DeMarche Dashboard

Data and Commentary for Periods Ended 7/31/2019

Global Overview

- **Markets** – Global equity markets were a bit sluggish in July as companies reported second quarter earnings. U.S. equities provided leadership versus other major markets, particularly in growth oriented sectors. The Federal Reserve voted to cut rates for the first time since 2008, and the ECB provided language that implied further easing is likely in order to spur economic growth and inflation. The U.S. Dollar continued to strengthen versus many of the world's major currencies, including the Chinese Yuan, the British Pound Sterling, and the Euro.

- **Developed Markets** – Developed equity markets were a mixed bag with the United States continuing to outperform other developed markets due to broadly positive economic data and solid second quarter earnings. 10-year developed market sovereign yields broadly declined further in July in contrast with widening global credit spreads. U.S. REITs picked back up in July, providing investors with returns north of 20% year-to-date. Commodities had mixed results in July amid crude oil falling towards a bear market, while gold extended prices to a seven-year high.

- **Emerging Markets** – Emerging market equities declined alongside developed ex-U.S. markets as weakness brought forth by global trade disputes began to show up in economic data. The trade disputes are not limited to the U.S. versus China, however, as aggravations between Japan and Korea intensified after Japan claimed South Korea had been leaking information to North Korea. These accusations have led the South Korean government to look into removing Japan's preferred trade status. Emerging market debt (hard currency) provided positive results again in July despite a strengthening dollar hampering the sovereign nations and corporations ability to service debt payments.

U.S. Economy and Markets

- The S&P 500 Index gained 1.4% in July during a somewhat muted month of activity following June's strong results. The S&P 500 briefly reached all-time highs at 3,026 before settling back down to close the month at 2,980. Large cap growth stocks outperformed large cap value stocks by nearly 1.5% in July, and have provided investors a year-to-date return of 24.2%. The dispersion between growth and value exceeds 7.0% year-to-date.
    - S&P 500 sector returns were somewhat mixed with communication services (3.4%) and information technology (3.3%) leading the way, while energy (-1.8%) and health care (-1.6%) detracted.
- Small cap stocks lagged their large cap counterparts though still provided positive returns for investors. The Russell 2000 Index posted a monthly gain of 0.6%. The growth versus value dispersion in small caps is even more prevalent than in large caps, stretching to nearly 8.0% thus far in 2019. The Russell Midcap Index, consisting of approximately 800 companies with market capitalizations between $8 billion and $70 billion, continues to lead the U.S. market, providing a return of 1.4% in July and 23.1% year-to-date.
    - Russell 2000 sector returns were dispersed as the Russell telecommunications sector (similar to the S&P communication services sector) returned 6.7% while the energy sector lost nearly 7.5%.
- The yield curve (3-month to 10-year) extended its inversion to 46 straight trading days to close July with the 10-year U.S. Treasury yield at 2.02% compared to the 3-month bill at 2.08%. The 10-year yield dipped below 2.0% both in early and late-July in anticipation of the rate-cut on July 31st. Bond investors experienced a mixed month as treasury spreads tightened while investment grade and high yield corporate credit spreads broadly widened. The Bloomberg Barclays Aggregate Index closed July up 0.2% and the ICE BofA Merril Lynch High Yield Index gained 0.5% as corporate bonds outperformed government bonds despite widening credit spreads.

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- U.S. payrolls increased by 164,000 during July, in line with expectations. Wages increased by 3.2% year-over-year and unemployment remained near all-time-lows. Arguably the most interesting insight from the July jobs report was the total labor force grew to 163.4 million, the largest ever recorded. The biggest news of July was the Federal Reserve's decision to cut the fed funds rate from 2.25% to by 2.0% on July 31st, a highly anticipated action many investors assumed to be previously priced in to equity markets as expectations of a rate cut increased. The rate cut was the first since December 2008. Current Fed Chair Jerome Powell called the cut a "mid-cycle adjustment" aimed to brace the economy from any outside forces and to spur inflation to the 2% target. Powell's comments seemed to spook investors expecting further rate cuts on into the third and fourth quarters. The market sold-off on Powell's less dovish tone, sharply reversing course from the market open to end the day down 1%.

International Markets

- The MSCI EAFE Index (USD) lost 1.3% in July as continued signs of manufacturing weakness among the largest players in the Eurozone and intensifying political changes served as headwinds for the developed market index. The weak returns of the UK (-1.8%), France (-2.4%), and Germany (-3.5%), the three largest economies in Europe, were due to slowing growth, weakening currency adjustments (versus the dollar), and weak economic data. The MSCI EAFE energy and materials sectors were also hit hard during the month due to falling oil prices and impacts from global trade conditions affecting manufacturer's ability to generate positive results. Hong Kong, a relatively small constituent of the MSCI EAFE Index, has become a political hotbed as protests erupted following the passing of a bill allowing for the extradition of Hong Kong citizens to mainland China. The bill incited fears that the "one country, two systems" principals that protected the rights of Hong Kong residents was being undermined, spreading to broader demands for democratic reform. The MSCI Emerging Market Index (USD) declined 1.2% in July as China posted its second straight month of weak performance. Similar to developed ex-U.S. markets, the materials (-5.3%) and energy (-2.1%) sectors were hit by global headwinds along with financials (-2.6%) and industrials (-3.3%).

- China's GDP growth rate slowed in the second quarter of 2019 to its lowest rate since 1992. The global economy has become accustomed to China playing a big role in maintaining worldwide economic growth due to Beijing's increased infrastructure spending and fixed asset business investment. There are concerns that China's structural slowdown and slower GDP growth rate is starting to spread across the global economy. The EU's second quarter GDP slowed to a 0.8% rate of growth, down from 1.8% during the first quarter 2019. The UK surprisingly posted negative GDP growth (quarter-over-quarter) for the first time since 2012. The Eurozone's service sector remains robust, but manufacturing activity has dropped significantly due to its export-driven nature. Due to China having to manage higher debt to GDP levels, they have been attempting to stimulate the economy in other ways, such as tax cuts, over direct job creation. This shift in China's implementation of stimulus has started to change the effect China's growth has on the global economy. Between 1986 and 2008, for every extra point of global GDP growth, China's imports increased by 2.2%. However, the global GDP growth effect on China's imports between 2011 and 2018 has declined to 1.4% and is expected to have declined to 0.6% over the last 12 months. Economies such as the U.S. which are more domestically focused will have a greater ability to be protected from China's slowdown, compared to surrounding countries such as Taiwan, Vietnam, or Korea, which may face significant headwinds from a sustained decline in Chinese growth.

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Looking Forward

- In the month of July, the British pound sunk to its weakest level in more than two years driven by fears that new Prime Minister Boris Johnson is planning to take the United Kingdom out of the European Union without a deal. The currency lost over 4% of its value (in USD terms) over the course of June and July. Capital flows out of sterling were the highest they have been since December of last year, coinciding with concerns over a no-deal exit. The Chinese government has spurred a devaluation in the yuan to the point where tensions between the U.S. and China have moved onto the topic of currency manipulation. Chinese officials are making the move in order to spur growth in light of a decline in exports. The dollar held near a two month-high at the end of July ahead the first U.S. interest rate cut since the financial crisis. The rate cut is seen by many as a pre-emptive move to counteract pressure from global uncertainties and ongoing trade disputes. Additionally, the relative strength of U.S. GDP data reported in late July strengthened the dollar in terms of attractiveness against peers. Trade weighted currency fluctuations appear to be one of many key drivers of national economic growth moving forward as trade tensions and other geopolitical concerns mount.

- Christine Lagarde was nominated in July to take over the helm as the leader of the European Central Bank following the end of Mario Draghi's term this coming November. The French finance and economy minister was the first female managing director of the International Monetary Fund, notably overseeing the bailout programs during the Greek sovereign debt crisis in 2012. Ms. Lagarde, the first female ECB President, has the backing of current President Mario Draghi as his nomination was approved by the 28 European national leaders in early July. Christine Lagarde will be tasked with improving upon the sluggish levels of growth experienced in the Eurozone since the great financial crisis, and may choose to do so through dovish monetary policy. Lagarde's track record and previous comments suggest her support for Draghi's economic stimulus, including the previously enacted bond-buying program and the necessity of negative interest rates in certain instances. The ECB is expected to further ease monetary stances in the coming month in response to a potential economic slowdown and Lagarde's comments will be scrutinized by market participants in order to glean any further insight on upcoming policy changes.

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	2.30	2.82	2.28	3.70	2.02	-	-	2.21
China	6.20	6.20	6.01	3.60	3.18	6.88	6.80	2.67
Japan	0.90	0.66	0.61	2.30	-0.16	94.54	108.10	0.69
United Kingdom	1.80	1.22	0.98	3.80	0.83	1.67	1.98	1.89
Euro Area	1.10	1.20	1.40	7.50	0.25	1.11	1.17	1.12
Germany	0.70	0.74	1.20	3.10	-0.39	1.11	1.17	1.63
France	1.30	1.30	1.25	8.70	0.08	1.11	1.17	1.07
Italy	0.00	0.04	0.55	9.70	2.28	1.11	1.17	0.85
Canada	1.30	1.27	1.99	5.50	1.52	1.31	1.30	2.24
India	5.80	7.16	7.43	7.50	6.25	68.74	68.69	8.59
Mexico	-0.70	1.63	2.02	3.50	7.68	18.99	18.60	3.95
Brazil	0.50	1.36	2.27	12.00	6.51	3.76	3.75	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

Capital Markets Overview

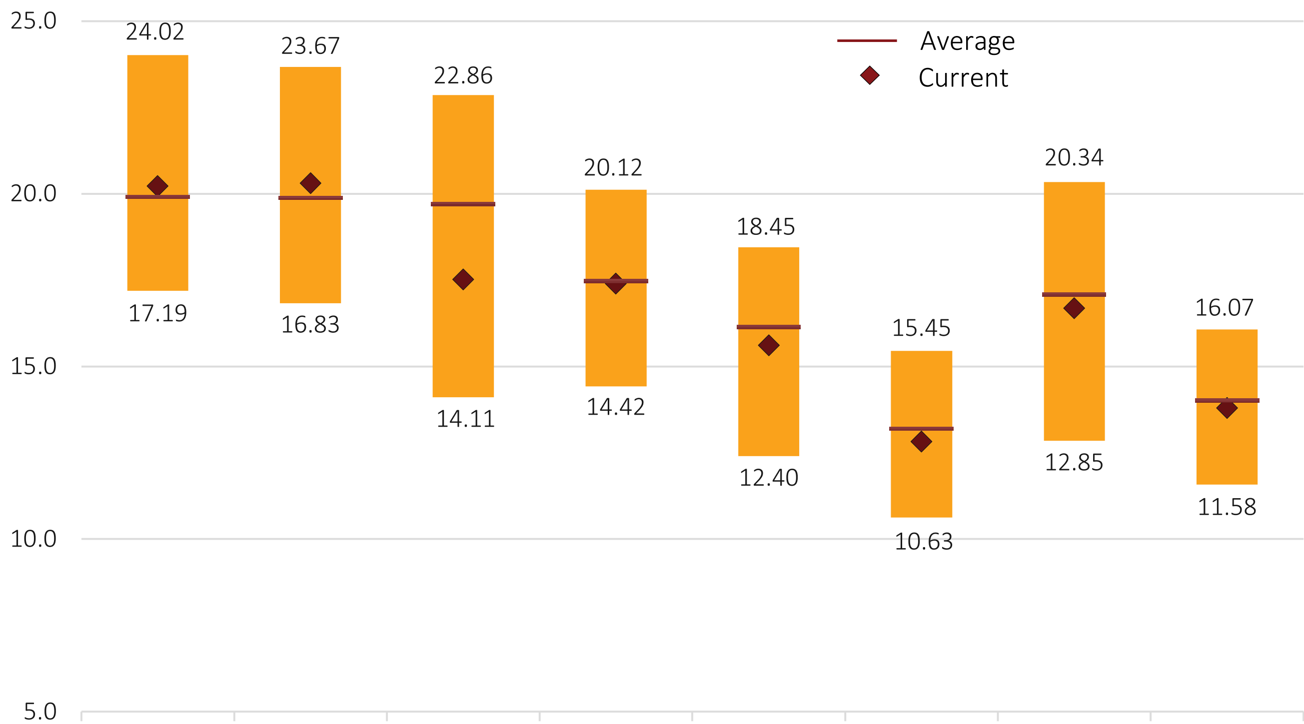
		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	0.50	0.94	17.56	3.62	10.42	7.05	9.87
	BBgBarc US Agg Bond TR USD	0.22	3.28	6.35	8.08	2.17	3.05	3.75
	Russell 3000 TR USD	1.49	1.59	20.48	7.05	13.11	10.96	13.98
	DJ Industrial Average TR USD	1.12	1.65	16.69	8.22	16.11	12.87	14.19
	NASDAQ Composite PR USD	2.11	0.99	23.21	6.56	16.56	13.35	15.24
	MSCI EAFE NR USD	(1.27)	(0.44)	12.58	(2.60)	6.87	2.39	5.84
	FTSE Treasury Bill 3 Mon USD	0.20	0.61	1.42	2.33	1.42	0.88	0.48
	Bloomberg Commodity TR USD	(0.67)	(1.44)	4.35	(5.36)	(0.68)	(8.34)	(4.11)
Domestic Equities	S&P 500 TR USD	1.44	1.69	20.24	7.99	13.36	11.34	14.03
	S&P MidCap 400 TR	1.19	0.24	19.38	0.79	9.79	9.23	13.82
	S&P SmallCap 600 TR USD	1.14	(0.82)	14.98	(6.75)	10.54	9.89	14.00
	Russell 1000 TR USD	1.55	1.76	20.69	8.00	13.31	11.15	14.10
	Russell 1000 Growth TR USD	2.26	2.38	24.23	10.82	17.13	14.25	15.74
	Russell 1000 Value TR USD	0.83	1.12	17.20	5.20	9.44	8.01	12.40
	Russell Mid Cap TR USD	1.43	1.74	23.08	6.71	11.02	9.59	14.35
	Russell Mid Cap Growth TR USD	2.33	3.22	29.03	14.15	15.51	12.30	15.41
	Russell Mid Cap Value TR USD	0.83	0.73	19.00	1.78	7.75	7.53	13.59
	Russell 2000 TR USD	0.58	(0.69)	17.66	(4.42)	10.36	8.53	12.47
	Russell 2000 Growth TR USD	0.98	0.69	21.54	(1.22)	12.66	10.21	13.67
	Russell 2000 Value TR USD	0.16	(2.16)	13.65	(7.71)	7.96	6.74	11.19
International Equities	MSCI ACWI Ex USA NR USD	(1.21)	(0.88)	12.22	(2.27)	7.20	2.12	5.42
	MSCI EAFE NR USD	(1.27)	(0.44)	12.58	(2.60)	6.87	2.39	5.84
	MSCI EAFE Growth NR USD	(0.36)	2.01	18.04	1.76	7.82	4.79	7.30
	MSCI EAFE Value NR USD	(2.25)	(3.00)	7.12	(6.97)	5.82	(0.07)	4.29
	MSCI Japan NR USD	0.14	(0.23)	7.90	(4.44)	5.87	4.38	5.42
	MSCI AC Asia Ex Japan NR USD	(1.77)	(4.23)	8.74	(3.05)	9.10	3.70	6.37
	MSCI Europe NR USD	(1.94)	(1.08)	13.56	(3.31)	6.93	1.65	5.72
	MSCI United Kingdom NR USD	(1.80)	(3.09)	10.87	(4.65)	5.29	(0.42)	5.69
	MSCI EAFE Small Cap NR USD	(0.71)	(1.97)	11.75	(7.61)	6.67	4.75	8.79
	MSCI EM NR USD	(1.22)	(2.67)	9.23	(2.18)	8.42	1.84	4.56
Fixed Income	BBgBarc US Govt/Credit TR USD	0.15	3.63	7.06	8.60	2.19	3.16	3.92
	BBgBarc US Govt/Credit Interm TR USD	(0.03)	2.36	4.93	6.87	1.88	2.43	3.09
	BBgBarc US Govt/Credit Long TR USD	0.73	7.80	14.29	14.36	3.14	5.76	7.30
	ICE BofAML US High Yield TR USD	0.51	1.67	10.72	6.94	6.83	5.08	8.62
	Credit Suisse HY USD	0.45	1.48	10.44	6.44	6.85	4.86	8.44
	S&P/LSTA Leveraged Loan TR	0.80	0.83	6.59	4.03	5.02	3.85	5.76
	FTSE WGBI NonUSD USD	(0.70)	3.86	4.77	4.24	0.39	0.30	1.59
	BBgBarc Gbl Agg Ex USD TR USD	(0.72)	3.31	4.24	3.74	0.45	0.01	1.77
REITs	FTSE Nareit All REITs TR	1.58	3.44	20.64	13.55	5.38	9.16	14.70
	Wilshire US REIT TR USD	1.58	3.42	19.78	11.61	3.18	8.15	14.70

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

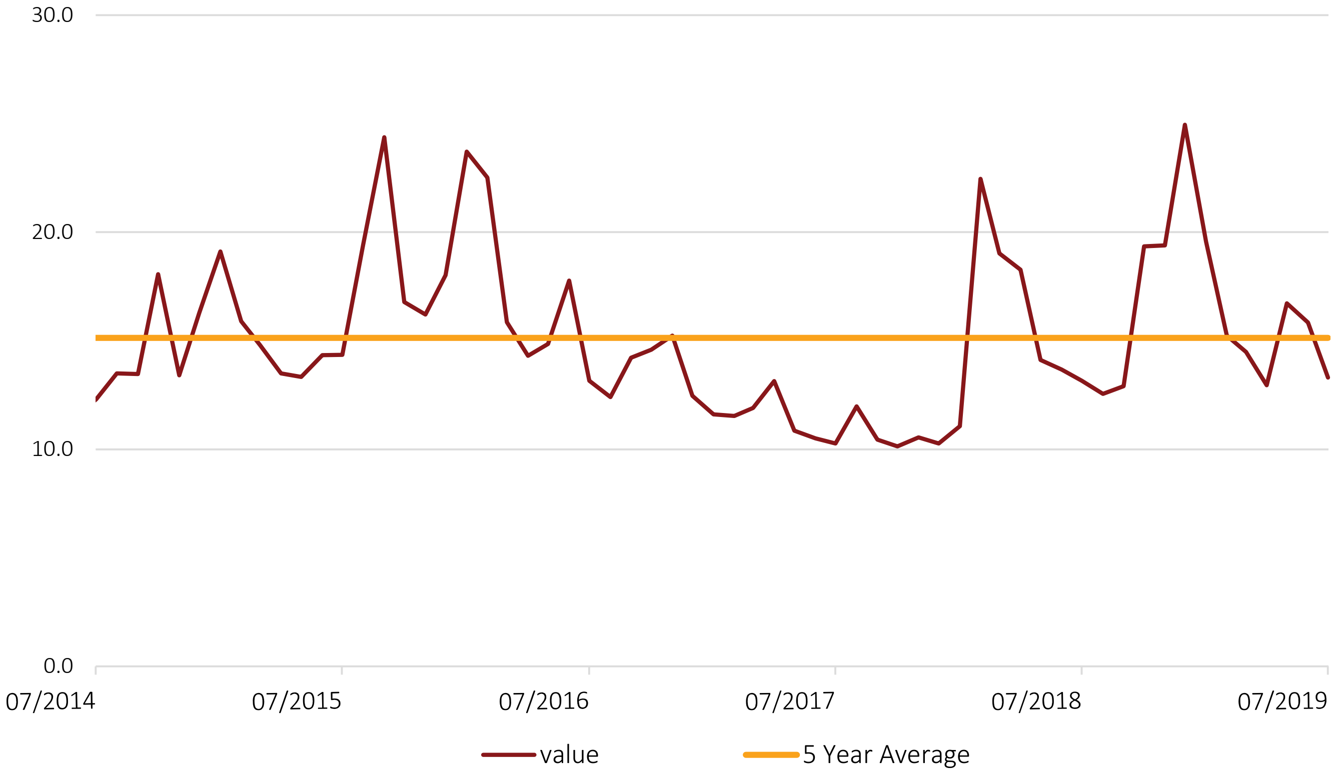
Current P/E vs. Trailing 5-Year High, Low, Average



	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

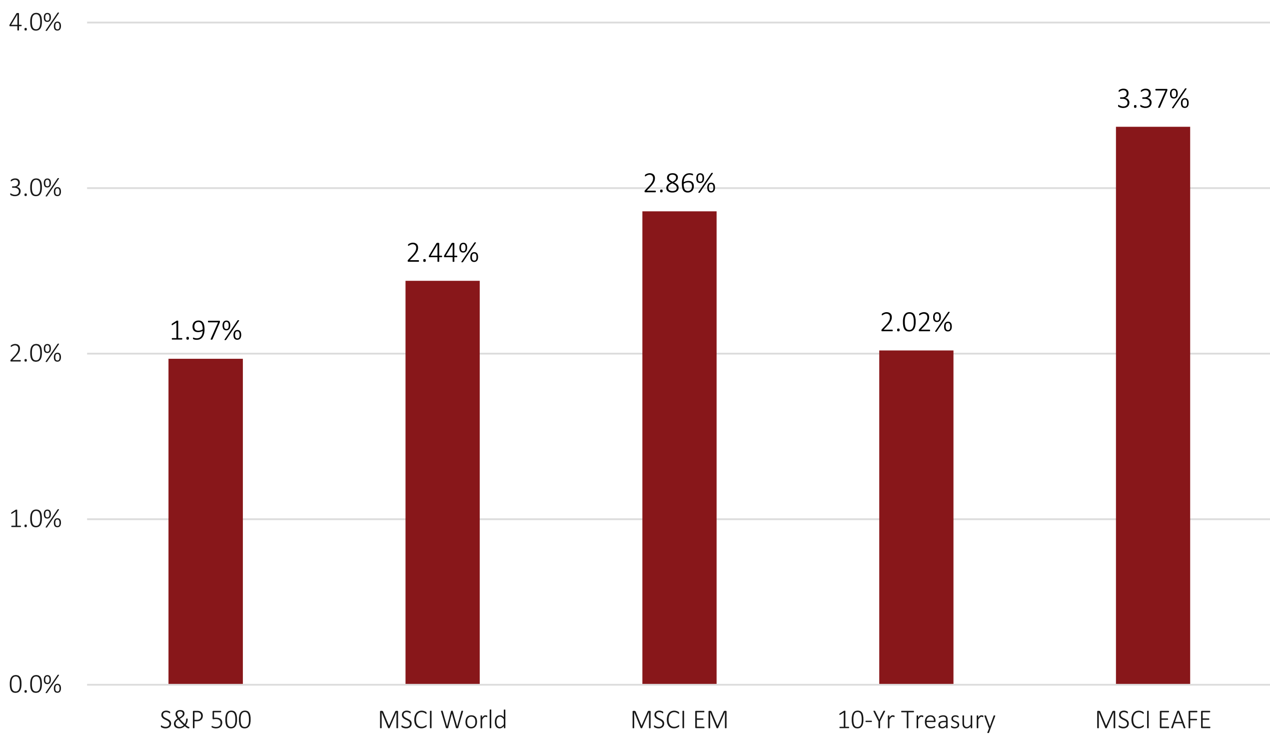
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX

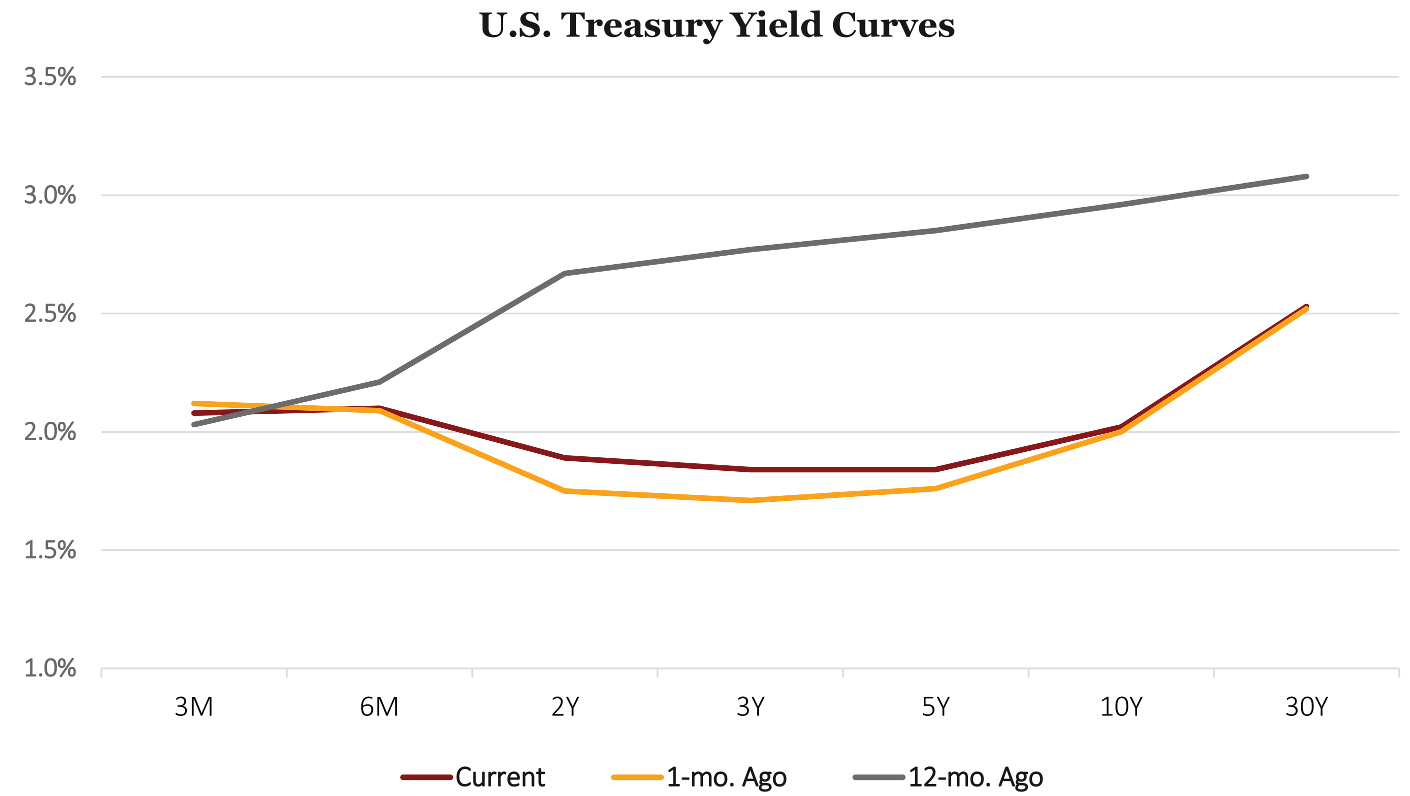


Source: CBOE Global Markets, Inc.

Current Yields



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



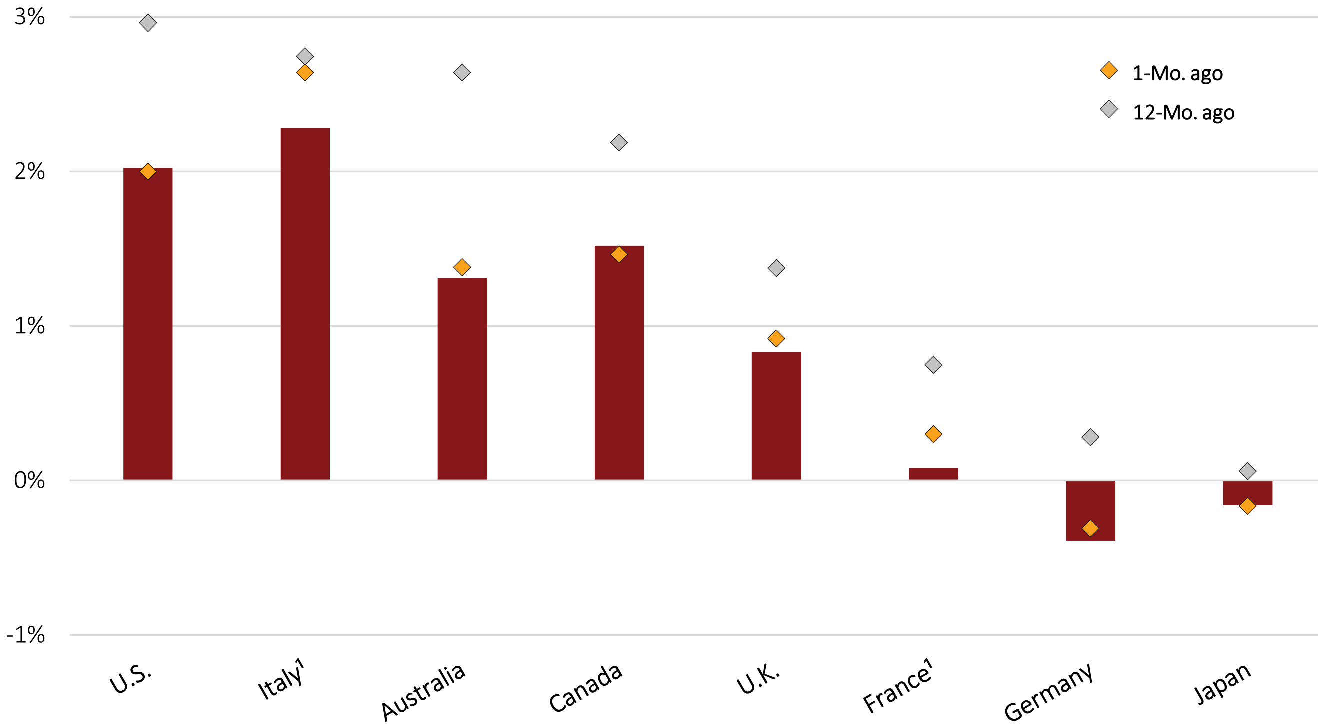
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo. Ago
3-mo. Treasury	2.08	2.12	2.03
6-mo. Treasury	2.10	2.09	2.21
2-yr. Treasury	1.89	1.75	2.67
3-yr. Treasury	1.84	1.71	2.77
5-yr. Treasury	1.84	1.76	2.85
10-yr. Treasury	2.02	2.00	2.96
30-yr. Treasury	2.53	2.52	3.08

Source: Federal Reserve Bank of St. Louis

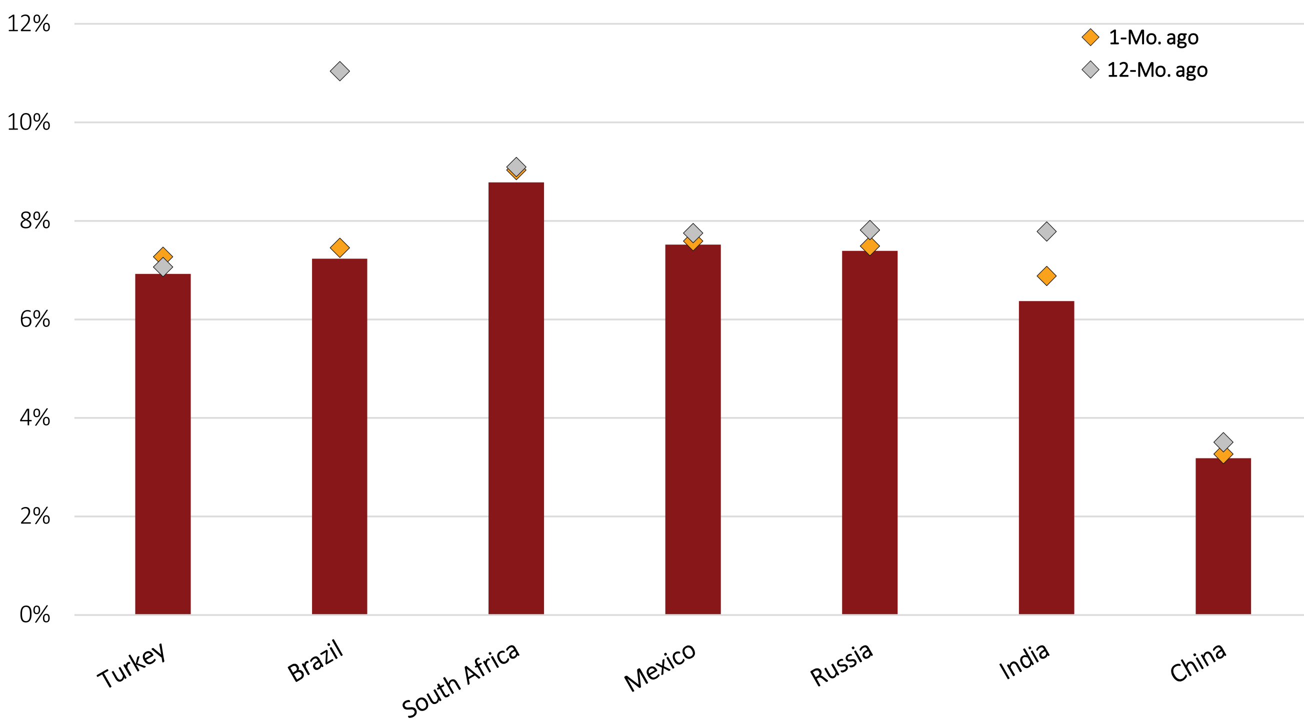
Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis

1. Italy and France's 10 Year Sovereign Yield as of 6/30/2019.

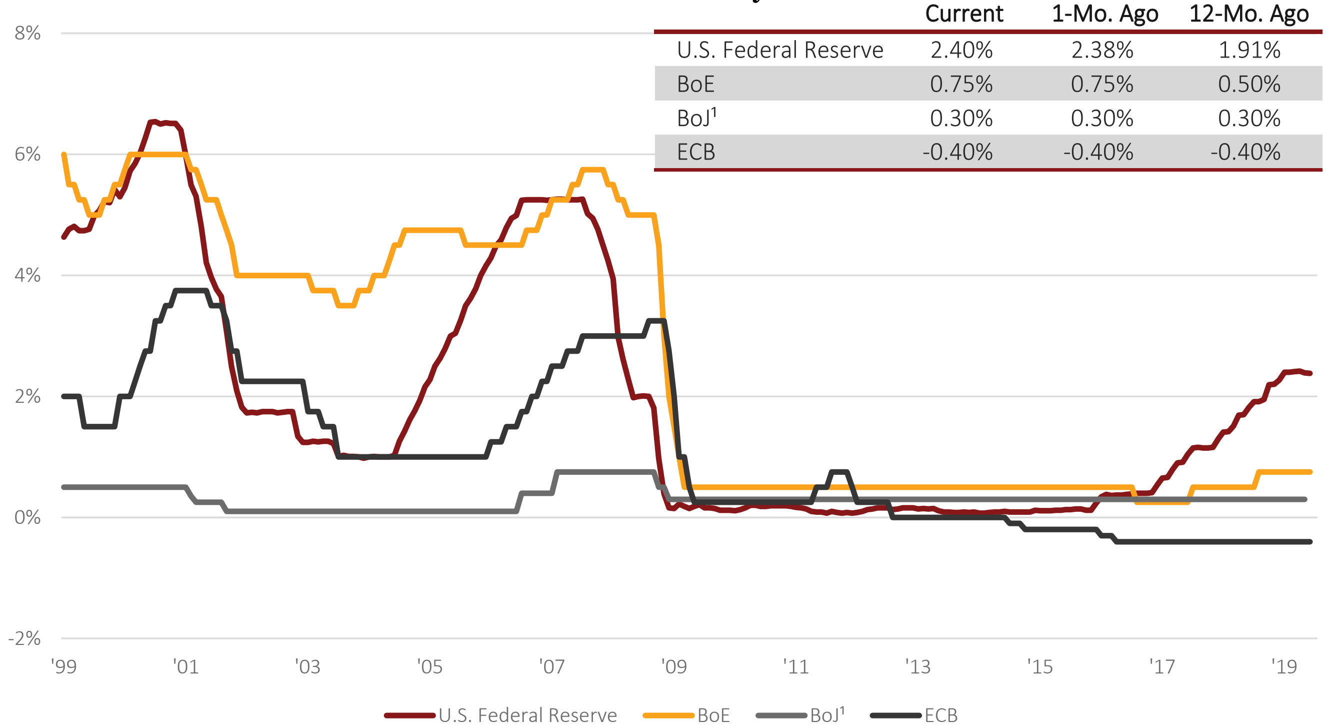
Emerging Markets 10 Year Sovereign Yields



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

Central Bank Policy Rates

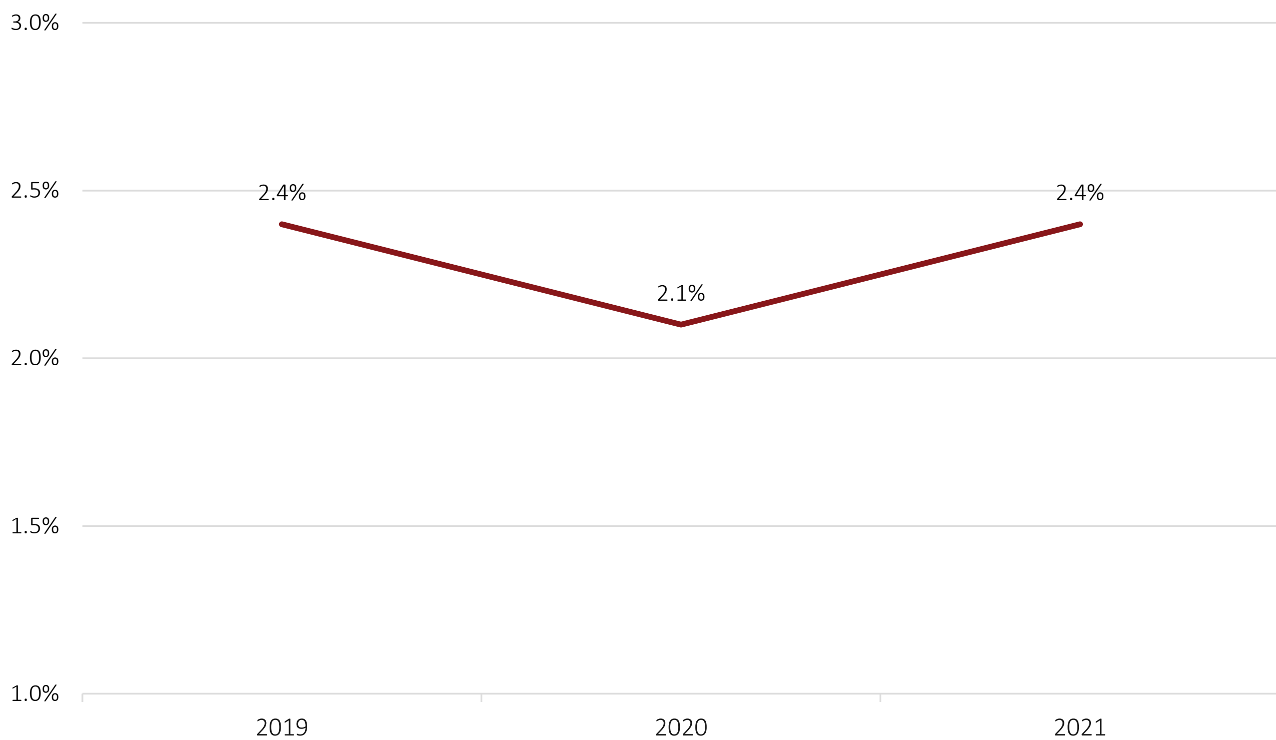
	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	2.40%	2.38%	1.91%
BoE	0.75%	0.75%	0.50%
BoJ[1]	0.30%	0.30%	0.30%
ECB	-0.40%	-0.40%	-0.40%



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

1. BoJ as of 5/31/2019

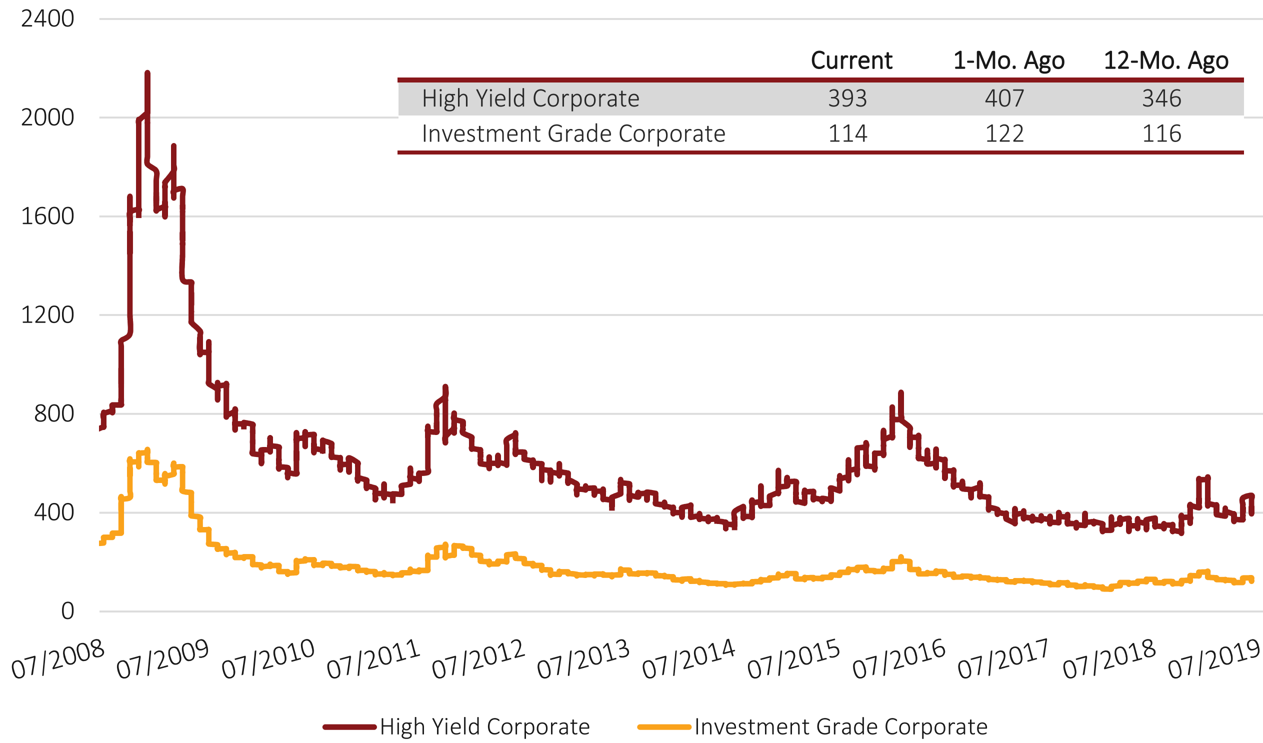
Summary of Economic Projections of Federal Funds Rate



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.

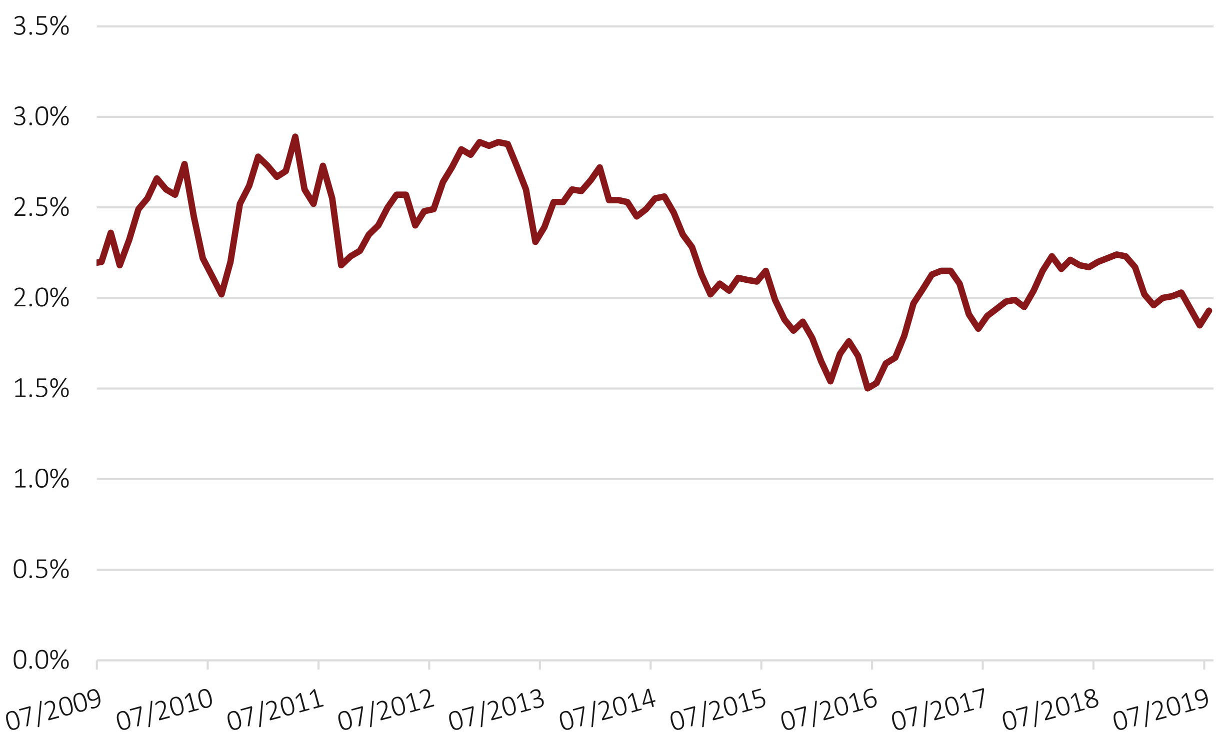
Corporate Bond Average Spread (bps)



	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	393	407	346
Investment Grade Corporate	114	122	116

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.