# INVESTMENT COMMITTEE MARKET COMMENTARY

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## U.S. EQUITIES

**U.S. equity markets traded down across the board, as President Trump stated the U.S. and China trade dispute would not be resolved over the near term.**

a) **Dow Jones -0.61%, MTD -2.00%, YTD +14.35** b) **S&P 500 -0.47%, MTD -2.08%, YTD +18.61%**
c) **Russell 2000 -1.17%, MTD -3.77%, YTD +14.52%**

**Drivers:** I) **President Donald Trump** last week suggested that a **resolution** to the **U.S./China trade war** would **not** occur over the **short to intermediate time frame**. Both sides also escalated tensions as China announced they would be suspending U.S. agricultural purchases, while the U.S. government was not ready to permit U.S. companies to resume business with Huawei. Trade negotiators from both sides are scheduled to meet again in September.

II) The **US Producer Price Index (PPI)** which measures the wholesale cost of goods and services, **rose by 0.2%** which matched Street estimates. The report showed that inflation is muted and is not seeing any signs of acceleration. On an **annual basis**, the Index was **flat at 1.7%** and when **stripping out volatile food and energy,** the Index fell for the first time in four years. The core PPI **dropped by 0.1%.**

III) The **ISM non-manufacturing Index** showed **solid growth** but dropped 1.4 points in July to 53.7 which is a three -year low. Though slowing, new orders were well above the 50-recession level, hitting 54.1 while employment posted a solid 56.2. Counter to several other economic reports, this Index continues to report rising prices for inputs, which at 56.5 was 2.4 points slower than June. Business activity slowed and fell by 5 points to 53.1.

IV) The **JOLTS report** showed a **slowing in labor demand** as job openings edged 0.5% lower to 7.348 million from May's 7.384 million. Hires fell, down 1.0% to 5.702 million from 5.760 million. **Openings** remain **far above hires, by 1.646 million**, but openings are starting to show some wear and are down 0.6% from June last year. Quits, tracked by the Fed for indications of worker mobility and wage pressure, remain flat, at 3.433 million.

V) **Equities in August are lower with Large-Cap, Growth, Utilities and REITs leading equity price performance. The laggards for the month are Small-Cap, Value, Energy and Financials.**

**Capitalization**: **Large Caps -2.07%** (YTD +18.19%), Mid-Caps -2.52% (YTD +19.98%) and **Small Caps -3.77%** (YTD +14.52). **Style: Value -4.24%** (YTD +12.27%) and **Growth -2.41%** (YTD +15.94%). **Industry Groups (Leaders):** Information Technology -2.89% (YTD 27.42%), Technology -2.89% (YTD +27.41%), **REITs +2.82%** (YTD +25.86%), Consumer Discretionary -2.07% (YTD +20.28%), Consumer Staples -0.27% (YTD +18.31%), Communication Services -2.50% (YTD +18.28%), Industrials -3.14% (YTD +18.22%), **Utilities +2.22%** (YTD +16.76%), Materials -1.01% (YTD +15.48%), **Financials -4.02%** (YTD +15.16%), Healthcare +0.35% (YTD +6.65) and **Energy -5.69%** (YTD +4.75%).

## EUROPEAN EQUITIES

**The MSCI Europe index dropped last week by -0.75% as geo-political worries rose with Matteo Salvini, leader of Italy's League Party calling for a snap election and a hard "Brexit" in the UK becoming more probable.**

**Drivers:** I) The final reading for **July Euro-zone business activity**, the **PMI, was unchanged at 51.5** which was 0.7 points lower than June's final reading. Services held in well in contrast to the decline in manufacturing, coming in at 53.2 which was down 0.4 points lower than June's final reading. New business and backlogs were up again, albeit at reduced rates compared with June, while headcount recorded its smallest increase since March.

II) **German Industrial Production** after seeing a smaller revised 0.1% monthly rise in May, saw output **decline** in **June by 1.5%,** its second drop of more than 1% in the last three months. Annual growth was down at -5.1%, well short of the previous period's -4.5%. The June report leaves industrial production at its weakest level since December 2016 and puts second quarter output a sizeable 1.9% below its first quarter level. With production down a 0.3% during the first quarter, industrial production in Germany is technically **in recession.**

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.75% for the week (MTD -3.08%, YTD +10.06%).**

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### ASIAN EQUITIES

**Asian equity markets were lower last week as the rhetoric around the U.S./China trade dispute escalated, which offset the news of better than expected GDP growth in Japan. The Dow Jones Asia Index fell by -3.15% for the week, (MTD -5.27%, YTD -1.14%).**

**Drivers:** I) **Japan's Q2 GDP grew at 0.4%** for the quarter, down from revised growth of 0.7% in the first quarter but above the consensus estimate increase of 0.2%. The **annualized growth rate of 1.8%** was down from the 2.8% during the first quarter. Although headline GDP growth fell, domestic demand picked up in the three months to June, up 0.7 percent on the quarter compared with growth of 0.3 percent previously. Household consumption rose 0.6%, private non-residential investment 1.5% and public demand increased by 0.9%.

II) **China's Consumer Price Index rose by 2.8%** on the year in July, up from 2.7% in June, just above the consensus forecast of 2.7%, and its highest level since February 2018. The index rose 0.4% on the month after falling 0.1% previously. Food prices rose 9.1% on the year in July, jumping further from 8.3% in May. The year-on-year change in non-food prices slowed from 1.4% to 1.3%, with little change in most categories.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -1.91% (MTD -3.89%, YTD +4.52%), the Hang Seng Index fell by -3.88% (MTD -6.79%, YTD +0.25%) and the Shanghai Composite declined by -3.25% (MTD -5.38%, YTD +11.26%).**

### FIXED INCOME

**Treasury yields plunged last week after President Trump vowed to impose additional tariffs on China imports. The 10-year Treasury rate fell by 21.7 bps, its largest drop since June 2012, and settled at 1.846% which is the lowest level since November 2016.**

**Performance:** I) **The 10-year Treasury yield was lower last week ending at 1.748% down from 1.846%. The 30-year yield declined last week, ending at 2.260% a drop from 2.380%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.69% last week, MTD +1.43% and YTD +7.83%. The Bloomberg Barclays US MBS TR rose by +0.09% last week, MTD +0.39% and YTD +5.00%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.31%, MTD -0.64% and YTD +9.86%.**

### COMMODITIES

**The DJ Commodity Index was higher last week rising by +0.11% last week and is negative month to date -2.30% (YTD +3.62%).** Commodity prices were led higher by gold, as the metal rose above $1500 per ounce for the first time in six years, on falling interest rates and rising global geo-political uncertainty.

**Performance:** I) The **price of oil** declined last week **by -1.67%** down to $54.27 and has fallen month to date in August by -7.35% (YTD +19.51%). Oil prices dropped and entered a bear market early last week, as the U.S./China trade war could be a drag on global growth and the demand for energy.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was lower by -1.09%** ending at 97.03 for the week (MTD -1.51%, YTD +0.89%). The USD was lower last week as domestic interest rates continued to fall, and on the potential drop in U.S. growth due to the China trade dispute.

III) **Gold rose last week by +3.82%** achieving its best week rise in a month, as increasing U.S./China trade tensions and political uncertainty in Italy sent the precious metal higher. **Gold was higher by +3.82%** last week, climbing from $1452.5 to $1508.0 (MTD +4.88%, YTD +17.69%).

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## HEDGE FUNDS

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

**Performance:**

**I) The HFRX Global Hedge Fund Index is lower at -0.08% MTD and up +4.94% YTD.**
**II) Equity Hedge has declined by -0.43% MTD and is up +6.64% YTD.**
**III) Event Driven is higher MTD +0.10% and is higher YTD +2.76%.**
**IV) Macro/CTA has risen by +0.19% MTD and is up +4.65% YTD.**
**V) Relative Value Arbitrage is lower by -0.05% and is up +4.49% YTD.**
**VI) Multi-Strategy is flat MTD at +0.00% and is higher by 4.23% YTD.**

## ECONOMIC DATA WATCH AND MARKET OUTLOOK

The **past week** saw a great deal of upheaval as **rising tensions** in the **U.S./China trade war** prompted a sharp rise in equity price volatility. The tweets and news reports came fast and furious last week, as **China** over the previous weekend **permitted the Yuan to fall to its lowest level in over a decade.** This prompted the **U.S.** to **accuse China** of being a **currency manipulator** on Monday, followed by the **Peoples Bank of China setting the Yuan** just above or below the important **seven to the one versus the USD** mid-week, followed by **President Trump threatening** to **cancel September's** scheduled **U.S./China trade talks** and a continued banning of technology equipment sales to Huawei. The uncertainty caused the S&P 500 to experience a daily change ranging from +0.07% to -2.98%. The S&P's price action has driven the **VIX** from about **12 to a high of 24.81 on Monday**, before closing the week at 19.14.

As we enter **next week's trading sessions**, expectations are for **volatility to remain elevated** as the **sparring** between the **U.S. and China** on trade is expected **to continue** to a while. In the background, we will see the wind down of **earnings season** with 41 companies in the S&P 500 left to report. To date, with **90% of the S&P 500** (456 companies) having **reported**, 76% and 56% have beaten their earnings and revenue estimates, while posting a blended decline in **earnings of -0.72%.** Though the results have exceeded the original earnings decline of -1.9%, this would mark the second straight quarterly drop in earnings (Q1 was -0.21%) since Q2 of 2016.

In turning to **next week's economic calendar**, after a relatively light week of data releases activity will pick-up with investors keying on Consumer Sentiment and Retail Sales. We begin on **Tuesday** with the **Consumer Price Index**, which was mixed in June, muted at the headline level with a 0.1% gain but showed some pressure for the ex-food ex-energy core with a 0.3% gain. Street estimates call for **modest rises** in July of **0.2% increases** for both **total prices and the core**. Year-on-year the Index is expected to rise slightly for total prices, to 1.7%, and hold unchanged for the core at 2.1%.

On **Thursday,** we get the release of the all-important **Retail Sales** data, which was strong in June with an increase of 0.3% versus the 0.4% seen in May. A **slight slowdown** is the forecast for **July** with the core coming in at **0.3%.** The small decline is due to a **slowing of unit vehicle sales,** but on an ex-auto and gasoline basis, Retail Sales are expected at 0.5%. Later in the day we get the report for **U.S. Industrial Production** which rose solidly **higher by 0.4%** in June, supported by strength in hi-tech and business equipment. A fall back is estimated for July of -0.1%, and the capacity utilization is expected to drop to 77.8% versus June's 77.9%.

Late morning on Thursday, the outlook for the Housing Market Index is a gain of one point to 66, which shows gains for both current and future sales.

Opening on **Friday** will be **Housing Starts** which disappointed in June, including a pronounced drop in permits. The July report is expected to be mixed, with starts estimated to come in at **1.260 million units** (essentially **unchanged from June's 1.253 million**), whole permits are projected to increase to 1.270 million from 1.220 million in June. **Consumer Sentiment** will close out the week on Friday, where a **slight drop** is expected, with the preliminary August reading of **97.5 versus July's report of 98**.

***Data Source: Haver Economics***

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