



Index	Return		
	Close	Week	YTD
Dow Jones Industrial Average	26,287	-0.7%	12.7%
S&P 500 Index	2,919	-0.5%	16.4%
NASDAQ	7,959	-0.9%	20.0%
Russell 2000 Index	1,513	-1.3%	12.9%
MSCI EAFE Index	1,846	-0.9%	7.4%
10-yr Treasury Yield	1.74%	-0.11%	-0.95%
Oil (\$/bbl)	\$54.43	-2.2%	19.9%
Bonds*	\$111.95	0.9%	6.9%

Source: Bloomberg, 08/09/19

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

## Last Week:

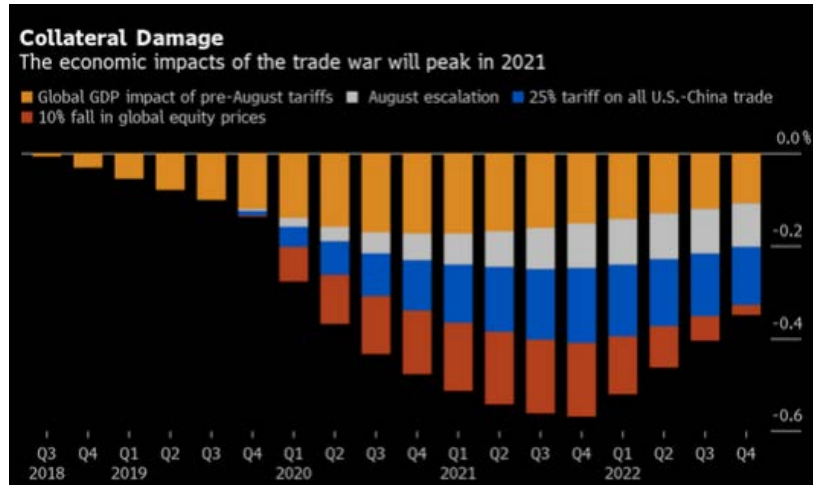
### U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) finished down -0.5% after a highly volatile week as U.S.-China trade tensions continued to ratchet up, concerns of a U.S.-China currency war developed, and global growth data was mixed
  - REITs (+1.8), utilities (+1.0%), and consumer staples (0.0%) outperformed as investors favored defensive sectors
  - Materials (+0.7%) outperformed on the back of a rally in precious metals
  - Healthcare (+0.4%) outperformed with strength from select pharmaceutical and med-tech stocks
  - Consumer discretionary (0.0%) outperformed with strength from restaurants
  - Industrials (-0.6%) underperformed with weakness from machinery and transports
  - Communication services (-0.6%) underperformed as **Alphabet (-0.6%)** and **Facebook (-0.6%)** modestly underperformed the broad market
  - Information technology (-0.8%) underperformed as semiconductor and select software stocks lagged
  - Financials (-1.7%) underperformed as banks fell on interest rate concerns
  - Energy (-2.2%) underperformed as the price of oil fell -2.2%
- In response to President Trump's announcement last week that he would implement a 10% tariff on the final \$300B of Chinese imports starting September 1st, China said it halted purchases of U.S. agricultural products. The Wall Street Journal stated the recent events has made it much more difficult for Chinese President Xi to make concessions
  - China's yuan exchange rate weakened through the psychologically important level of 7 to the U.S. dollar (first time since offshore trading started in Hong Kong in 2010). On Thursday, the



Peoples Bank of China set the reference rate above the 7 to the dollar level for the first time since 2008, while Trump continued to express frustration with the strength of the dollar

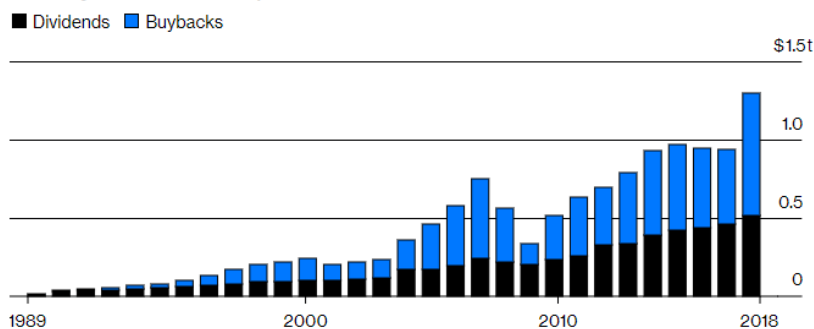
- o Bloomberg estimates the peak impact of the U.S.-China trade war will be felt in the late 2021



Source: Bloomberg Economics

- The amount of global debt with negative yields ballooned to \$15 trillion. It's "mind-boggling" that investors are attracted to negative nominal returns
- Bloomberg reported that Goldman Sachs's buyback desk saw a dramatic increase in activity on Monday when equities came under pressure, and saw their 12th largest ever daily outflow on a global basis. JPMorgan's Marko Kolanovic partly attributed the bounce to accelerated buyback activity as the firm estimated that average activity of \$3 billion per day has likely tripled to nearly \$10 billion of purchases per day, helping to counter the selling from systematic strategies that loaded up on equities in the low-volatility environment. Buybacks have contributed to the strength bull market since 2009

Outlays of U.S. Corporations\*



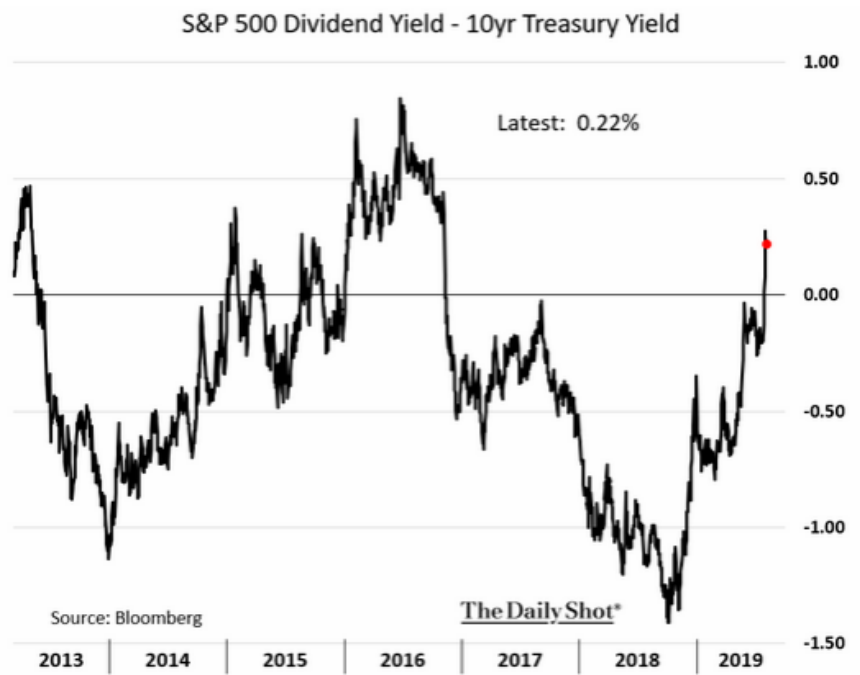
\*2,902 nonfinancial U.S.-based companies that represent more than 98% of the U.S. public equity market

Source: Capital Group

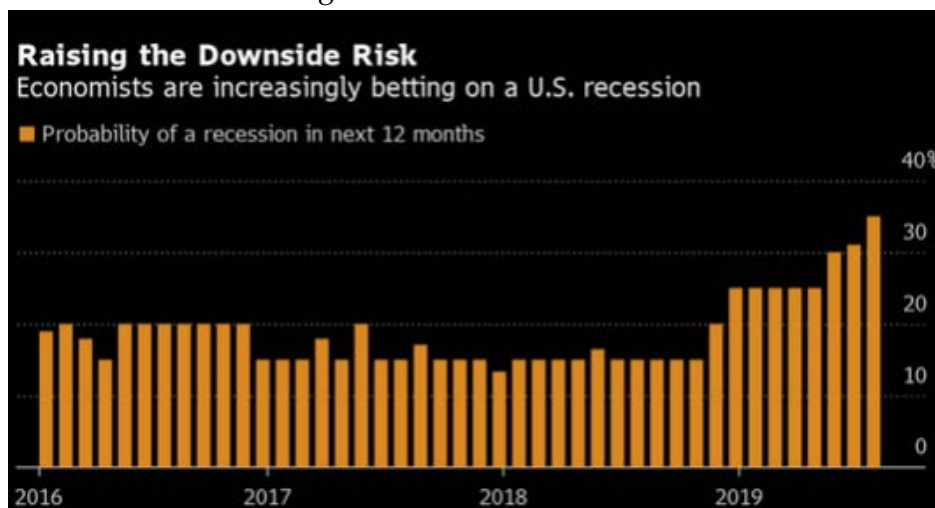
- While buybacks reduce equity float, the flip side is equity issuance. In 2019, 62% of IPOs (initial public offers) are trading below their offering price



- With both equities prices and bond yields falling the past two weeks, the spread between the S&P 500 Index dividend yield and the 10 year treasury yield rose above zero on Thursday (08/08) for the first time since 2016



- Despite the desired equity price and economic support from accommodative monetary policies via global central banks, and corporations returning capital to shareholders through stock buybacks and dividends, economists see increasing odds of a U.S. recession in the next twelve months



Source: Bloomberg Surveys

### U.S. Economic and Political News

- June job openings surprised on the upside, and weekly jobless claims fell more than expected



- On Friday, the Labor department reported that core producer prices had declined 0.1% in July, marking the first decline since 2017
- U.S. Jobless claims of 209k were below estimates of 215k
- June consumer credit of \$14.6B was below estimates of \$16.0B, while May data was revised up to \$17.8B from \$17.1B
- Chicago Fed President Evans, a current FOMC voting member, said that more accommodation may be needed given headwinds and risk management. Evans noted that the July rate hike was justified by low inflation alone and one could take the view risks have gone up with increased chance of a shock that could prompt the Fed to return rates to zero, but still expects U.S. GDP growth of 2.25% this year

### **International Markets and News**

- European equities (STOXX Europe 600) fell -1.7% as more weak economic data from Germany was reported, the Italian government was on the verge of collapsing after Deputy PM Salvini called time on the coalition, and the UK Prime Minister Johnson continues to refuse to negotiate unless the European Union removes the Irish backstop, thus a no-deal Brexit is looking increasingly likely
  - German industrial output fell more than expected with manufacturing output falling by -1.5% in June, missing estimates of -0.4%, adding to fears that Germany is headed for its first recession since 2013
- Chinese markets (Shanghai Composite Index) fell -3.2% as the latest U.S.-China trade tensions intensified
  - After China halted buying American agricultural products in retaliation to the recent U.S. increase in tariffs, President Trump said the U.S. government will no longer have any dealings with the Chinese telecom giant Huawei
- Japanese equities (Nikkei 225 Index) fell -1.9% as global equities fell, and real wages fell again in June
  - Inflation-adjusted (real) wages declined 0.5% in June, which was the sixth consecutive month, and many investors view this as a red flag for domestic consumption in front of the value-added tax (VAT) increase scheduled for October
  - Domestic consumption, which rose 2.7% year over year in June has been a pillar for Japan's economy, helping to offset the impact of declining exports

### **Commodities**

- The price of gold rose 3.5% for the week
- The price of crude oil fell -2.2%, but oil remains up 19.9% in 2019 after collapsing in the 2nd half of 2018



This Week:

- This week will see significantly less earnings reports than the previous few weeks. Notable releases include, but are not limited to: Sysco, Advance Auto, Brinker, Myriad, Macy's, Agilent, **Cisco Systems**, Alibab, J.C. Penny, Wal-Mart, Applied Materials, nVidia, Deere, Viacom
- Macro-economic calendar will see U.S. CPI on Tuesday, U.S. housing data on Thursday and Friday, while China will report IP/retail sales and Fixed Asset Investment on Wednesday morning
- U.S. economic data:
  - Monday: Treasury Budget (Jul), Consumer Inflation Expectations (Jul)
  - Tuesday: NFIB Small Business Index (Jul), CPI (Jul)
  - Wednesday: Import Prices/Export Prices (Jul)
  - Thursday: Retail sales, Retail sales Ex Autos (Jul), NY Empire state Manufacturing index (Aug), Unit Labour Costs (Q2 Prelim), Philly Fed Manufacturing Index (Aug), Industrial Production (Jul), Capacity Utilization (Jul), Manufacturing Production (Jul), NAHB Housing Market Index (Aug), Business Inventories (Jun)
  - Friday: Building Permits (Jul), Housing Starts (Jul), Michigan Consumer Sentiment (Aug)

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

Whitney Stewart, CFA®  
Executive Director

Adam Bergman, CFA®  
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