



Monthly Market Commentary

June 2019

ECONOMY: Growth Moderating...More Stimulus?

RECORD SETTER?

In early July, the current economic expansion will enter its 121st month, marking the longest uninterrupted expansion in U.S. history and surpassing the record setting expansion from 1991-2001. According to the National Bureau of Economic Research, the previous trough in the cycle was June 2009. While it may be the longest in history, it has not been the strongest. Moreover, many signs point to economic growth moderating in the future.

JOBS WEAKNESS DISAPPEARS

The June employment report easily beat expectations, as the economy added 224,000 jobs according to the Bureau of Labor Statistics. Economists expected 160,000 new jobs, while May's figures were revised slightly downward. The unemployment rate rose slightly to 3.7% and employment gains have averaged 172,000 per month in 2019.

INFLATION DATA MIXED

A key measure of U.S. consumer prices rose more than forecast in June. The core consumer price index (CPI), which excludes food and energy, rose 0.3% from the prior month, the most since January 2018, and 2.1% from a year earlier, according to the Labor Department. The Fed, which has a 2% inflation target, tracks the core personal consumption expenditures (PCE) price index for monetary policy. The core PCE price index increased 1.5% over the past year through May.

CEO CONFIDENCE "PESSIMISTIC"

The Conference Board *Measure of CEO Confidence*, which had increased marginally in the first quarter of 2019, was unchanged in the second quarter of 2019. *"CEO Confidence was unchanged in Q2, and remains at a moderately pessimistic level. CEOs' expectations for growth prospects in mature and emerging economies remain subdued, with no pickup anticipated in the short-term. CEOs' profit expectations have weakened compared to last year, with trade and tariff uncertainties and signs of a slowing global economy the likely causes of the deterioration."*

POSITIVE TRADE NEWS

At the G-20 summit in Japan, the U.S. and China restarted discussions which had stalled in May as Presidents Trump and Xi agreed to hold off on imposing new tariffs. Additionally, the US administration set expectations for significant trade deals with Japan and India, while removing the potential 5% tariff on Mexican imports after Mexico agreed to assist with immigration issues.

MORE POSITIVE TRADE NEWS

After more than 20 years of negotiations, Mercosur and the European Union (EU) reached a comprehensive trade agreement. According to a statement by the EU, the deal aims to remove tariffs on EU exports to Mercosur, an economic and political bloc comprising Argentina, Brazil, Paraguay and Uruguay, plus several associate members. The deal impacts a combined population of more than 780 million people, and would save more than \$4.5 billion worth of duties per year according to the EU.

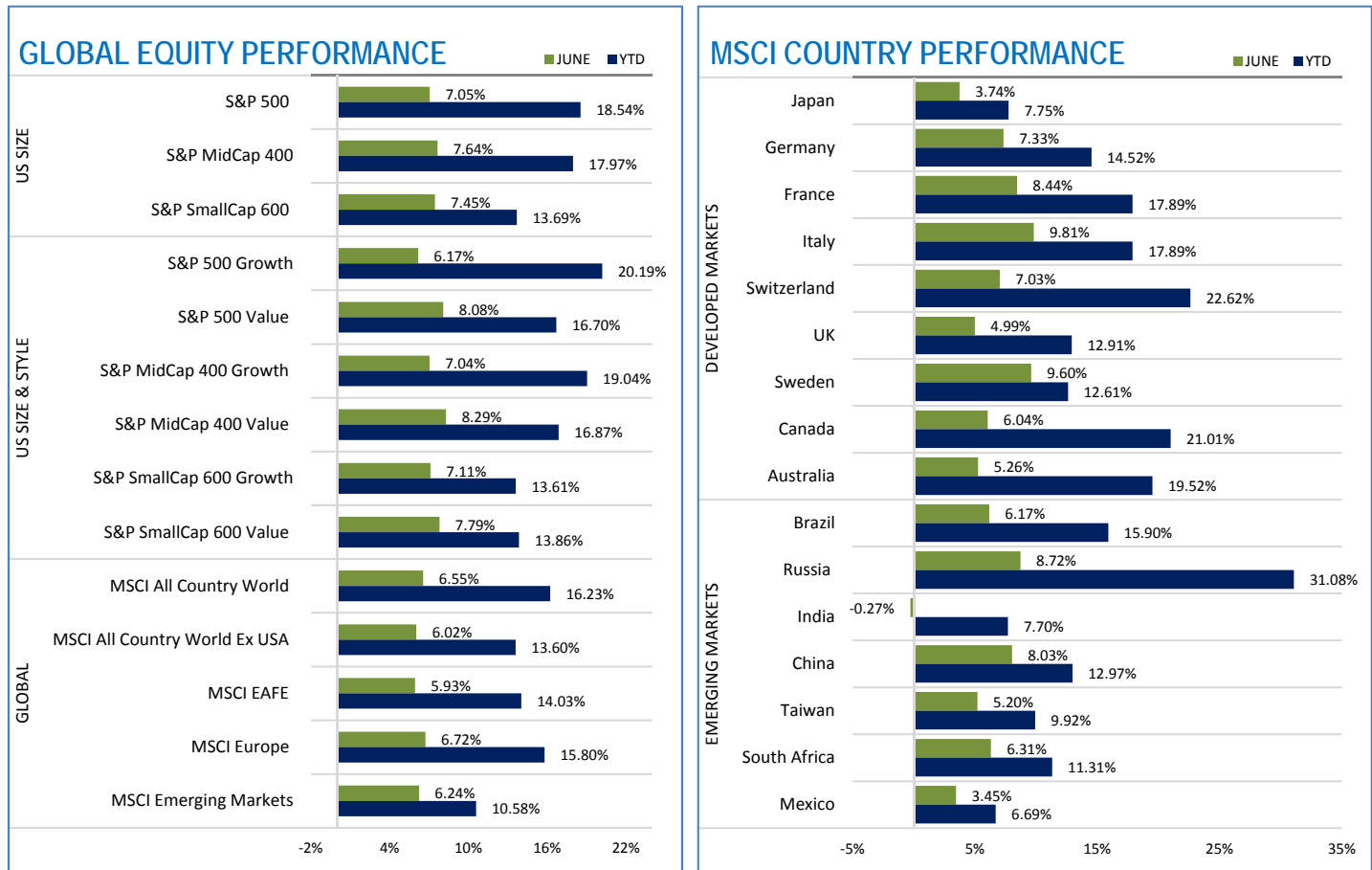
CENTRAL BANKS TO BE ACCOMMODATIVE

Global central banks have signaled a willingness to maintain accommodative policies. The European Central Bank (ECB) announced a new round of lending programs to banks, and suggested rate hikes are unlikely before 2020. The Bank of Japan (BoJ) will continue to target a 10-year yield near zero. The Bank of China (BoC) will reduce its reserve requirements to encourage lending. The U.S. Federal Reserve has noted that it too is likely to reduce interest rates, and the futures market has now priced in three rate cuts by 2020 with the first one starting in July.

CHINA MANUFACTURING CONTRACTS

Activity in China's manufacturing sector fell in June following three months of growth. The Caixin-Markit manufacturing purchasing managers' index slipped to a five-month low of 49.4 in June, from 50.2 in May, dropping below the 50-point level that separates expansion from contraction. Economists polled by Reuters had forecast a reading of 50.

GLOBAL EQUITIES: Investors In June Sing A Different Tune



Up..Down...Up...

It's been a roller-coaster few month's for U.S. equities. After the S&P 500 was up 4.05% in April, and down 6.35% in May, closing two-thirds of the way to a correction, it finished June up 7.05% while also setting a new closing high. The index posted its best June since 1955. The U.S. equity market fluctuated near record highs for the month, fueled by the prospect of interest rate cuts by the Federal Reserve and hope that the US-China trade war could be resolved. Rebounding from a rout in May, markets shrugged off concerns about a slowing global economy to focus instead on the likelihood that global central banks around the world take more accommodated stances.

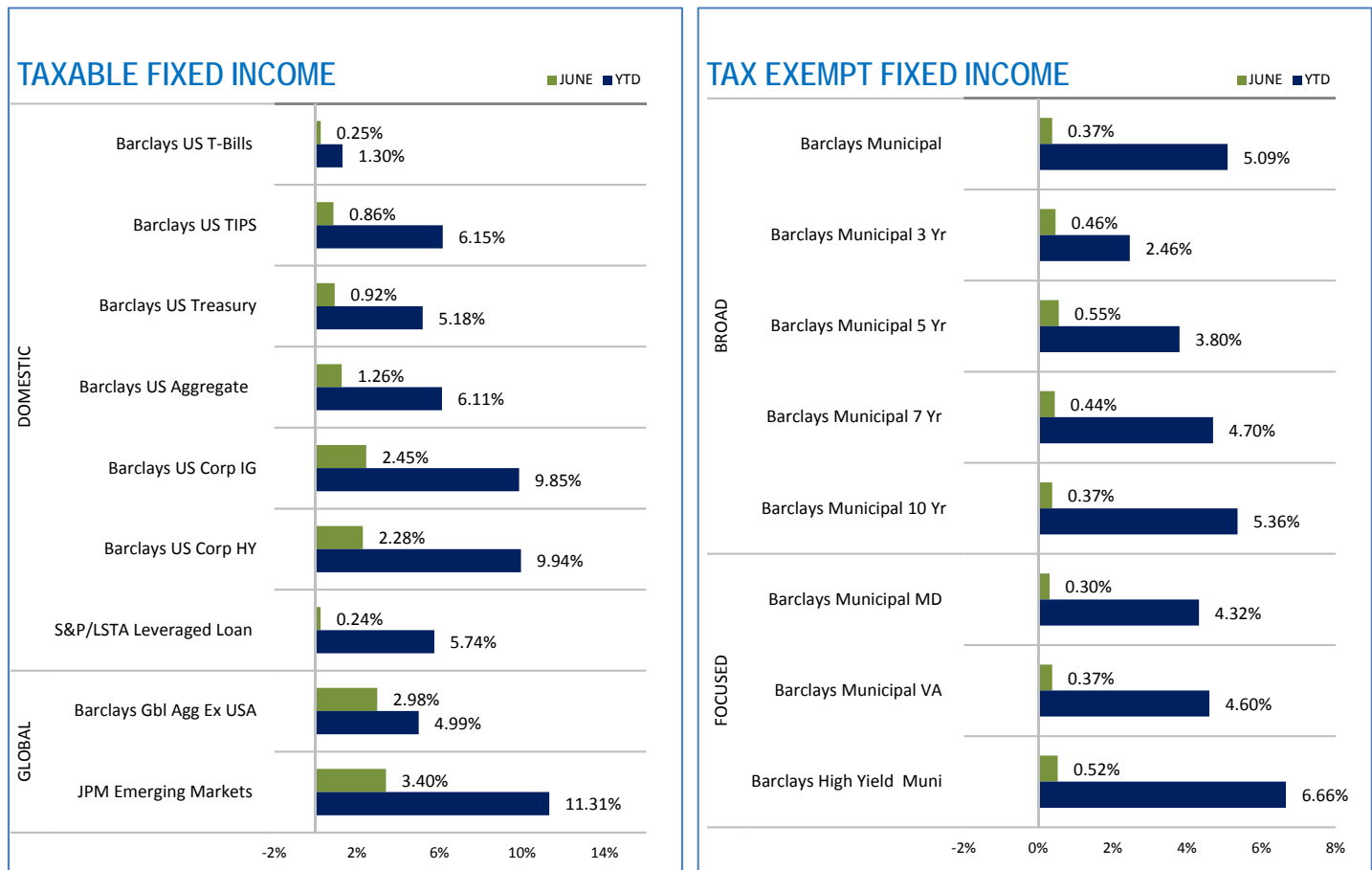
ALL GREEN IN EUROPE

Gains in the Europe mirrored the U.S., and for many of the same reasons. European equity markets participated in June's gains as investors remained hopeful the progress would be made on global trade negotiations. ECB President Mario Draghi suggested that the central bank will further loosen monetary policy unless they see an improvement in economic data, which added to equity gains. The MSCI Europe Index gained 6.72% in June with every country in the index posting positive gains.

EM JOINS THE PARTY

As a whole, emerging markets also participated in the global equity rally in June, as the MSCI Emerging Markets Index gained 6.24%. From a regional perspective, Europe and Asia led the gains. Europe was led higher by Russia and Turkey, while Asia benefitted from strong gains in Thailand, Korea, and China. New addition Argentina led all countries with a 26.60% gain despite the countries weak economic momentum.

FIXED INCOME: Rate Cuts On The Horizon?



BONDS SIGNAL SLOWING GROWTH, MORE EASING

Rates fell in June and parts of the yield curve steepened for the month. The 2's-10 spread ended the month at 0.26%, while the yield curve remained inverted out to about 7 years. Signs of slowing global growth drove markets to anticipate a cut in rates in the coming quarter and further easing from foreign central banks. At quarter end, market-implied odds of a rate cut were 100% for the July 31st Fed meeting with a roughly 25% probability that the Fed would cut rates by 0.50% at that meeting. The yield on the benchmark 10-year U.S. Treasury ended June at 2.00%, down 0.68% YTD, while the Barclays U.S. Aggregate Bond Index gained 1.26% for the month.

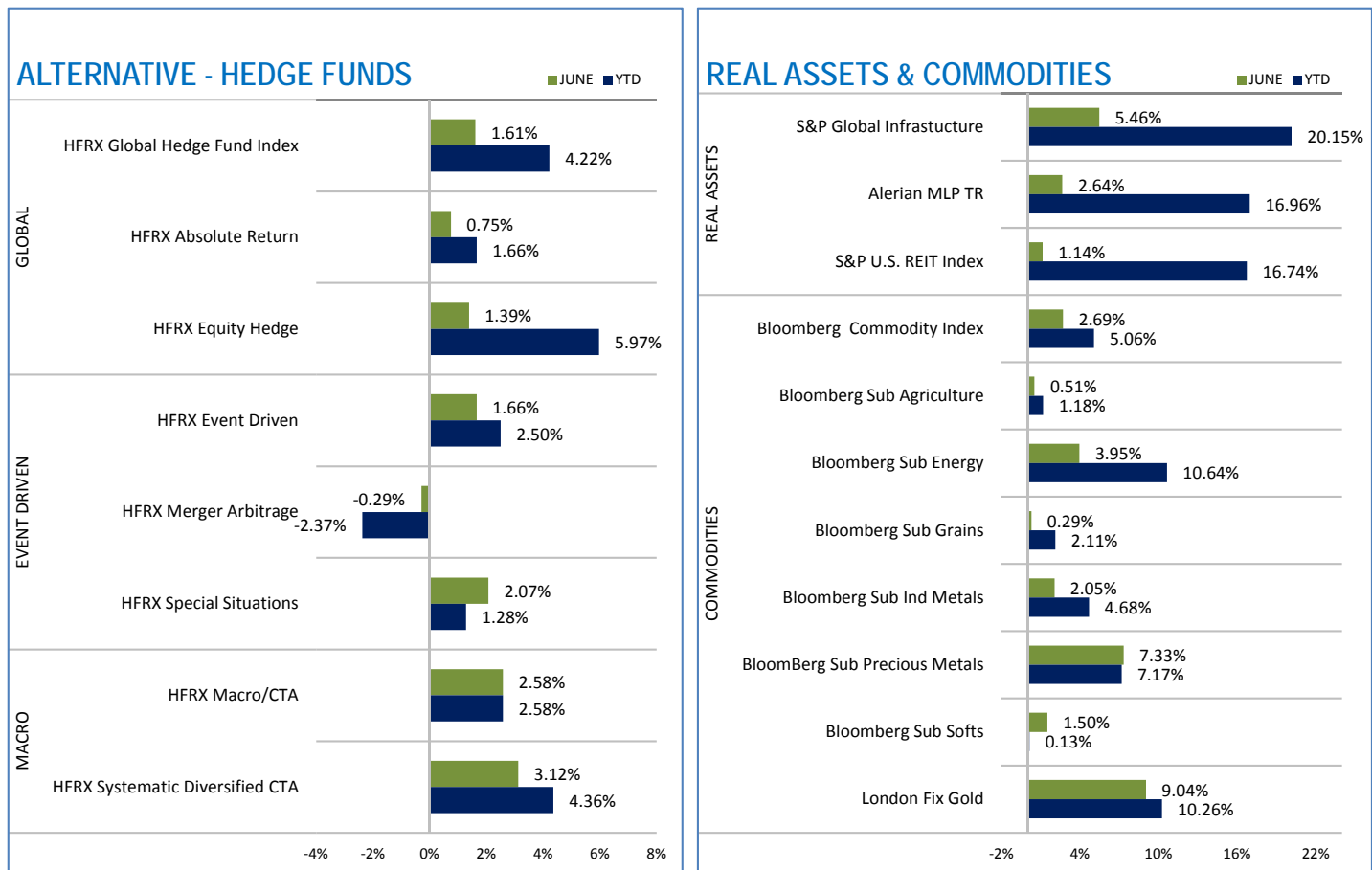
MUNI CURVE STEEPENS

The municipal markets continue to benefit from favorable fundamentals, with rising state and local tax revenues, as well as positive supply/demand balances. While the municipal yield curve flattened for the quarter, it steepened in June as short rates fell and long rates remained unchanged. Supply in Q2 fell nearly 11% while demand remained robust. The Barclays Municipal Bond Index gained 0.32% in June and 5.09% YTD. Long term and lower quality credits continue to lead the municipal market.

ALTERNATE DRIVERS FOR CREDIT RISK

Credit sensitive sectors were mixed in June. High yield corporates rose for the month as equities rallied, rates fell, and trade negotiations continue. The Barclays U.S. High Yield Corporate Index gained 2.28%. On the other side of the spectrum, leveraged loans struggled a bit as investor demand weakened with the expectation of rate cuts. The S&P/LSTA Leveraged Loan Index only gained 0.24% in June.

ALTERNATIVES: Alternatives Follow Markets Higher



MERGER ARBITRAGE THE ONLY LOSER

Hedge posted modest gains for the month with the HFRX Global Hedge Fund Index gaining 1.61%. The HFRX Macro/CTA Index posted a gain of 2.58% during the month due to gains in Systematic trend-following and Global Discretionary strategies, while the HFRX Macro Systematic/CTA Index posted a gain of 3.12%. The HFRX Event Driven Index posted a gain of 1.66% due to gains in Special Situations strategies which were only partially offset by declines in Merger Arbitrage managers which declined 0.29% as new deal activity and IPOs impacted performance.

MODEST RETURN FOR REITS

REITs posted modest gains in June, as investors factored in macroeconomic events, the performance of the 10-year Treasury, and potential interest rate developments. The S&P US REIT Index gained 1.14% in June while the S&P 500 gained 7.05%. REITs continue to trail the broader market on a YTD basis as well. On a sector basis, Industrial REITs continue to outperform. The sector gained 8.03% in June and is up 33.64% YTD.