



Monthly Market Commentary August 2019

ECONOMY: A World of Uncertainty

AVERAGE U.S. GROWTH

U.S. GDP increased at a 2.0% annualized rate according to the Commerce Department's second reading of Q2 GDP. That was revised down from the initial estimate of 2.1% last month. Strong consumer spending was offset by declining exports and lower inventories. The economy grew at a 3.1% rate in Q1 and 2.6% in the first half of the year.

WILD SWINGS IN TRADE TALKS

In early August, President Trump noted that the U.S. will impose a 10% tariff on the remaining \$300 billion of Chinese exports to the U.S. on September 1st. By month's end, he rhetoric eased and the U.S. confirmed that the next round of trade talks with Chinese officials will take place in October. Nonetheless, the ongoing tensions were enough to significantly rattle the financial markets in August.

HIRING MOMENTUM SLOWS

Ongoing economic uncertainty hit the jobs market in August as hiring slowed. Employers added 130,000 jobs in August, and the unemployment rate remained steady at 3.7%. The economy has gained jobs for 107 consecutive months, but the pace of hiring has slowed recently. The U.S. has added a monthly average of 158,000 jobs this year, compared to 223,000 in 2018.

CONSUMER CONFIDENCE DECLINES

The Conference Board **Consumer Confidence Index**[®] declined marginally in August. *"Consumer confidence was relatively unchanged in August, following July's increase. Consumers' assessment of current conditions improved further, and the Present Situation Index is now at its highest level in nearly 19 years. Expectations cooled moderately, but overall remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, if the recent escalation in trade and tariff tensions persists, it could potentially dampen consumers' optimism regarding the short-term economic outlook."*

REZESSION FURCHTEN

There are growing fears that Germany, Europe's largest economy, is heading towards a recession. The German economy contracted in 0.1% in Q2, and data regarding industrial production, manufacturing and consumer spending continue to trend lower, increasing the risk of a repeat performance in Q3.

DEAL OR NO DEAL

The UK's parliament continued to debate about the future relationship between the UK and the European Union (EU). The UK is scheduled to leave the EU on October 31. Boris Johnson, the newly anointed PM, has stated that his government would prefer to leave the EU with a deal. That said, PM Johnson has also stated that, should a deal be unreachable, the UK would be forced to leave on October 31 with no deal.

A TRADE AGREEMENT?!

The U.S. and Japan agreed in principle to core elements of a trade deal that President Trump and PM Abe hope to sign in September. The agreement would cool a trade dispute between the two allies and cover agriculture, industrial tariffs and digital trade, while auto tariffs would remain unchanged.

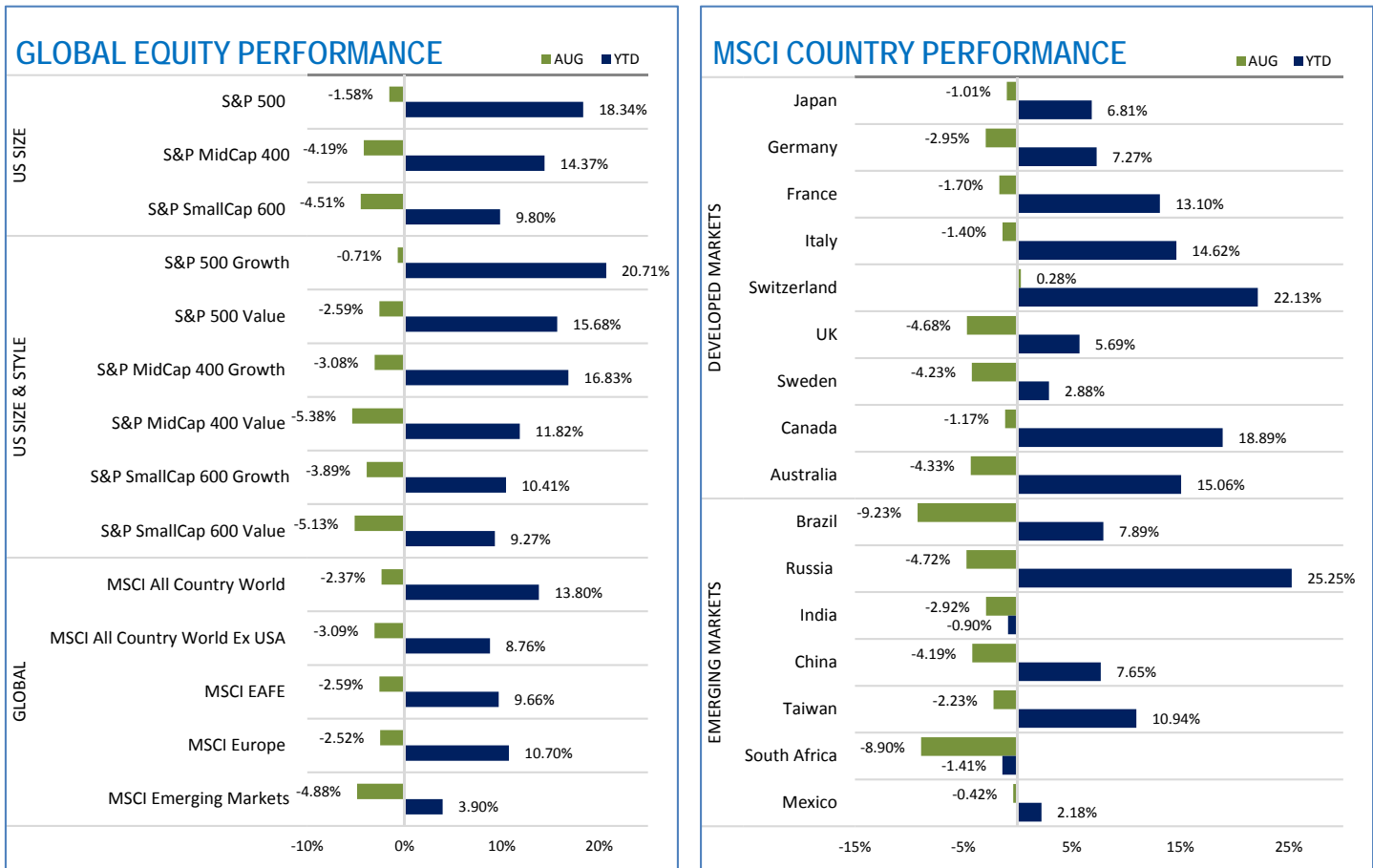
ARGENTINA GOING BROKE

Following the defeat of incumbent President Mauricio Macri in the primary elections, there are concerns over whether Argentine will default on their sovereign debt. Analysts at HIS Markit and Bank of America estimate there is a greater than 50% chance the country will default within a 1-year period.

EASING DOWN SOUTH

The Central Bank of Mexico cut its policy rate 0.25% for the first time in over five years in August. Growth in Mexico has been disappointing with Q2 GDP growing at 0.1% and the economy narrowly avoiding a recession. Inflation has fallen in recent months, and the central bank cited increased global risks and expectations of further monetary policy easing by several other central banks in its decision.

GLOBAL EQUITIES: Global Equities Tank



TRADE & GROWTH HALT EQUITIES

The U.S. equity market ended August in negative territory as the escalating trade war between the U.S. and China raised concerns about the outlook for economic growth. U.S. equities fell across the board. The S&P 500 fell 1.58%, while mid and small cap equities were down 4.19% and 4.15% respectively. Volatility also jumped and market moves were extreme - 16 of the 22 trading days for the month had intraday moves of at least 1%.

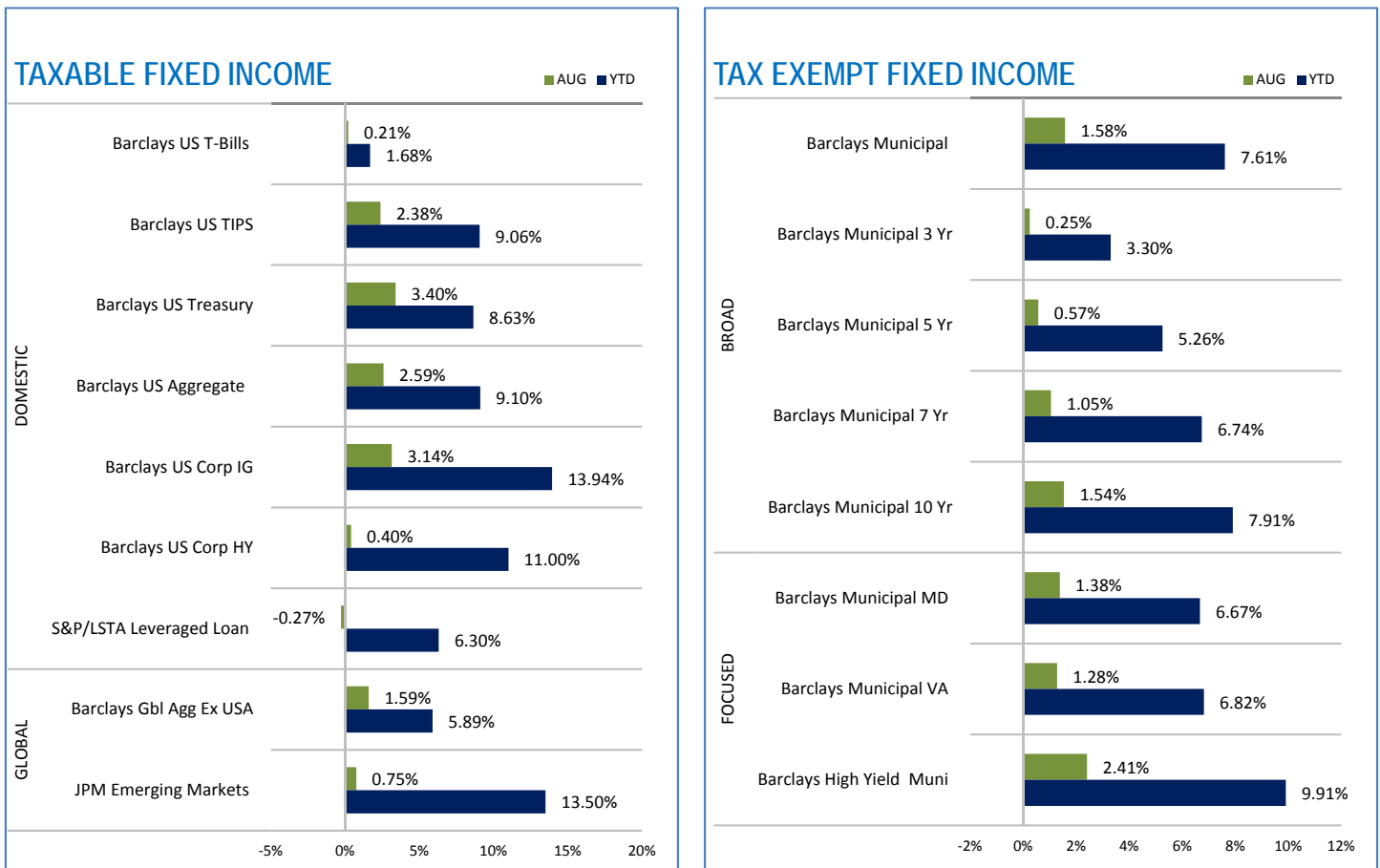
EUROPE'S SLIDE CONTINUES

European equity markets suffered modest losses in August as lingering issues continued to weigh on investor sentiment. Global markets witnessed a sharp sell off at the start of the month as the lingering trade dispute between the U.S. and China escalated. By month-end, a significant portion of the losses had been recouped following better than anticipated Eurozone economic data, though the MSCI Europe Index still fell 2.52%.

EM SUCCUMBS TO GLOBAL CONCERNS

Emerging equity markets followed other global equity markets lower in August over economic and trade concerns, as the MSCI Emerging Markets Index lost 4.58% for the month. In terms of regional equity performance, Latin America registered the biggest losses, followed by EMEA (Europe, Middle East and Africa) and then Asia. All sectors in emerging markets closed lower with real estate and financials being the laggards. Egypt was the only country in the MSCI Emerging Markets Index to record a gain for the month (9.9%), while political concerns over a potential sovereign default pushed Argentina lower by 50.42% (Argentina only represents 0.12% of the MSCI Emerging Markets Index).

FIXED INCOME: Global Economic Concerns Sink Rates



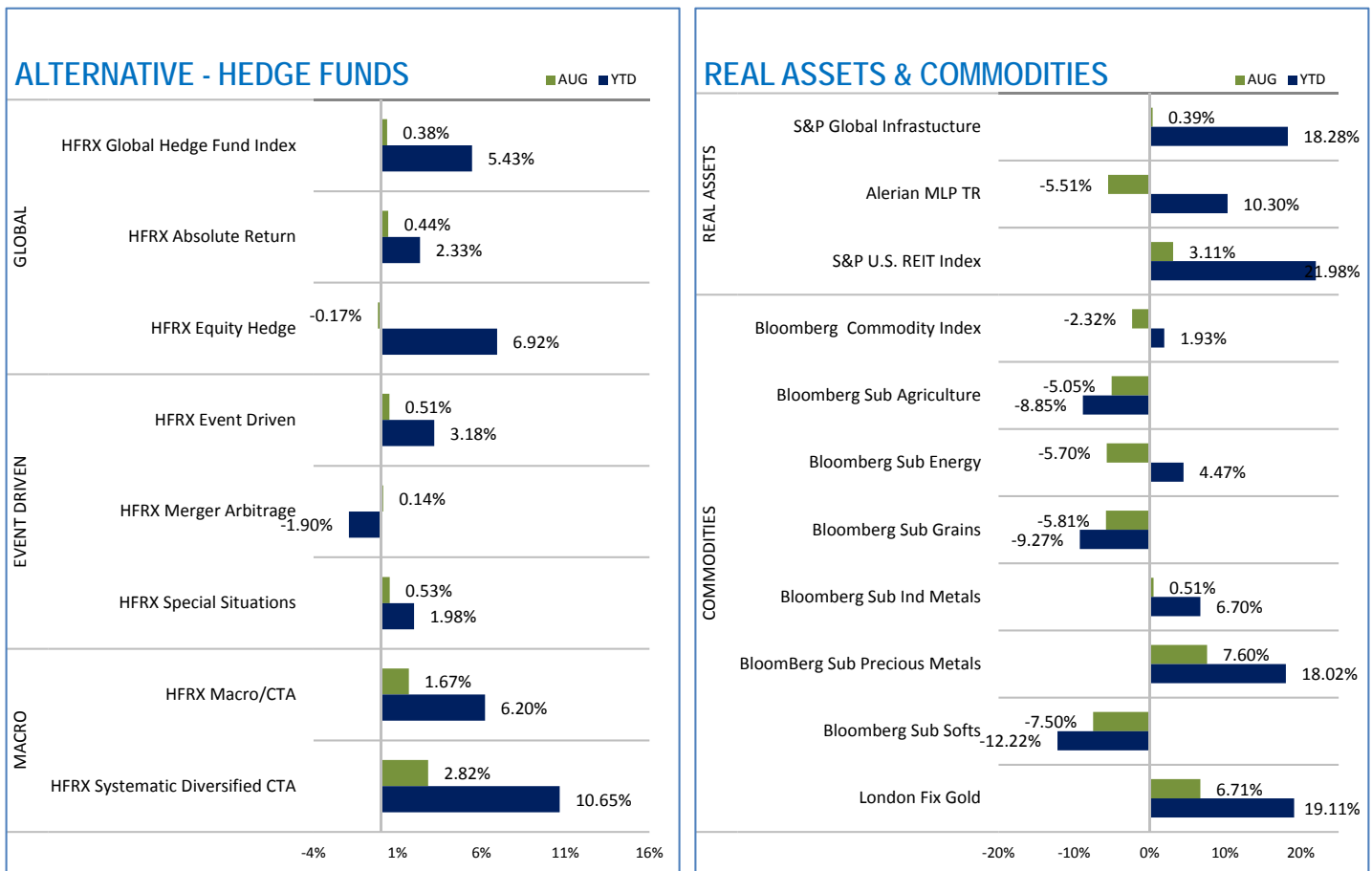
AS RATES SINK, BONDS GAIN

The Treasury market produced its strongest monthly return in eight years as rates plunged in reaction to the sharp escalation in the U.S./China trade war, the expected negative impact on an already slowing global economy and the likely further easing by global central banks. While the yield curve flattened, the benchmark 10yr yield declined 0.52% in August to close the month at 1.50%, just 0.14% above the record low of 1.36% set in 2016. The Treasury heavy Barclays U.S. Aggregate Bond Index gained 2.59% in August, extending its YTD gains to 9.10%

MUNICIPAL OUTPERFORMANCE CONTINUES

Municipals experienced another strong month of returns in August as yields fell across the curve. The favorable supply/ demand dynamic continued as new issues increased, but net outstanding debt decreased. On the demand side, municipal funds/ETFs have recorded 34 weeks of positive investment flows. Longer maturity outperformed shorter issues, while high yield outperformed investment grade. The Barclays Municipal Bond Index gained 1.54% for the month, marking its best August performance since 2011.

ALTERNATIVES: Gold Rally Continues



HEDGE FUNDS POST GAINS

Despite mixed performance for the global financial markets in August, hedge funds posted gains with the HFRX Global Hedge Fund Index gaining 0.38%, raising YTD performance for the index to 5.43%. Global macro strategies were the best performers as the HFRX Macro CTA Index gained 1.67% and the HFRX Systematic Diversified Index gained 2.82%, both benefiting from gains in the commodity and currency markets.

GOLD KEEPS ITS LUSTER

Gold prices continue to move higher on the back of strong investor demand and central bank buying. Gold prices rose 6.71% in August and are up 19.11% YTD. According to the World Gold Council, gold demand was up 8% year-over-year in Q2 2019 as central banks purchased 224.4 tons, while supply only increased 6%. Among the factors driving this rally were expectations for lower interest rates, lower global growth and political uncertainty.