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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

President Trump's tweet last Thursday to put additional tariffs on China's imports, raised investor concerns that even additional Fed rate cuts may not be able to offset a global economic slowdown.

a) **Dow Jones -2.59%, MTD -1.40%, YTD +15.05** b) **S&P 500 -3.07%, MTD -1.60%, YTD +18.32%**
c) **Russell 2000 -2.85%, MTD -2.59%, YTD +14.61%**

Drivers: I) **President Donald Trump** stated last Thursday the U.S. will **levy 10% tariffs** on **$300 billion of Chinese goods** beginning **Sept. 1**. In a tweet, the president said trade talks with Beijing are continuing after U.S. officials returned from negotiations in China. The 10% tariffs will apply to $300 Billion of Chinese goods being imported into the U.S. This does not include $250 billion of goods already subject to tariffs, the President stated.

II) The **U.S. nonfarm payroll rose 164,000** which **matched** the **Street consensus**. Most of the strength came for a second month from government payrolls which, reflecting the heavy government spending that has been in place, rose 16,000 to exceed June's 14,000 rise. Private payrolls, which exclude government payrolls, rose 148,000 which, in contrast to the nonfarm headline, was 12,000 under the Street consensus.

III) The **U.S. Jobs report** showed **wage pressures may be waning**, as the average hourly earnings rose 0.3% which is within the consensus range. June's rise in wages was revised one tenth higher and now also stands at 0.3%. Year-on-year, **earnings rose** one tenth to **3.2%** and though moving upward in the month **have been higher**, at **3.4%** in **February** earlier this year.

IV) The **Personal Income and Outlays** report showed total **consumer spending** in the month **rose only 0.3%** after a gain of 0.5% in May. Spending on both goods and services showed this similar slowdown. Monthly data on income and **core inflation** were steady at **0.4%** for April through June on income and at 0.2% each month for core PCE inflation (ex-food ex-energy). The year-on-year rate for the core rose 0.1% higher in June to 1.6%.

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 Industrials.**

Capitalization: **Large Caps -1.71%** (YTD +18.62%), Mid-Caps -2.21% (YTD +20.36%) and **Small Caps -2.59%** (YTD +14.61). **Style: Value -3.27%** (YTD +13.40%) and **Growth -2.03%** (YTD +16.39%). **Industry Groups (Leaders):** Technology -2.21% (YTD +28.31%), Information Technology -2.24% (YTD 28.27%), **REITs +1.02%** (YTD +23.66%), Consumer Discretionary -2.18% (YTD +20.14%), Communication Services -1.46% (YTD +19.54%), **Industrials -2.59%** (YTD +18.89%), Consumer Staples -0.39% (YTD +18.17%), Financials -2.48% (YTD +17.01%), **Energy -2.48%** (YTD +17.01%), **Utilities +1.07%** (YTD +15.45%), Materials -1.71% (YTD +14.66%), and Healthcare -0.06% (YTD +6.21).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -3.42%, after President Trump threatened to levy a 10% tariff on an additional $300 Billion of imports to the U.S., exacerbating already heightened global growth concerns.

Drivers: I) Euro-zone **economic sentiment** (ESI) **fell** again in July coming in at 102.7, down 0.6 points versus its June level to reach its lowest point since March 2016. The ESI has now **declined in twelve of the last thirteen months**, although by slightly less than expected for this report. The latest monthly drop was led by industry (-7.4 versus -5.6) where the outlook has been trending steadily lower since the start of 2018.

II) The **Q2 Eurozone GDP** flash report showed **slowing growth**, coming in at just **0.2%.** This was in line with market expectations, but only half the unrevised rate achieved in the previous period and was the weakest performance since the Q1 of 2013. As a result, **annual growth** slowed to **1.1%,** down from 1.2% last time. The larger member states quarterly growth eased from 0.3% to 0.2% in France and from 0.7% to 0.5 % in Spain. Germany has yet to report, but data is scheduled to be released on August 14th.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -3.42% for the week (MTD -2.34%, YTD +10.90%).**

ASIAN EQUITIES

Asian equity markets suffered sharp declines, as the lack of progress during the U.S./China trade talks in Shanghai prompted President Trump to threaten another round of tariffs. The Dow Jones Asia Index fell by -3.75% for the week, (MTD -2.19%, YTD +2.07%).

Drivers: I) **China's Markit Manufacturing PMI** index **rose** from 49.4 in June to 49.9 in July, highlighting the sector is essentially stagnant, which is in line with the trend seen over the past twelve months. Respondents continue to cite **weaker external demand** and ongoing U.S.-China trade tensions as major factors weighing on activity and sentiment. New export orders were unchanged from weak levels seen previously, while **payrolls** were reported to have been **cut at the fastest rate** since **February**.

II) The **Bank of Japan's** Monetary Policy Board left **monetary policy unchanged** after its July meeting, which was in line with consensus forecasts. As it has been since early 2016, the BoJ's short-term policy rate for excess reserves remains at -0.1% while the target level for the long-term 10-year yield remains at around 0.0**%. Real GDP** is now **forecast** to grow by **0.7%** in the 2019/20 fiscal year, **down** from the previous **forecast of 0.8%.**

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -2.63% (MTD -2.02%, YTD +6.55%), the Hang Seng Index fell by -5.28% (MTD -3.03%, YTD +4.29%) and the Shanghai Composite declined by -2.60% (MTD -2.21%, YTD +14.99%).**

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%, the lowest level since November 2016.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.846% down from 2.069%. The 30-year yield declined last week, ending at 2.380% a sharp drop from 2.590%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.98% last week, MTD +0.74% and YTD +7.14%. The Bloomberg Barclays US MBS TR rose by +0.40% last week, MTD +0.30% and YTD +4.90%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.31%, MTD -0.32% and YTD +10.20%.**

COMMODITIES

The DJ Commodity Index was lower last week dropping by -2.11% last week and is negative month to date -2.41% (YTD +3.51%). Commodity prices dropped as the threat of new tariffs from the U.S. on China imports send oil and industrial metals lower, due to worries over a protracted global economic slowdown.

Performance: I) The **price of oil** declined last week **by -1.72%** down to $55.19 and has fallen month to date in August by -5.78% (YTD +21.53%). Oil prices dropped and experienced its largest single day drawdown in four years, as President Trumps tariff tweet engendered fears over global growth and energy demand.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.19%** ending at 98.10 for the week (MTD -0.42%, YTD +2.00%). The USD rose last week, particularly versus China's yuan, after President Trump threatened a new round of tariffs on Chinese imports.

III) **Gold rose last week by +2.39%**, hitting a six-year high, after President Trump ratcheted up the rhetoric regarding the US/China trade negotiations. **Gold was higher by +2.39%** last week, climbing from $1418.5 to $1452.5 (MTD +1.02%, YTD +13.36%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.01% MTD and up +5.04% YTD.
II) Equity Hedge has declined by -0.03% MTD and is up +7.07% YTD.
III) Event Driven is higher MTD +0.03% and is higher YTD +2.69%.
IV) Macro/CTA has risen by +0.03% MTD and is up +4.48% YTD.
V) Relative Value Arbitrage is higher by +0.02% and is up +4.56% YTD.
VI) Multi-Strategy is positive MTD at +0.03% and is higher by 4.26% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Last week provided us with an **important lesson** that the **President's tweets** will **trump solid economic data** and even the power of the **Federal Reserve**. Despite corporate earnings, employment data and the Fed meeting expectations, **President Trump's tweet** on Thursday stating that he would look to impose a **10% tariff** on the remaining **$300 Billion of Chinese** non-tariffed **imports** on September 1, sent risk asset prices spiraling down. The President stated he was unhappy that little progress was made at the U.S./China trade talks that were held in Shanghai. Trump was specifically disappointed that China reneged on their promise to increase agricultural purchases from the U.S. and help stem the flow of fentanyl into the country as well.

The negative trade developments have offset a decent earnings season, as with **384 (77.0%) S&P 500 companies** having **reported**, **76% and 59%** have **beaten** their **earnings and revenue estimates** respectively. Trade worries more than mitigated any positive effects of the **Fed rate cut**, which came in as expected at **0.25%.** It was interesting to see that the **Trump comments** regarding **trade**, immediately caused the **Fed Fund futures** to price in a **63.0%** chance of a rate cut in **September**. A sharp jump from 27.0% to **62.0%** was also seen for a potential **October 30th** rate cut as well. With a negative bias to the equity markets, it will be interesting to see if the S&P 500 at 2934.50 will be able to hold above the 50-day moving average (DMA) of 2927.0 or the 200 DMA of 2790.0.

In turning to **next week's economic calendar**, after a very heavy reporting period, the schedule lightens as PMI Services and Inflation will be the focus. On **Monday**, we get the release of the **PMI Services Index** which jumped higher in the **July** flash and is expected to post a final for the month of **52.2**. The consensus for the composite, where weakness in manufacturing is a factor, is 51.6. Also, out on Monday is the **ISM Non-Manufacturing Index** where the forecast is for **continued strength** in July at a consensus **55.5** versus June's very favorable 55.1. Most growth rates, including for new orders, slowed in June but remained very solid.

In the middle of the week on Wednesday, we will get the release of the **Consumer Credit** report and steady **growth of $16.3 billion** is expected for in June following May's as-expected increase of $17.1 billion. Credit has **risen for a second straight month**, this time $7.2 billion, due to an increase in revolving credit.

Closing out the week is the **Producer Price Index**, which was **mixed in June** showing only a **0.1% rise** for the core. A much more **solid 0.3% gain** for the **core less food and energy** was seen, along with a rise for trade services. For **July,** the headline **consensus is a 0.2% increase** with the core also seen at 0.2% and 0.2% for ex-food ex-energy ex-trade services as well.

Data Source: Haver Economics