301-770-9880
www.burtwealth.com

ECONOMY: Trade Wars & Slowing Growth

GOOD, BUT NOT GREAT

U.S. growth decelerated in Q2, as tariffs and a global slowdown weighed on the U.S. economy. According to the Commerce Department, U.S. GDP increased 2.1% in Q2, down from 3.1% in Q1 and the weakest increase since Q1 of 2017. Consumer and government spending helped propel GDP, while a pullback in business investment weighed on the number. Personal consumption expenditures rose 4.3%, the best performance since Q4 2017.

FED CUTS RATES

The Federal Reserve cut interest rates in July for the first time since December 2008, lowering the fed funds rate 0.25% to a target range of 2.00%-2.25%. Fed Chair Powell termed it a "mid-cycle adjustment" but also indicated the Fed was not necessarily done. Powell cited the "downside risks from weak global growth and trade policy uncertainty."

BUDGED APPROVAL

Congress passed a bill to increase the U.S. budget and lift the debt ceiling for the next two years. The bill raises spending by hundreds of billions of dollars, setting discretionary spending at about $1.37 trillion in fiscal 2020 and even higher in 2021. Total U.S. government debt now tops $22 trillion, and the White House Office of Management and Budget projects a $1 trillion deficit for 2019. The bill also suspends the U.S. borrowing limit for two years, eliminating another contentious debate prior to the 2020 presidential election.

LEADING ECONOMIC INDEX DECLINES

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.3% in June, following no change in May, and a 0.1% increase in April. *"The US LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, an unemployment insurance claims. For the first time since late 2007, the yield spread made a small negative contribution. As the US economy enters its eleventh year of expansion, the longest in US history, the LEI suggests growth is likely to remain slow in the second half of the year."*

EUROZONE SLOWING

The economic slowdown in the Eurozone has been underway for some time now, and continued into Q2. Eurozone GDP expanding just 0.2% quarter-over-quarter. While this was in-line with consensus forecasts, it represents a sharp slowdown from Q1, where the Eurozone economy grew 0.4% quarter-over-quarter.

A TURN FOR THE WORSE

President Trump escalated trade tensions with China, as the likelihood of a full-scale trade war between the two countries increased. Trump stated he will impose a 10% tariff on the remaining $300 billion of Chinese exports to the U.S. on September 1st, citing Chinese authorities "not going fast enough" to finalize a comprehensive trade deal. Chinese authorities have indicated they will respond with necessary countermeasures.

ECB LEERY

The European Central Bank (ECB) met in July and signaled that more monetary policy stimulus is on the horizon. The commentary from ECB President Draghi was not especially encouraging. He noted that "we don't like what we see on the inflation front" and that the economic outlook is getting "worse and worse", though he did reaffirm that it views the risk of recession as relatively low.

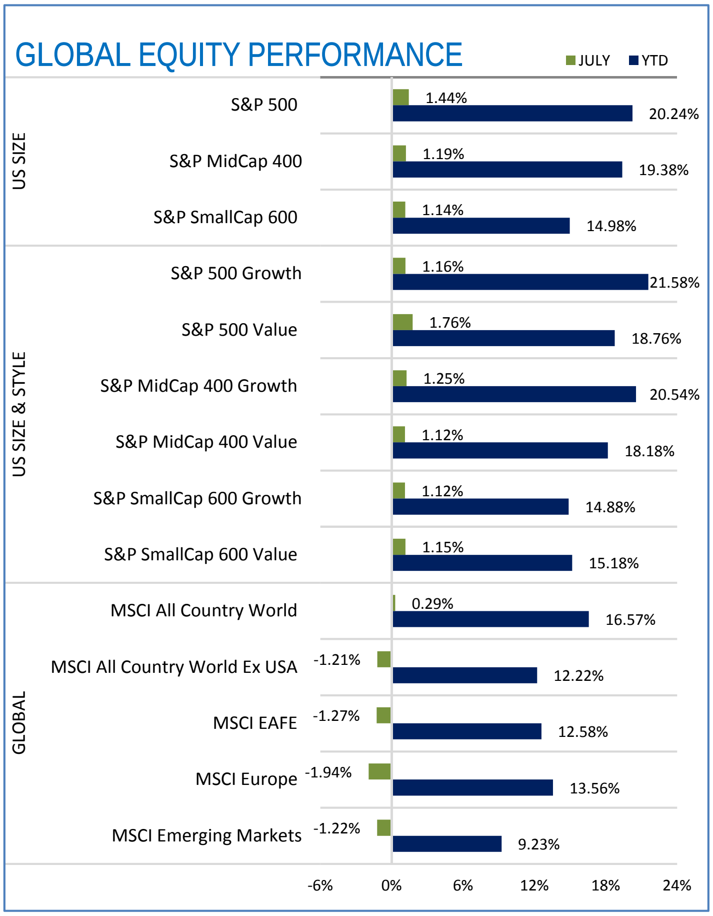
KOREA BOUNCES BACK

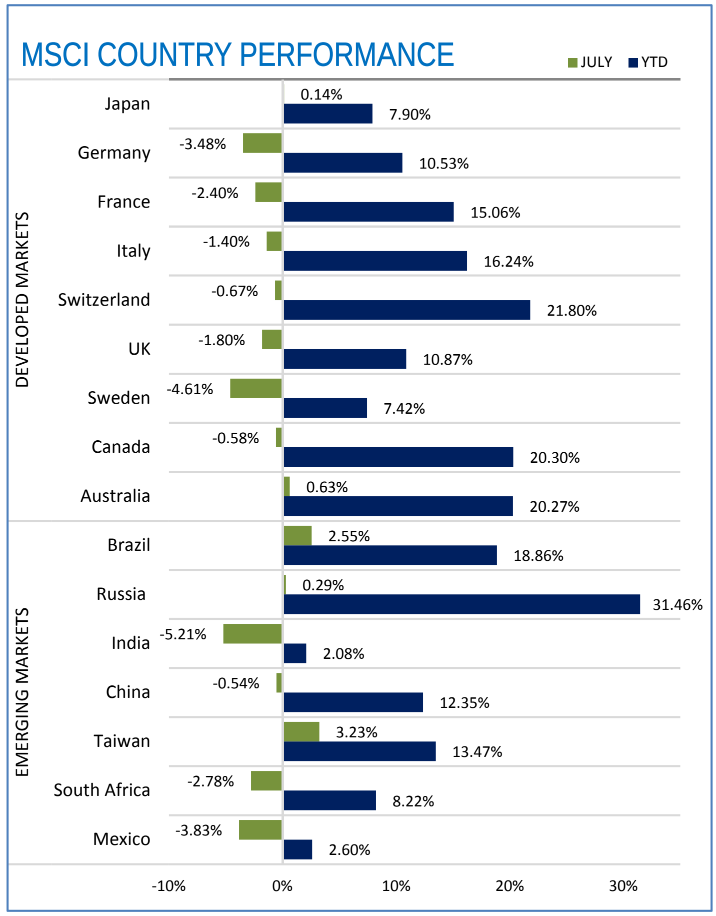
An unexpected negative Q1 GDP growth report from South Korea fueled fears that China's economy was contracting faster than anticipated. However, data released in July showed South Korea's economy bouncing back, with quarter-over-quarter annualized growth at a solid 4.4%

TRADE WAR?

China's exports unexpectedly rose in July, growing 3.3% from a year earlier, despite mounting U.S. trade pressure. Analysts had expected exports would fall 2.0%, after a 1.3% decline in June. Imports in July fell 5.6% from a year earlier, less than expected and moderating from a 7.3% drop in June.

GLOBAL EQUITIES: US Outperforms Int'l For July





U.S. Equities Add To Gains

The S&P 500 was up 1.44% and gained 20.24% YTD, continuing June's gains and posting 8 new closing highs in July's 22 trading days. Several factors helped fuel the market gains, including the Fed's rate cut, lowered earnings expectations, and continued optimism over global trade negotiations. Nonetheless, the market appears to remain on shaky ground. The S&P 500 has persevered through a near bear market last December and a near correction in May, with July bringing new highs. Mid and small cap equities gained 1.19% and 1.14% respectively for the month. Growth primarily has outperformed value, except in small cap equities where value has a 0.40% advantage YTD.

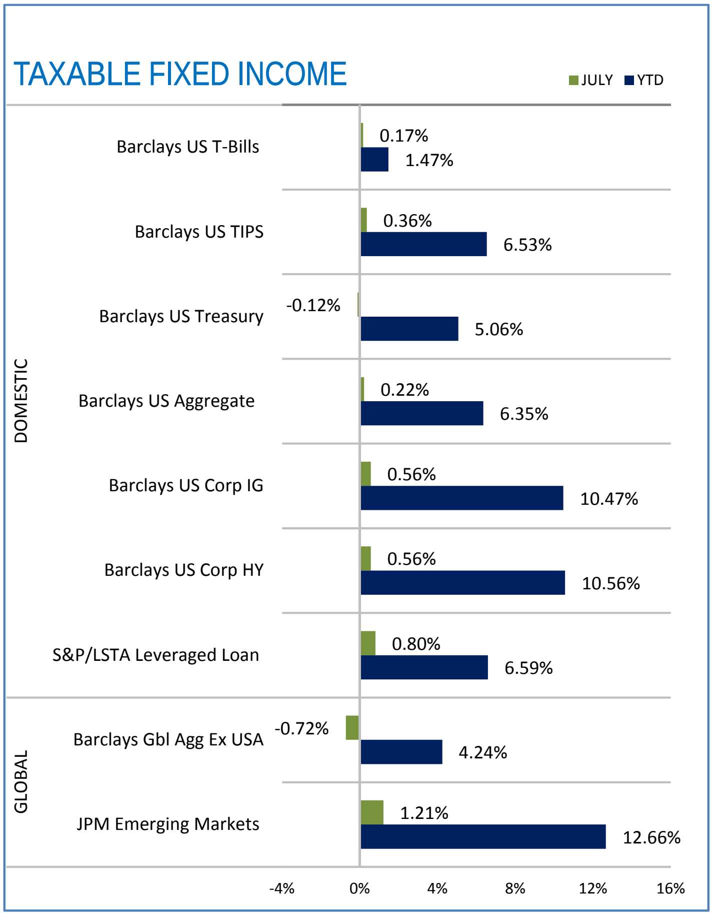
Green In June…Red In July

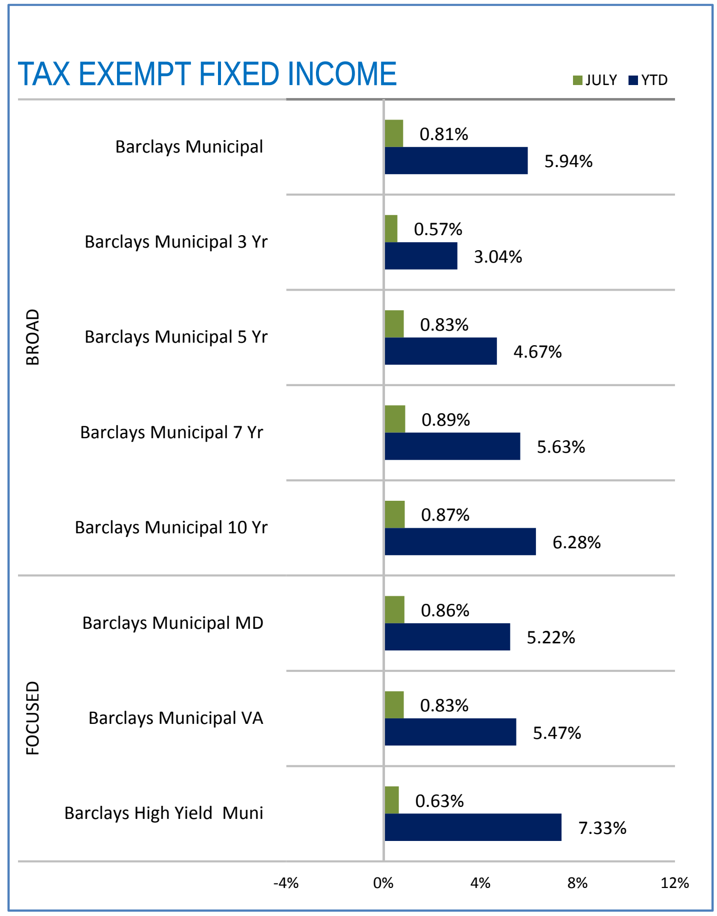
Unlike the U.S. equity markets, Europe could not build on a strong June. European equity markets started the month well and showed signs of continuing to rally, but most of the gains were lost by month's end. The MSCI Europe Index fell 1.94%. Germany, Spain, and Sweden were amongst the regions biggest losers, all falling in excess of 3% for the month. The only countries to register gains in July were Belgium (6.06%) and the Netherlands (0.86%).

Growth & Trade Sink EM

Emerging equity markets edged lower during July with investor sentiment unsettled by concerns over global growth and uncertainties around a US-China trade deal. The MSCI Emerging Markets Index lost 1.22% for the month. Asia was the weakest performing region, followed by the EMEA (Europe, Middle East and Africa) region, while equity markets in Latin America finished flat. From a country perspective, Korea was the worst performer, falling 6.6% due to a trade dispute with Japan. Turkey was the winner, gaining 11.34% on expectations of a large cut in interest rates.

FIXED INCOME: Rates Cut...But Enough?





Fed Cuts Rates

On July 31 the Fed cut the federal funds rate by 0.25% to a 2.00%-2.25% range, the first cut since December 2008. However the rate cut was seen as a disappointment by the market, which had expected a 0.50% cut. The Fed also announced an immediate end to its balance sheet runoff, two months earlier than planned. Fed Chair Powell described the cut as a “midcycle adjustment,” which he suggested was “to ensure against downside risks from weak global growth and trade tensions.” Despite the cut, the 2’s/10 spread closed to 0.13% by month’s end.

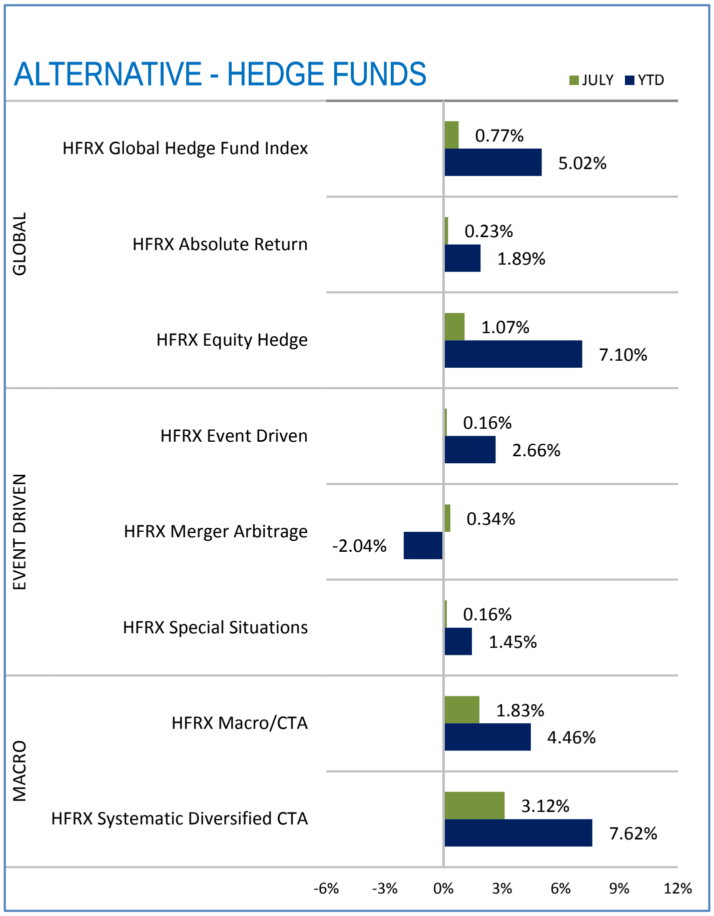
Bonds Relatively Flat In July

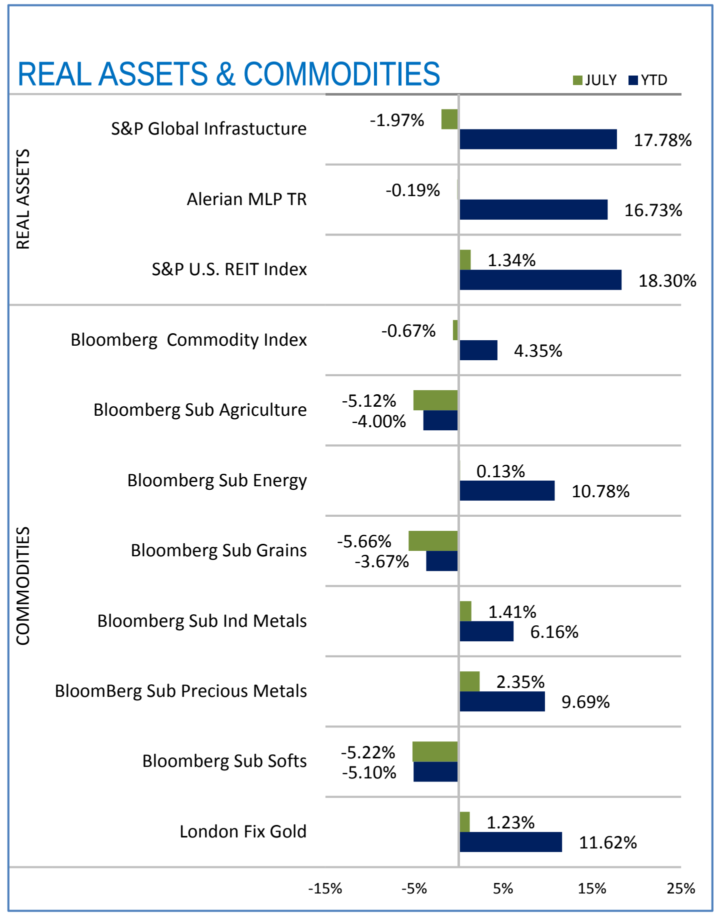
Despite a rate cut by the Fed, bond returns were mostly flat for the month. The benchmark Barclays U.S. Aggregate Bond Index gained only 0.22%, primarily due to the indices heavy allocation to U.S Treasuries which lost 0.12% in July. Credit sensitive sectors outperformed, as both investment grade and high yield corporate bonds both gained 0.56%. Strong demand for emerging markets bonds generated a 1.21% return for that sector in July

Municipal Outperformance Continues

The decline in tax-free rates in July led to another month of strong municipal returns, adding to the impressive YTD market performance. The Barclays Municipal Bond Index gained 0.81% in July and 5.94% YTD. Although short-term rates fell more than longer dated issues, long maturities still outperformed other segments of the curve. The unrest in Puerto Rico caused high yield to lag investment grade credits for the month.

ALTERNATIVES: Hedge Funds Hit Record Assets





HEDGE FUND ASSETS HIT RECORD

According to Hedge Fund Research (HFR), hedge fund assets reached a new record in Q2, driven by performance gains and investor re-allocations to top hedge fund firms. Total hedge fund capital increased to $3.25 trillion, narrowly eclipsing the previous record level of $3.24 trillion in Q3 2018, according to the latest HFR Global Hedge Fund Industry Report. Total hedge fund assets increased by $63.7 billion in Q2, following the $78.8 billion increase in Q1.

COMMODITIES MIXED

Commodities markets dipped in July as the Bloomberg Commodity Index fell 0.67%. The energy sub-sector gained 0.13% for the month as oil prices have remained relatively stable despite geopolitical tensions in the Middle East and a weakening global economy. After the U.S. Fed cut rates amidst a revival of global central bank easing, gold's performance slowed towards the end of the month. According to the World Gold Council, global gold demand rose 8% in the first half of the year driven by central bank buying and a flurry of funds into gold-based exchange-traded products. The precious metals sub-sector gained 2.35% while gold prices rose 1.23%.