month before recovering some of the losses. Worries of an impending recession caused a flight-to-safety, leading U.S. Treasury yields to decline sharply as demand for bonds and notes increased globally. The 10-year U.S. Treasury yield closed the month at 1.50% compared to 2.02% at July month-end, and the 30-year yield dipped below 2.0% for the first time ever. Trade concerns particularly impacted small cap companies, which may be more susceptible to margin compression caused by the increase in tariffs. Due to the decline in bond yields, investor capital flowed into the consumer staples and utilities sectors, which are commonly referred to as "bond proxies" due to their typically high dividend yields. Despite macroeconomic events causing market turmoil, corporate earnings growth continues to appear positive and was driven by the U.S. consumer. Economic data remains mixed as household spending is very strong by historical standards and the labor market remains robust, although homebuilding and manufacturing data, often regarded as leading indicators, continue to weaken.

- The S&P 500 Index returned -1.6% and the Russell 2000 Index returned -4.9% in August. Consumer staples, real estate, and utilities provided the best results while energy and financials were hit the hardest.
- Treasury investors enjoyed a strong month as bond prices rise when yields fall. The Bloomberg Barclays Aggregate Index, heavily weighted in government and agency issues, returned 2.6% in the month.

## **International Markets & Economy**

Non-U.S. equity markets were even more sensitive to the trade disputes as both the developed international and emerging markets had negative results in August. Eurozone bank stocks (within the financials sector) were hit particularly hard in August as investors fear commercial banks will be less profitable due to loan portfolios generating less income in the wake of lower interest rates. The German economy has hit a rough patch as their manufacturing sector slowed significantly, second quarter GDP growth was negative, and consumer spending slowed. Chinese equities were impacted by slowing GDP expectations related to weakening economic data and ongoing trade issues. Given that China represents over 30% of the MSCI Emerging Markets Index and is a major trading partner with many surrounding economies, underperformance in the Chinese equity market has a particularly severe impact on the EM Index overall.

- The MSCI EAFE Index returned -2.6% in the month, with particularly weak results out of Hong Kong and the UK. Consistent with the U.S., developed market financials and energy sectors were the worst performers.
- The MSCI Emerging Markets Index lost 4.9% in the month and is up just 3.9% year-to-date.

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## In the News

- The U.S. Treasury Yield curve inversion deepened in August, with the 2-year Treasury yield exceeding the 10-year Treasury yield for the first time since 2005. A yield curve inversion is a theoretical indicator of an upcoming recession or contraction in the coming 12-24 months, though it has not been proven to be an accurate indicator in each occurrence.
- British Prime Minister Boris Johnson's move to suspend parliament from September 12<sup>th</sup> to October 14<sup>th</sup> was approved by the Queen. The announcement limits the amount of time for the opposing Members of Parliament to propose a new Brexit deal before the European Union's deadline of October 31<sup>st</sup>.
- Protests in Hong Kong intensified in the month of August as protestors demand political independence from China. The protest related closure of Hong Kong's airport has materially impacted their economy, as the airport and general tourism compose a meaningful portion of the financial hub's GDP.
- Gold, the world's most popular precious metal, rose above \$1,500/oz for the first time since 2013 and continues to hit multi-year highs. Base metals such as copper, comparatively, have diverged in price movement from precious metals as manufacturer demand for raw goods has declined in both the U.S. and greater Europe.

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation <sup>2</sup> <i>(Most recently available)</i>
	Latest	2019 <sup>1</sup>	2020 <sup>1</sup>			Current	1 Year Ago	
<b>United States</b>	2.30	2.82	2.28	3.70	1.50	-	-	2.21
<b>China</b>	6.20	6.20	6.01	3.60	3.07	7.15	6.84	2.67
<b>Japan</b>	1.20	0.66	0.61	2.30	-0.16	106.30	111.17	0.69
<b>United Kingdom</b>	1.20	1.22	0.98	3.90	0.83	1.22	1.30	1.89
<b>Euro Area</b>	1.10	1.20	1.40	7.50	0.25	1.10	1.16	1.12
<b>Germany</b>	0.40	0.74	1.20	3.10	-0.39	1.10	1.16	1.63
<b>France</b>	1.30	1.30	1.25	8.70	0.08	1.10	1.16	1.07
<b>Italy</b>	0.00	0.04	0.55	9.70	2.28	1.10	1.16	0.85
<b>Canada</b>	1.30	1.27	1.99	5.70	1.52	1.33	1.30	2.24
<b>India</b>	5.80	7.16	7.43	7.50	6.00	68.74	68.69	8.59
<b>Mexico</b>	-0.80	1.63	2.02	3.60	7.68	20.07	19.16	3.95
<b>Brazil</b>	0.50	1.36	2.27	12.00	6.58	4.13	4.20	3.37

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

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(2.05)	4.93	15.15	0.26	9.63	6.15	9.20
	BBgBarc US Agg Bond TR USD	2.59	4.11	9.10	10.17	3.09	3.35	3.91
	Russell 3000 TR USD	(2.04)	6.40	18.02	1.31	12.24	9.60	13.35
	DJ Industrial Average TR USD	(1.32)	7.07	15.14	4.12	15.50	11.77	13.60
	NASDAQ Composite PR USD	(2.60)	6.84	20.01	(1.81)	15.17	11.70	14.76
	MSCI EAFE NR USD	(2.59)	1.88	9.66	(3.26)	5.91	1.89	5.00
	FTSE Treasury Bill 3 Mon USD	0.19	0.59	1.61	2.36	1.47	0.92	0.50
	Bloomberg Commodity TR USD	(2.32)	(0.37)	1.93	(5.89)	(0.87)	(8.58)	(4.28)
Domestic Equities	S&P 500 TR USD	(1.58)	6.87	18.34	2.92	12.70	10.11	13.45
	S&P MidCap 400 TR	(4.19)	4.35	14.37	(6.43)	8.06	7.22	12.85
	S&P SmallCap 600 TR USD	(4.51)	3.77	9.80	(15.06)	8.37	7.97	13.22
	Russell 1000 TR USD	(1.83)	6.69	18.48	2.49	12.57	9.85	13.49
	Russell 1000 Growth TR USD	(0.77)	8.44	23.28	4.27	17.03	13.06	15.42
	Russell 1000 Value TR USD	(2.94)	4.89	13.75	0.62	8.08	6.59	11.49
	Russell Mid Cap TR USD	(2.85)	5.31	19.57	0.54	10.05	7.94	13.48
	Russell Mid Cap Growth TR USD	(1.82)	7.53	26.68	5.96	14.92	10.72	14.85
	Russell Mid Cap Value TR USD	(3.53)	3.85	14.81	(3.13)	6.54	5.88	12.46
	Russell 2000 TR USD	(4.94)	2.37	11.85	(12.89)	7.89	6.41	11.59
	Russell 2000 Growth TR USD	(4.32)	4.06	16.30	(11.02)	10.62	8.06	13.06
	Russell 2000 Value TR USD	(5.58)	0.59	7.31	(14.89)	5.05	4.63	10.05
International Equities	MSCI ACWI Ex USA NR USD	(3.09)	1.50	8.76	(3.27)	5.87	1.37	4.71
	MSCI EAFE NR USD	(2.59)	1.88	9.66	(3.26)	5.91	1.89	5.00
	MSCI EAFE Growth NR USD	(1.21)	4.82	16.60	0.81	7.89	4.49	6.83
	MSCI EAFE Value NR USD	(4.11)	(1.27)	2.72	(7.42)	3.79	(0.80)	3.10
	MSCI Japan NR USD	(1.01)	2.83	6.81	(5.61)	5.38	4.63	4.91
	MSCI AC Asia Ex Japan NR USD	(4.38)	0.11	3.98	(6.34)	6.31	2.64	6.25
	MSCI Europe NR USD	(2.52)	2.02	10.70	(3.03)	5.92	1.05	4.81
	MSCI United Kingdom NR USD	(4.68)	(1.72)	5.69	(5.13)	3.56	(1.44)	4.62
Fixed Income	MSCI EAFE Small Cap NR USD	(2.47)	0.95	8.99	(9.16)	5.99	4.26	7.68
	MSCI EM NR USD	(4.88)	(0.17)	3.90	(4.36)	5.76	0.38	4.07
	BBgBarc US Govt/Credit TR USD	3.26	4.95	10.56	11.42	3.36	3.58	4.14
	BBgBarc US Govt/Credit Interm TR USD	1.77	2.83	6.79	8.12	2.57	2.65	3.17
	BBgBarc US Govt/Credit Long TR USD	7.87	11.68	23.29	22.32	5.79	6.68	7.90
	ICE BofAML US High Yield TR USD	0.39	3.38	11.15	6.58	6.19	4.85	8.44
	Credit Suisse HY USD	0.34	3.23	10.81	6.09	6.14	4.63	8.28
	S&P/LSTA Leveraged Loan TR	(0.27)	0.77	6.30	3.33	4.66	3.76	5.50
REITs	FTSE WGBI NonUSD USD	2.22	4.77	7.09	7.33	1.48	0.70	1.58
	BBgBarc Gbl Agg Ex USD TR USD	1.59	3.87	5.89	5.71	1.25	0.29	1.70
	FTSE Nareit All REITs TR	3.40	6.73	24.73	14.35	7.75	9.16	13.76
	Wilshire US REIT TR USD	3.34	6.46	23.78	12.03	5.48	8.26	13.52

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

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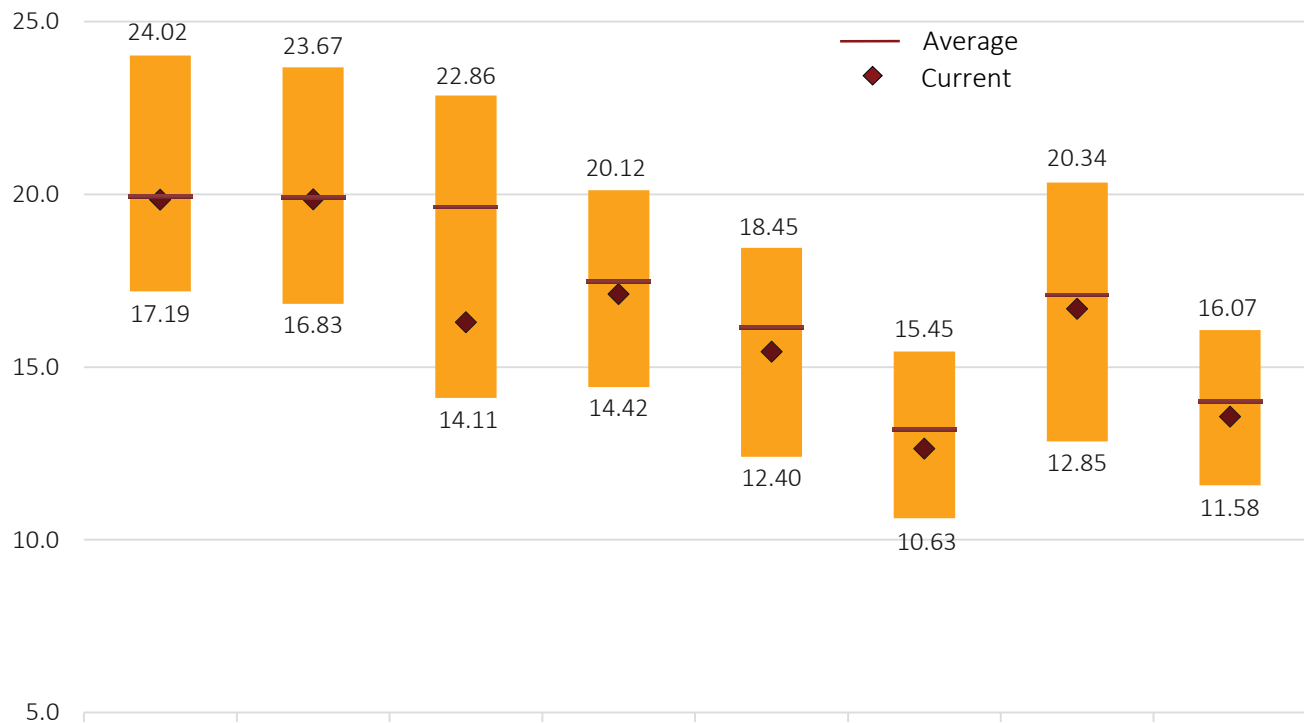
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## S&P 500 Price Level



Source: Standard & Poors

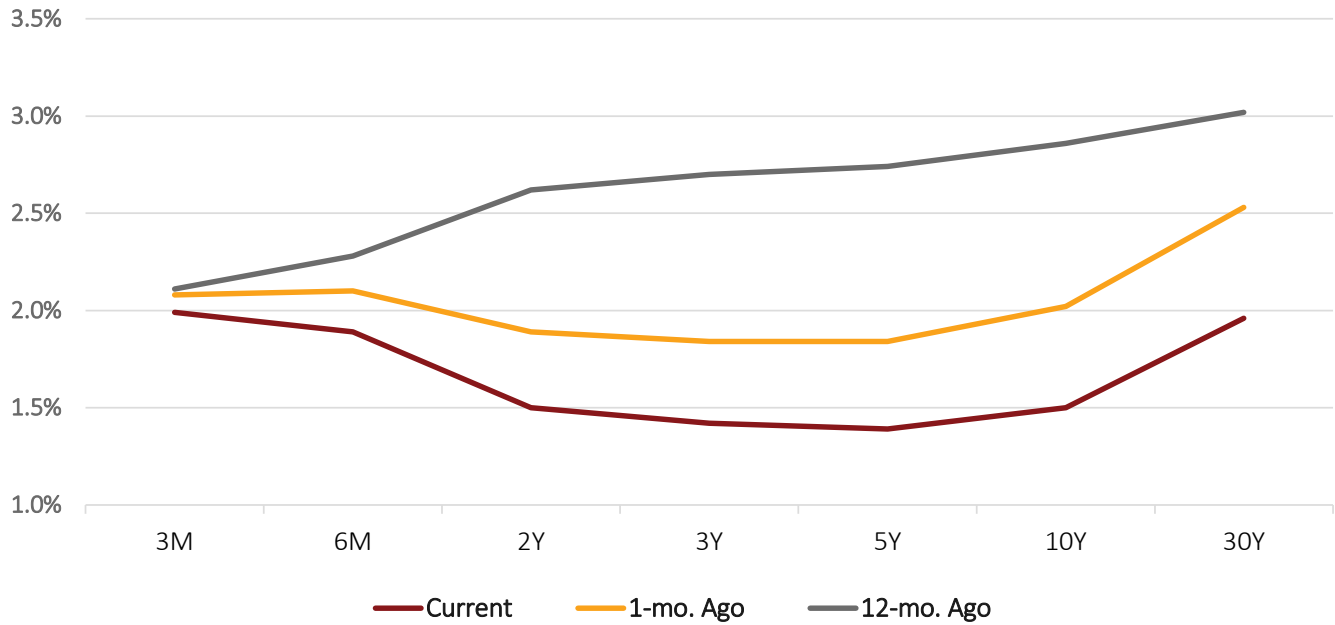
## Current P/E vs. Trailing 5-Year High, Low, Average



	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

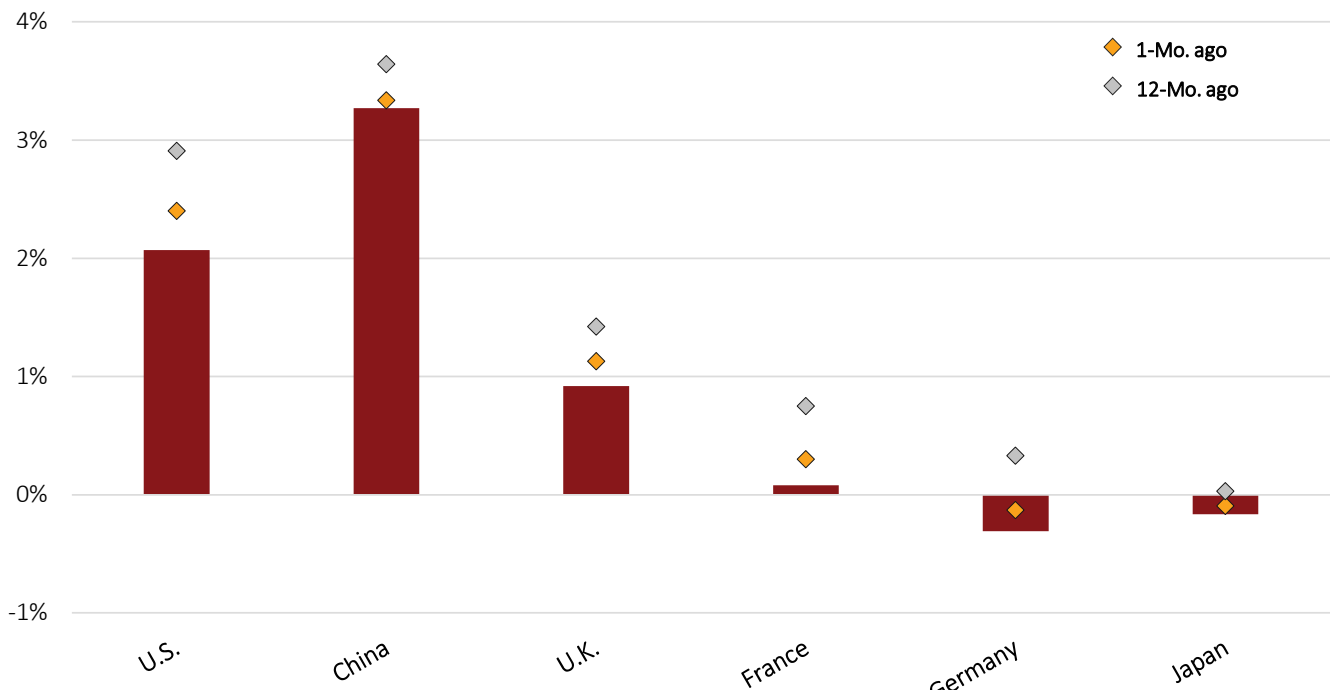
Source: Standard & Poors, FTSE/Russell, MSCI

## U.S. Treasury Yield Curves as of 8/31/2019



Source: Federal Reserve Bank of St. Louis

## 10 Year Sovereign Yields as of 6/30/2019



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

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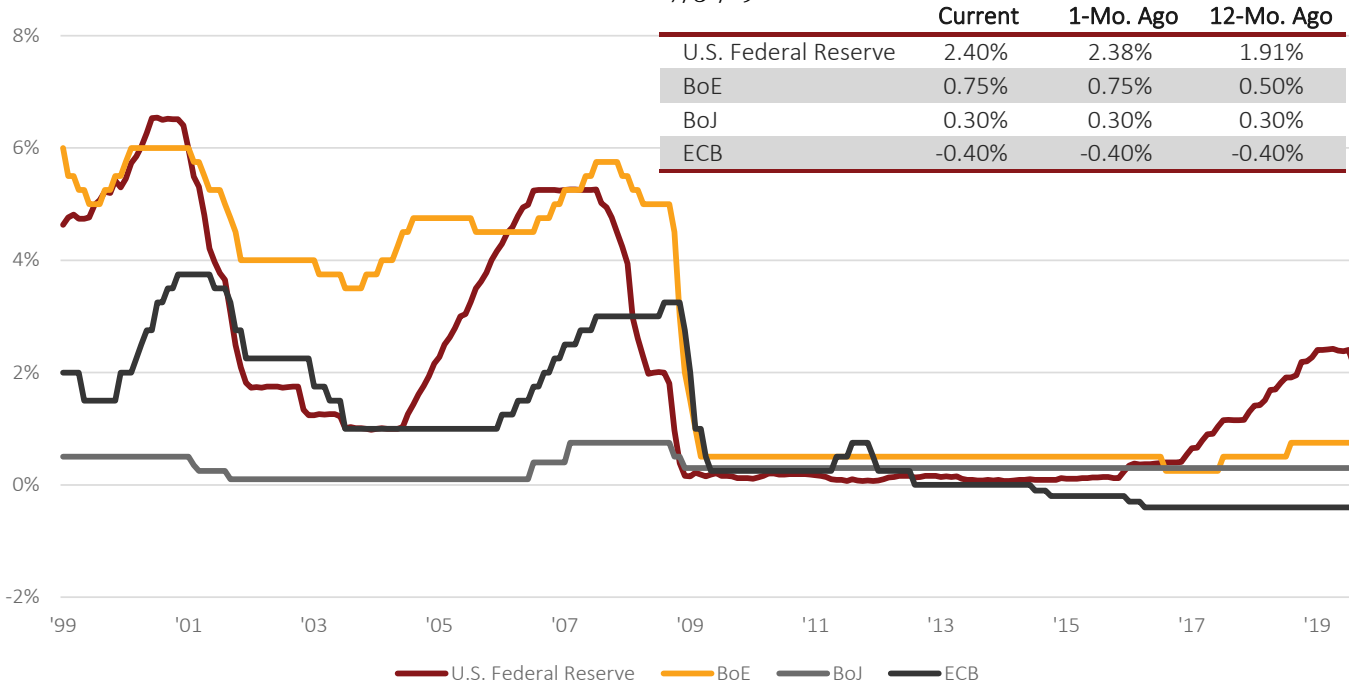
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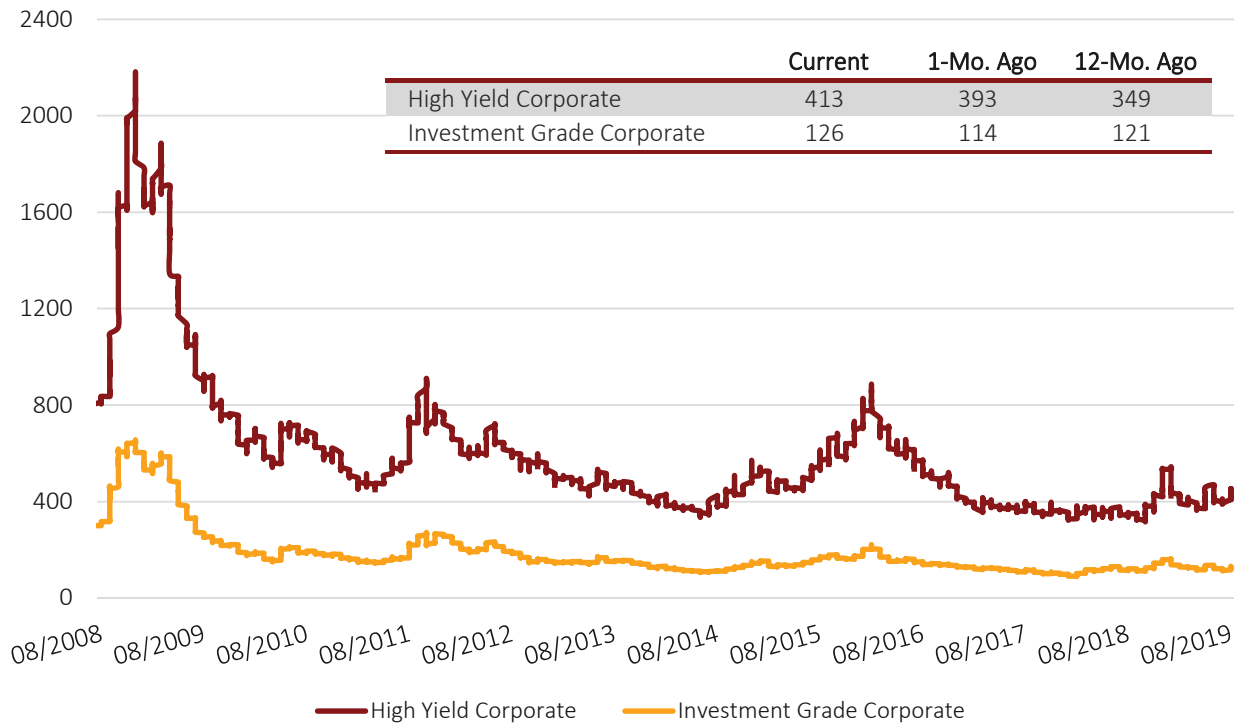
## Central Bank Policy Rates

as of 7/31/19



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

## Corporate Bond Average Spread (bps)



Source: Bank of America