



Index	Close	Return	
		Week	YTD
Dow Jones Industrial Average	27,332	1.5%	17.2%
S&P 500 Index	3,014	0.8%	20.2%
NASDAQ	8,244	1.0%	24.2%
Russell 2000 Index	1,576	-0.4%	16.4%
MSCI EAFE Index	1,920	-0.6%	11.6%
10-yr Treasury Yield	2.11%	0.08%	-0.57%
Oil (\$/bbl)	\$60.29	4.8%	32.8%
Bonds*	\$110.79	-0.3%	5.6%

Source: Bloomberg, 07/12/19

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

Last Week:

U.S. Equity Markets

- The S&P 500 Index surpassed the 3,000 level for the first time ever as Federal Reserve Chair Powell's monetary policy testimony to Congress further bolstered the case for a rate cut late this month, U.S.-China trade headlines leaned cautious, and the market seemed to ignore the lack of progress on a deal to raise the debt ceiling and avoid spending cuts
 - Energy (+2.2%) outperformed as the price of oil rose +4.8% on better inventory data, Hurricane Barry impact, and Middle East tensions
 - Consumer discretionary (+2.1%) outperformed with strength in apparel and accessories and select retail stocks including **Amazon (+3.5%)**
 - Information technology (+1.5%) outperformed with strength in memory, and semiconductor equipment companies
 - Industrials (+1.2%) outperformance was underpinned by freight/logistics and select airlines stocks (**Delta +5.0%** and American Airlines +4.1%)
 - Communication services (+1.2%) outperformed with strength in large-cap internet and traditional media
 - Consumer staples (+0.9%) outperformed with strength in big-box retailers
 - Financials (+0.5%) underperformed with weakness in banks from dovish Federal Reserve takeaways and cautious research reports
 - Utilities (-0.1%) & REITs (-0.2%) lagged as investors favored less defensive sectors
 - Materials (-0.8%) underperformed as industrial metals, chemicals and paper and packaging lagged
 - Healthcare (-1.4%) underperformed as a selloff in pharmaceutical stocks offset strength in services/managed care due to the White House decision to scrap a sweeping proposal to eliminate rebates from government drug plans



- Perhaps explaining the about-face, the non-partisan Congressional Budget Office estimated the rebate rule would have *increased* costs by an incremental \$180 billion over the next decade
- Meanwhile, small- and mid-cap stocks have lagged their larger counterparts by the widest spread since 1999. The S&P Smallcap 600 index has lost -8.4% since a year ago, while the S&P 500 gained 9.4% over the same timeframe. Last week, small- and mid-cap indices declined again, even as large-cap indices climbed
- As strong as U.S. stocks have been year-to-date, would you have guessed that the leaders in the clubhouse are Argentina, Greece, and Russia?

Country Stock Mkt YTD % Chg (Local Currency)					
Country	YTD % Chg	Country	YTD % Chg	Country	YTD % Chg
Argentina	42.56	Lithuania	11.49	Indonesia	3.59
Greece	40.77	Taiwan	11.47	Slovakia	3.22
Russia	30.89	Thailand	11.29	Qatar	3.05
Jamaica	26.79	Norway	10.40	Abu Dhabi (UAE)	2.79
Romania	22.22	Latvia	10.24	Mexico	2.61
New Zealand	21.29	Belgium	10.10	South Korea	1.94
Italy	20.99	Hong Kong	10.01	Poland	1.77
United States	19.68	Estonia	9.69	Namibia	1.51
Brazil	19.58	Vietnam	9.65	Chile	-0.33
Australia	18.95	Philippines	9.22	Morocco	-0.64
Iceland	18.38	Singapore	9.18	Malaysia	-0.67
France	17.36	Bermuda	9.12	Bulgaria	-1.85
Switzerland	17.20	Austria	8.92	Ecuador	-1.95
China	17.00	Turkey	8.91	Serbia	-2.10
Germany	16.79	Spain	8.67	Mauritius	-2.96
Colombia	16.47	South Africa	8.60	Botswana	-2.96
Netherlands	16.22	Japan	8.14	Ukraine	-3.28
Canada	15.57	Croatia	7.80	Luxembourg	-3.66
Bahrain	14.94	India	7.64	Kenya	-5.18
Portugal	14.76	Finland	7.56	Sri Lanka	-8.11
Saudi Arabia	14.58	Malta	6.73	Pakistan	-8.61
Ireland	14.53	Peru	6.66	Nigeria	-8.65
Sweden	14.51	Dubai UAE	6.16	Oman	-11.92
Denmark	12.99	Czech Republic	6.13	Lebanon	-13.17
Israel	11.64	Hungary	4.09	Average	8.94
Britain	11.62				

G7 Country

BRICs

Source: Bespoke

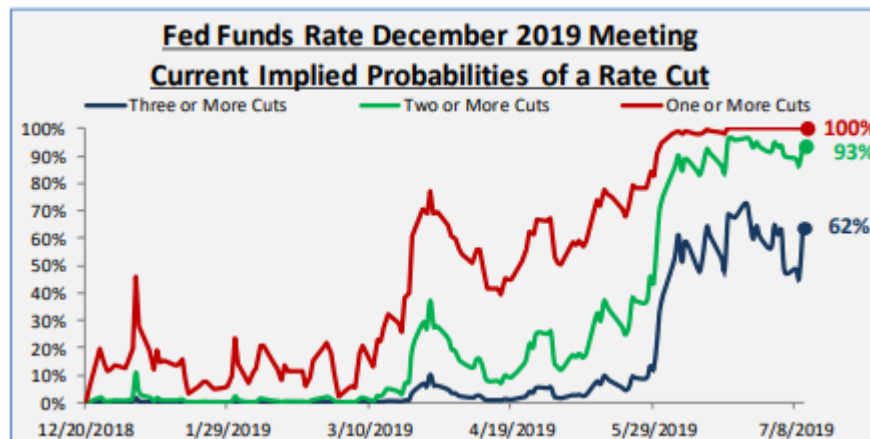
- Piper Jaffray and Sandler O'Neil announced they are merging
- **Cisco Systems** said it is buying Acacia Communications for \$2.6 billion
- In an out-of-this world story, Richard Branson's Virgin Galactic (space tourism company) is merging with Social Capital Hedosophia Holdings



- Blue jeans maker Levi Strauss skinned its knee, reporting a quarterly earnings miss in its first full quarter as a publicly traded company
- YogaWorks, which came public in August 2017 at \$5.50/share, said Friday it is delisting its stock, which last traded at \$0.39/share

U.S. Economic and Political News

- Larry Kudlow, Director of the National Economic Council, said Fed Chair Jerome Powell's job is "safe," and that "there is no effort to remove him."
- Mr. Powell provided his semi-annual Congressional testimony, saying that "based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook. These concerns may have contributed to the drop in business confidence in some recent surveys and may have started to show through to incoming data." As a result, the Fed "would act as appropriate to sustain the expansion," identical language to Powell's comments following the Fed's mid-June meeting
 - Those comments sent stocks rallying Wednesday, even though Fed Fund Futures already discounted a 100% probability of a July interest rate cut
 - The odds that the Fed will cut rates by 50 basis points in July are 20%, up from 3% earlier in the week. In other words, while the most likely scenario is "just" a 25 basis point cut, there's a growing chorus that's singing from the 50 basis point sheet of music
 - As of Wednesday, here's what the futures market was discounting in terms of number of rate cuts by year-end

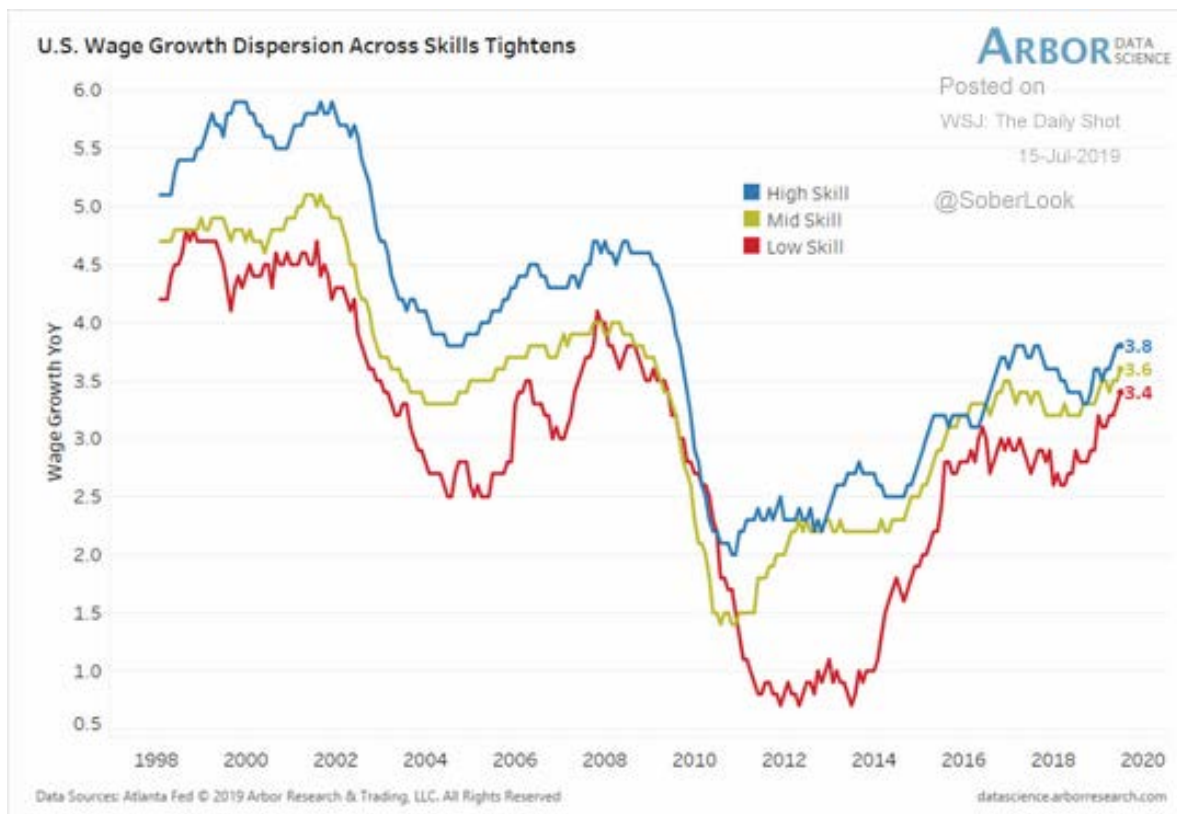


Source: Wolfe Research

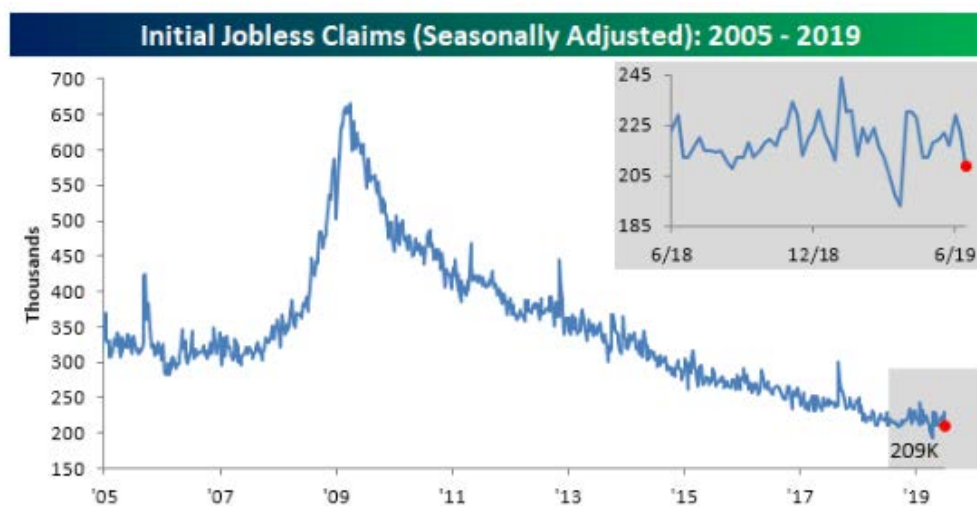
- Mr. Powell went on to say that the Fed's "baseline" forecast calls for "solid" economic growth, strong labor markets and firmer inflation. Thursday, in his Senate appearance, he said the economy is in "a very good place" – begging the question: If so, why lower rates? By partial way of explanation, Mr. Powell cited concerns about Brexit, trade developments, and the federal debt ceiling.



- He also said, “if you talk to international economic authorities, people are very concerned about global growth, and we will feel that over time”
- Furthermore, Mr. Powell said, “You saw business confidence surveys quite negative, fairly broadly,” acknowledging “some of that has recovered” since the Fed indicated it would consider lowering interest rates.
- JPMorgan Chief Global Strategist David Kelly said, “Chairman Powell admits that it is fiscal policy that has any possibility at all of stimulating the economy, not by the way, that you need to stimulate the economy when you’ve got a 3.7% unemployment rate”
- Or, as *Barron’s* said that instead of taking away the punch bowl when the party gets going, “now, the punch bowl gets spiked if the party seems to slow down – not by the delinquents sneaking vodka in water bottles, but by the supposedly sober chaperones”
- For his part, St. Louis Fed President James Bullard said he intends to vote for a quarter percentage point decrease in the Fed Funds rate later this month, and one additional quarter point reduction later this year as an “insurance” move. He indicated that the “global picture more generally is impacting my decision-making. European data has been disappointing. Germany has been affected by global trade, in particular”
 - Far be it from us to second-guess Federal Reserve cognoscenti, but since when does the U.S. central bank adjust domestic monetary policy because of European data?
 - Mr. Bullard also said the Fed has been “doing well on our mandates” – those being full employment and price stability. If so, why change policy?
- 10-year Treasury yields rose the most in three months, as Mr. Powell’s comments helped facilitate a steepening of the yield curve
- Treasury Secretary Mnuchin informed House Speaker Nancy Pelosi that the United States is likely to reach its debt ceiling as early as September
- Secretary of Labor Alex Acosta resigned, in the wake of his involvement more than a decade ago as a prosecutor of Jeffrey Epstein
- Somewhat ironically, the Consumer Price Index printed a 0.1% gain in June, higher than the consensus estimate for flat; likewise, core CPI rose 0.3%, higher than the 0.2% estimate. So the Fed apparently will be cutting interest rates while inflation is edging above prevailing forecasts
- The Producer Price Index also edged up 0.1%, matching Street consensus, while core-PPI rose 0.3%, a tick higher than the 0.2% forecast
- Wage inflation also has been rising



- Weekly Jobless Claims fell to 209,000, below the 220,000 consensus expectation, and the lowest in three months



Source: Bespoke

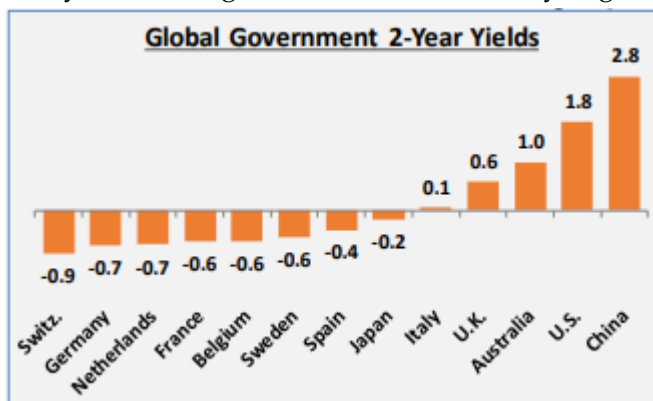
International Markets and News

- European equities (STOXX Europe 600) fell (-0.8%) and bond yields backed up as June European Central Bank (ECB) meeting minutes suggested the ECB is prepared to ease policy further in its



forthcoming policy meetings despite some better macro data. Additionally, U.S.-EU trade relation tensions increased

- Global sovereign bonds fell as the 10-year German Bund saw its biggest selloff in nearly one-and-a-half years, which lifted yields 15 bps to 0.21%
- Meanwhile, most 2-year sovereign debt continues to carry negative yields



Source: Wolfe Research

- U.S.-EU trade tensions intensified as the Trump administration proposed another \$4B on top of the original proposal in April to target goods worth \$21B
- Chinese markets (Shanghai Composite Index) fell -2.7% as investors reacted to weaker trade data underscoring the U.S.-China trade rift's impact on the Chinese economy
 - On Friday, China reported that export growth in June slowed to 1.3% from a year ago, while imports fell a bigger-than-expected -7.3% from the prior-year period, while June imports from the U.S. sank -31.4% from a year ago and U.S. exports dropped -7.8% over the same time period
- Japanese equities (Nikkei 225 Index) fell -0.2% as private consumption rose, but sentiment fell, and slowing demand for smartphones and servers impacted chipmakers
 - Japanese household spending rose 4% year-over-year in May, but a government survey showed that household sentiment dropped to a three-year low in June
 - Data from SEMI, a global industry trade group, showed projected global semiconductor sales in 2019 have been revised 18% lower to \$52.7B compared with an earlier estimate of an 8% drop as weak smartphone sales and U.S.-China trade tensions have impacted the semiconductor industry

Commodities

- The price of gold rose 0.9% for the week
- The price of crude oil rose 4.8% on better inventory data, Hurricane Barry impacts, and Middle East tensions. Oil remains up 32.8% in 2019 after collapsing in the 2nd half of 2018



This Week:

- China reported its quarterly GDP grew 6.2%, the slowest pace in 27 years
- Symantec's stock plunged after a report indicated merger talks with Broadcom ended
- Earnings season begins in earnest this week. Notable releases include, but are not limited to: Citigroup, **Crown Castle**, **CSX**, **Danaher**, **Honeywell**, Goldman Sachs, JP Morgan, Netflix, **Morgan Stanley**, **Philip Morris International**, **Schwab**, **Wells Fargo**, **Abbott Labs**, **Johnson & Johnson**, **UnitedHealth**, **Kansas City Southern**, Schlumberger, Blackrock, State Street, U.S. Bancorp, PNC Bank
- U.S. economic data:
 - Monday: The Empire State index (actual 4.3, consensus: 0.5) recovered from negative territory

Empire State manufacturing index

Seasonally adjusted



Source: Federal Reserve Bank of New York via FRED

- Tuesday: Retail sales (Jun), Import / Export Prices (Jun), Industrial Production (Jun), Capacity Utilization (Jun), Business Inventories (May), NAHB housing market (Jul)
- Wednesday: Housing Starts (Jun), Building Permits (Jun), U.S. Beige Book
- Thursday: Philly Fed Index (Jul), Leading Index (Jun)
- Friday: Michigan Sentiment (Prelim)

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

Whitney Stewart, CFA®
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