Weekly Market Recap
June 10, 2019

		Return	
Index	**Close**	**Week**	**YTD**
Dow Jones Industrial Average	25,984	4.7%	11.4%
S&P 500 Index	2,873	4.4%	14.6%
NASDAQ	7,742	3.9%	16.7%
Russell 2000 Index	1,514	3.4%	12.3%
MSCI EAFE Index	1,854	2.0%	7.8%
10-yr Treasury Yield	2.08%	-0.04%	-0.60%
Oil ($/bbl)	$54.07	1.1%	19.1%
Bonds*	$110.53	0.4%	5.1%

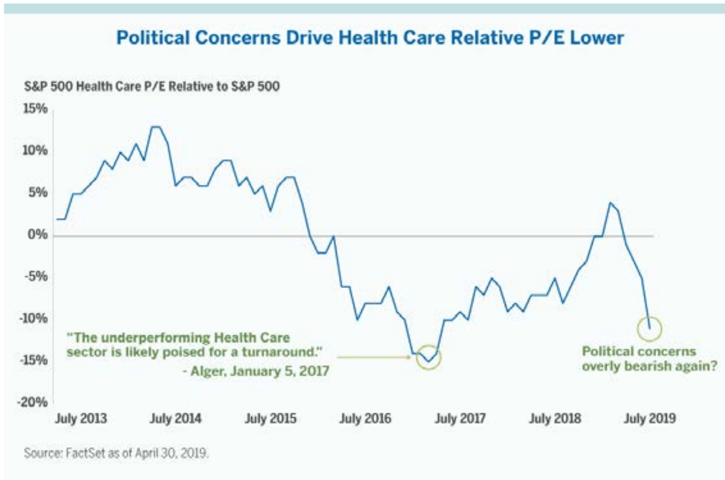
Source: Bloomberg, 06/07/19

*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Markets

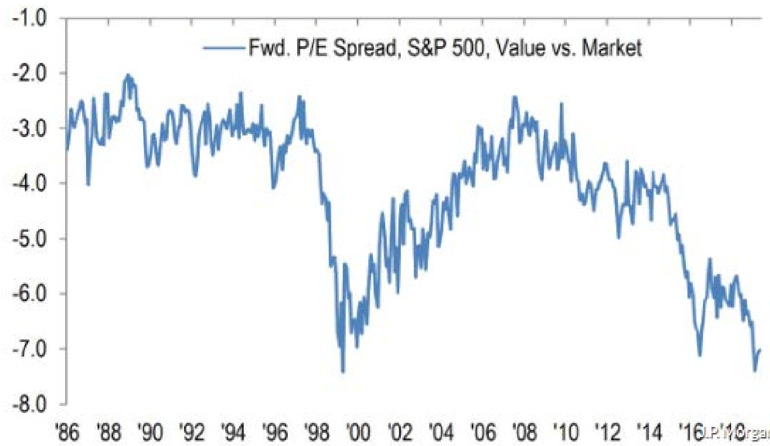
- U.S. large cap equities (S&P 500 Index) rallied +4.4% as dovish commentary from several Federal Reserve (Fed) members supported futures market expectations for a Fed rate cut by July and possibly three rate cuts by 2020. Additionally, oversold conditions, possible short covering, and an improved outlook on U.S.-Mexico trade negotiations likely contributed to the equity strength this week. By the weekend, President Trump announced that an agreement was reached with Mexico that will avoid the implementation of tariffs as Old Man Barron's quipped: "Here's the latest market wisdom: Sell in May, come back in June"
  - Materials (+9.1%) outperformed with leadership from steel and chemical stocks
  - Information technology (+6.0%) outperformed with strength from Apple (+8.6%), **Microsoft (+6.2%)**, semiconductor stocks and networking companies
  - Consumer staples (+5.2%) outperformed with strength in the home and personal care industry
  - Industrials (+5.1%) outperformed as airlines **(Delta +6.9%)**, construction materials, and select machinery companies were among the bigger gainers
  - Healthcare (+4.3%) performed in-line with the market as mixed performance across the sector included **Abbott Labs (+6.1%)** and **Johnson & Johnson (+5.6%)**
    - Is the political rhetoric around healthcare providing another opportunity for investors to take advantage of attractive valuations?



Source: FactSet. As of 04.30.2019.

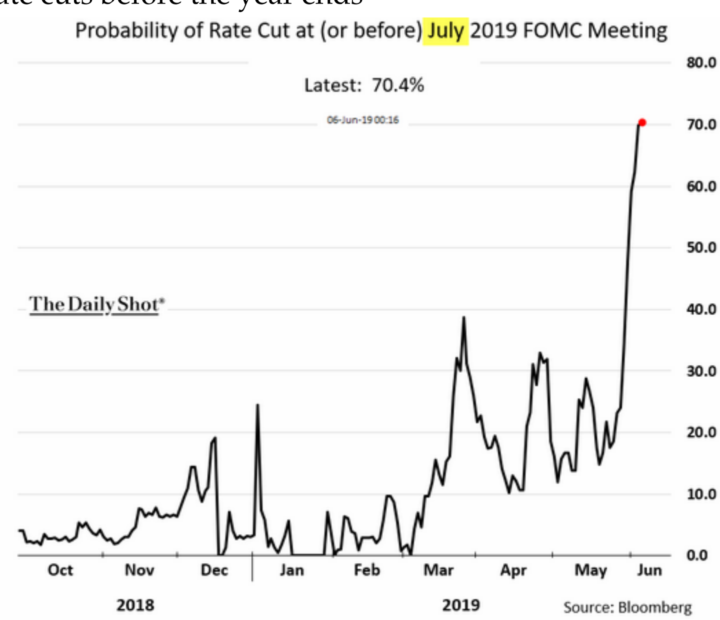
- Financials (+4.2%) underperformed with weakness from banks as interest rates declined and concerns remain regarding the flattening/inverted yield curve
  - The 10-year Treasury yield touched 2.07% one week ago, its lowest level since 2017
- Energy (+4.1%) underperformed as the price of oil rose only 1.1%
- Consumer discretionary (+4.0%) underperformed with weakness in retail
- Utilities (+2.9%) underperformed as investors favored less defensive stocks
- Communication services (+0.9%) underperformed on regulatory concerns including **Alphabet (-3.5%)** and **Facebook (-2.3%)**

- Small-cap equities underperformed U.S. large caps this week, and the Russell 2000 index year-to-date performance is now -2.3% behind the S&P 500 index
- The technology-heavy Nasdaq Composite (+3.9%) underperformed the S&P 500
- Monday saw a flurry of mergers and acquisitions announced, including Infineon offering to buy Cypress Semiconductor
- The market was encouraged by the threat from Senate Republicans to try and block Trump's Mexico tariffs. In addition, Mexican officials came to the U.S. for discussions over measures they could take to address the White House's concerns about illegal migration in the exchange for avoiding tariffs
- Multiple reports discussed how the Department of Justice (DOJ) and Federal Trade Commission (FTC) agreed to divvy up jurisdiction of four leading technology companies. The DOJ will focus on **Alphabet** and Apple, while the FTC will cover **Amazon** and **Facebook**, with a current investigation already underway on **Facebook**. Reports discussed several concerns including the rare bipartisan support for increased regulation, extended headline risk, and dampened acquisition prospects
- The valuation discrepancy between so-called value and growth stocks is near its widest levels ever, going back 33 years, on both price-to-book and price-to-earnings measures



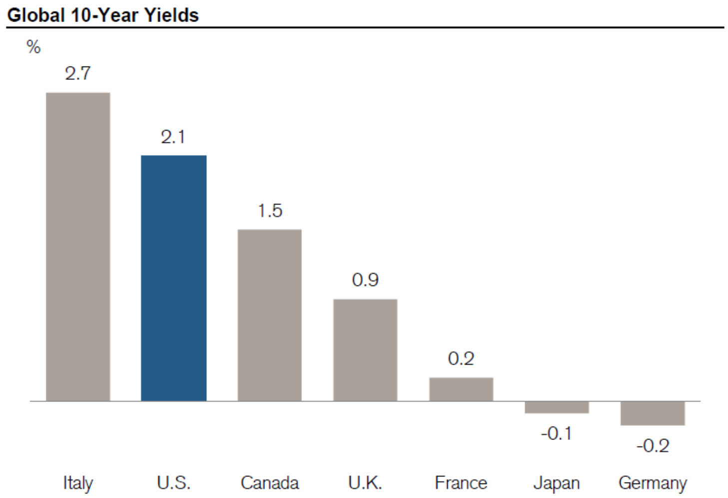
Source: J.P. Morgan

- Fed Chair Powell said the central bank is closely monitoring the implications of trade developments and will act "as appropriate to sustain the expansion." Several reports highlighted the lack of meaningful pushback from Fed officials against the future's market's expectations for a rate cut in July and possibly three rate cuts before the year ends



Source: Bloomberg

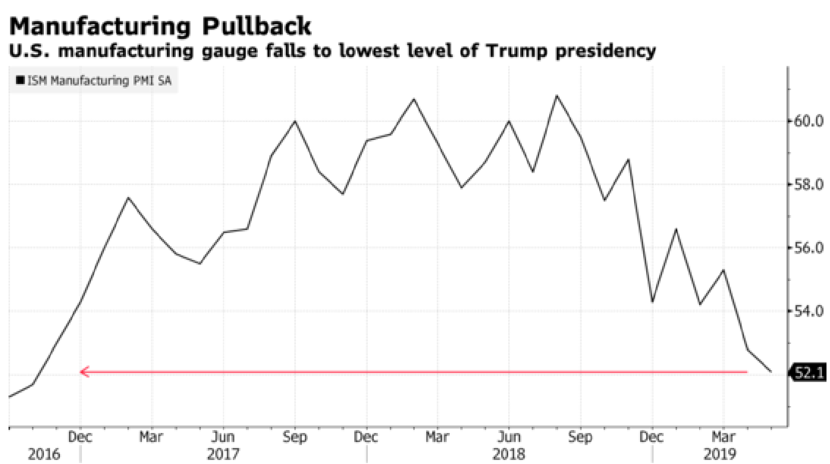
- Interest rates for several major foreign, developed countries are significantly lower than the U.S. Given the higher debt levels, lower GDP growth, and significant political risk for Italy (131% debt to GDP, -0.1% GDP y/y growth), it's somewhat mind boggling that an Italian 10-year bond yields only 0.6% more than an equivalent U.S. bond (105% debt to GDP, +3.2% GDP annualized growth in Q1.2019). Meanwhile, French Treasuries yield 90% less than their U.S. counterparts, while German and Japanese Treasuries remain mired in negative yield territory



Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse

U.S. Economic and Political News

- ADP's Private Payrolls report showed a gain of just 27,000 jobs in May, down from 271,000 in April and well below the 173,000 consensus forecast. It was the worst monthly report since March 2010
  - "Job growth is moderating," Moody's Chief Economist Mark Zandi said. "Labor shortages are impeding job growth, particularly at small companies, and layoffs at brick-and-mortar retailers are hurting"
- Non-Farm Payrolls printed a gain of 75,000, well below the 183,000 consensus estimate.
  - The unemployment rate of 3.6% matched forecasts
- The ISM Purchasing Managers Index fell to 52.1 in May, from 52.8, and below the 53 consensus estimate. It's the lowest level for the gauge since October 2016



Source: Institute for Supply Management

International Markets and News

- European equities (STOXX Europe 600) rose +2.3% as the European Central Bank (ECB) left its key policy rate on hold and extended its steady interest rate guidance until mid-2020. Eurozone macro data was broadly firmer, and the European Commission announced it will start disciplinary proceedings against Rome because of rising debt
  - The ECB extended its steady interest rate guidance until mid-2020 and announced pricing for its new bank loan program (0.10% to -0.30%). ECB President Mario Draghi's press conference was dovish as he reiterated the ECB's commitment to take more policy action
  - Eurozone final composite PMI came in at 51.8% in May vs. the flash at 51.6% and a prior reading of 51.5%, marking the best reading in three months
- Chinese markets (Shanghai Composite Index) fell -2.5% as China stepped up tariff retaliation against the U.S., and signs of China's slowing economic growth continued
  - On Tuesday, Beijing said it fined Ford Motor Company's mainland joint venture 162.8M yuan or $23.6M for antitrust violations. Days earlier, Beijing said it was investigating FedEx for allegedly mishandling packages intended for the mainland offices of Huawei (Chinese telecom company that the U.S. recently placed on its own blacklist)
  - On Wednesday, the International Monetary Fund trimmed its 2019 growth forecast for China to 6.2% from a prior 6.3% estimate, and issued a 6.0% growth projection for next year
- Japanese equities fell -1.4% (Nikkei 225 Index) during the week as the World Bank (WB) cut Japan's growth forecast for 2019 to 0.8% from 0.9%, citing the U.S.-China trade dispute as the main driver of the downgrade
  - The WB also highlighted that Japan's value-added tax hike planned for October would likely slow the economy further

Commodities

- The price of gold rose 2.7% for the week
- The price of crude oil rose 1.1% this week, and 19.1% year-to-date after collapsing in the 2nd half of 2018; however, most energy stocks have underperformed the rally in the commodity

This Week:

- It's a busy Monday for mergers and acquisitions:
    - United Technologies and Raytheon announced they are combining in a $121 billion merger of equals
    - Salesforce is buying Tableau for $15.7 billion in an all-stock deal
    - Merck is acquiring Tilos Therapeutics for $773 million
- This week will be a relatively quiet week for earnings reports. Notable releases included, but are not limited to: Thor Industries, Casey's General Store, HD Supply Holdings, H&R Block, Lululemon Athletica, Healthcare Realty Trust, Broadcom
- The economic calendar will see import/export data on Monday, CPI/PPI and CPI data on Wednesday, and Michigan inflation expectations and retail sales on Friday
- U.S. economic data:
    - Monday: JOLTS Job Openings (Apr), Consumer Inflation Expectations (May)
    - Tuesday: NFIB Business Optimism Index (May), PPI, IBD/TIPP Economic Optimism (Jun)
    - Wednesday: CPI (May), Treasury Budget (May)
    - Thursday: Import Prices (May), Export Prices (May) Initial Claims
    - Friday: Retail sales (May), Capacity Utilization (May), Manufacturing Production (May), Industrial Production (May), Michigan Consumer Expectations / sentiment (Jun), Business Inventories (Apr)

As always, thank you very much for your interest in our thoughts and support of our services.

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