U.S. EQUITIES

U.S. equity markets rallied last week on reports of a positive conservation between Presidents Trump and Xi leading to a meeting at the G-20, and the Fed and ECB standing ready to provide stimulus as needed.

a) **Dow Jones +2.41%, MTD +7.79%, YTD +15.92** b) **S&P 500 +2.22%, MTD +7.34%, YTD +18.87%**
c) **Russell 2000 +1.80%, MTD +5.84%, YTD +15.64%**

Drivers: I) The **FOMC** last week noted **slowing economic growth**, muted price pressures as well as **rising uncertainties** as the backdrop for the Federal Reserve policy statement. This stance **points directly to rate cuts** in **coming meetings**. For this meeting, the Fed's target rate is unchanged at a range of 2.25 to 2.50%. The statement also removes the word "patient" when referring to policy and warns that uncertainties have "increased" for the outlook. Policy makers still see inflation near the 2.0% objective.

II) The **Federal Reserve** released its **quarterly economic projections** last week, and the key takeaways were **downward revisions** for annual **inflation** and **interest rates** while GDP growth was unchanged. Specifically, the 2019 projections are PCE inflation down from 1.8% to 1.5%, Core Inflation lower from 2.0% to 1.8%, Fed Funds rate declined from a range of 2.4% - 2.6%, to 1.9% to 2.4%, while GDP was stable at an annualized rate of 2.1%.

III) The **Composite PMI slowed** a bit from May and missed the Street consensus coming at 50.6 (3-year low), split between a 50.1 for manufacturing (10-year low) and 50.7 for services (3-year low). Composite confidence is the weakest in seven years, but **new orders for both manufacturing and services did improve** while employment slowed but still grew. Prices remain subdued with manufacturing reporting a large drop in the cost of purchases.

IV) **Existing Home Sales** saw a **2.5% rise in May** which climbed to the upper end of the Street consensus range. But the 5.340 million annual rate is well below of February's 5.480 million and 1.1% under the 5.400 million pace in May last year. May also saw a **4.0% monthly increase** in the **median price to $277,700** for year-on-year growth of 4.8%.

V) **Equities in June are solidly higher with Large-Cap, Growth, Materials and Information Technology leading equity price performance. The laggards for the month are Small-Cap, Value and Financials.**

Capitalization: **Large Caps +7.25%** (YTD +19.09%), Mid-Caps +6.70% (YTD +21.16%) and **Small Caps +5.84%** (YTD +15.64). **Style: Value +6.19%** (YTD +13.84%) and **Growth +6.39%** (YTD +16.64%). **Industry Groups (Leaders): Information Technology +9.25%** (YTD 27.08%), Technology +8.92% (YTD +26.77%), REITs +3.59% (YTD +22.49%), Consumer Discretionary +7.79% (YTD +21.23%), Industrials +6.99% (YTD +20.32%), Communication Services +4.69% (YTD +18.29%), Consumer Staples +5.49% (YTD +16.17%), Utilities +4.68% (YTD +16.11%), **Financials +4.60%** (YTD +14.82%), **Materials +9.30%** (YTD +14.63%), Energy +8.01% (YTD +11.22%) and Healthcare +7.39% (YTD +8.80).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +2.55% after ECB President Mario Draghi stated the bank is ready to provide additional stimulus if the Euro-zone economy does not improve.

Drivers: I) European Central Bank President **Mario Draghi** surprised investors last week when he stated that a **new round of easy money "will be required"** if the economic situation in the euro zone doesn't improve. That would be measured, he said, by whether inflation can be lifted to a "sustained" level in line with the ECB's mandate of just under 2%, a target that has eluded policy makers and the central bank.

II) The **PMI Flash Composite** was **up only 0.3 points** to 52.1 versus its final reading in May, albeit at a 7-month high. The gain was due primarily to an improved performance by the service sector where the flash PMI climbed 0.5 points versus its final May mark to 53.4, also a 7-month peak. Its manufacturing counterpart rose only 0.1 point to 47.8 and remained in recession territory. New orders showed a modest advance despite a fall in manufacturing.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +2.55% for the week (MTD +6.03%, YTD +15.06%).**

ASIAN EQUITIES

Asian equity markets were higher last week, as U.S. Trade Representative Robert Lighthizer said he plans to meet his Chinese counterpart ahead of the G-20 summit next week. The Dow Jones Asia Index rose by +2.91% for the week, (MTD +4.42%, YTD +5.72%).

Drivers: I) The **Flash Japan manufacturing PMI** headline index for June is **49.5**, **down** from the final estimate of **49.8 for May**. Participant again stated U.S.-China trade tensions as a significant factor weighing on activity and sentiment. Should the final reading hold up next month, it would show a **contraction** in the Japanese manufacturing sector for **four of the last five months.**

II) **Japan's consumer price index** rose **0.7%** on the year in **May after rising 0.9% in April** and was flat on the month after increasing 0.1% previously. This report provides more evidence that reaching the Bank of Japan's 2.0% inflation target remains a daunting task. The decline in inflation in May was mostly by utilities charges, up 3.2% after advancing 4.4% previously, and transportation and communication costs, down 0.4% after dropping 0.2% previously.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +0.69% (MTD +3.21%, YTD +7.18%), the Hang Seng Index rose by +5.21% (MTD +6.32%, YTD +10.49%) and the Shanghai Composite advanced by +4.16% (MTD +3.56%, YTD +20.37%).**

FIXED INCOME

Treasury yields declined last week as the FOMC opened the door for potential interest rate cuts in 2019, citing the rise in uncertainty caused by the U.S./China trade dispute and continuation of low inflation rates.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.059% down from 2.080%. The 30-year yield was unchanged last week at 2.586%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.44% last week, MTD +0.82% and YTD +5.66%. The Bloomberg Barclays US MBS TR advanced by +0.31% last week, MTD +0.50% and YTD +3.94%. The Bloomberg Barclay's US Corporate HY Index was higher by +1.01%, MTD +2.30% and YTD +9.97%.**

COMMODITIES

The DJ Commodity Index was higher by +1.71% last week and is positive month to date +2.22% (YTD +5.98%). Commodities rallied higher last week as hopes of resuming the U.S./China trade talks permeated the markets, and oil rose sharply on rising tensions between the US and Iran.

Performance: I) The **price of oil** last week **was higher by +9.67%** up to $57.60 and has fallen month to date in June by +7.94% (YTD +26.84%). Oil prices soared last week on expectations of accommodative central bank policy boosting the global economy and continued Middle East tensions that could disrupt oil markets.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -1.39%** at 96.09 for the week (MTD -1.55%, YTD -0.08%). The USD declined last week as the FOMC intimated it may be ready to enact two interest rate rates in 2019.

III) **Gold rose last week by +4.29%,** settling above the $1400 mark for the first time since 2013, as the FOMC and other central banks hinted at easier monetary policies. **Gold was higher by +4.29%** last week, climbing from $1345.3 to $1403.0 (MTD +7.08% YTD +9.49%).

HEDGE FUNDS

Hedge fund returns in June are higher for the month with core strategies Equity Hedge, Event Driven, Macro, Relative Value and Multi-Strategy all in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +1.62% MTD and up +4.23% YTD.
II) Equity Hedge has advance by +1.53% MTD and is up +5.12% YTD.
III) Event Driven is higher MTD +1.36% and is higher YTD +2.19%.
IV) Macro/CTA has risen by +3.19% MTD and is up +3.19% YTD.
V) Relative Value Arbitrage is higher by +0.90% and is up +3.95% YTD.
VI) Multi-Strategy is positive MTD at +0.89% and is higher by 3.69% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, even though **June is typically a lackluster month for equities**, the Dow Jones Industrial Average and S&P 500 have **hit all-time highs**. Equities have staged a **strong rally** on **expectations** that **Presidents Trump and Xi** will make **progress in trade talks** at the G-20 summit next week, the **ECB** will be implementing **new stimulus** measures and the **U.S. Federal Reserve** will be **lowering interest rates** to help sustain economic expansion. The rise in equity prices has engendered some **investor complacency**, and the rapid fall in global interest rates, only feeds the equity bulls' narrative of "there is no other alternative". But **investors** should **be careful**, as any inkling of a **hiccup** coming out of the **trade talks** next week could prompt a **quick and nasty downturn in equity prices**.

In turning to **next week's economic calendar**, a busy schedule will highlight the **state of the U.S. consumer** with data being released for Consumer Confidence, Consumer Sentiment, Durable Goods and the Personal Consumption Expenditures Index. On Tuesday, we will see if **Consumer Confidence** remains strong in June, as Index posted a better than expected 134.1 in May which was a positive assessment of labor market, but was not indicative of May's sub-par employment report. For June, forecasters are looking for a **slight drop** in confidence to 132.0.

New Home Sales out on Tuesday, has been a positive contributor to 2019's economy and April's report showed a sharp rise in prices as did last week's Existing Home sales in May. Expectations are for a **modest rise** for May New Home sales with the consensus estimate at **680,000 versus 673,000 in April.**

Reporting on Wednesday is **Durable Goods orders**, where forecasters are **predicting unchanged in May** following a very weak April where total orders fell 2.1%. The weakness from April's report was a 1.0% drop in core capital goods orders (revised from 0.9%) which are expected to rebound but only modestly, by 0.2% in May. For ex-transportation orders, a 0.1% increase is expected. **Boeing aircraft** remain a **large unknown** in this report, as such, is reflected in low end expectations for the report.

On Friday, we get the all-important **Personal Income and Consumption Expenditures** readings. **Consumer spending** slowed in April, but slightly **better strength at 0.4%** is expected in May. **Personal income** is expected to **rise 0.3% versus April's 0.5% increase**. **Price readings** in this report have been **subdued** and are expected to fall in May with the core PCE index seen at plus 0.1% for the monthly rate and **declining further to 1.5% year-on-year**. The overall PCE index is seen at a monthly 0.1% with the on-year at 1.4%.

Closing out the week on Friday is **Consumer Sentiment** where the Street **consensus for June is 97.9**, which would be **unchanged** from the preliminary reading. **Inflation expectations** in this report have been sinking to **deep lows**.

Data Source: Haver Economics