Global Economy

Financial assets across the board performed well in June, capping a very strong first half of 2019. While global economic data releases tended to fall short of expectations, this only served to support the market's firm conviction that the Federal Reserve will soon deliver insurance cut(s) to "sustain the expansion." Not to be left out, the European Central Bank delivered a statement indicating that it would employ its monetary policy tools to "answer any challenges to price stability." Geopolitical tensions remain a source of potential volatility, with 2020 election campaigns and heightened conflict with Iran coming into focus, even as US relations with both China ("truce" agreement at the G20 Summit) and Mexico (tariff threats pulled back with progress on immigration) seemingly improved.

The Federal Open Market Committee (FOMC) met on June 18th/19th, leaving interest rates at 2.25% - 2.50%. While taking no action on short-term interest rates, the Federal Reserve's messaging turned increasingly dovish. The latest dot-plot showed slightly less than half of the members are expecting at least one rate cut in 2019. At month end, the Fed Funds futures were pricing in a remarkable 100% probability of a cut in July and at least three cuts over the next 12-months.

1Q-19 Real GDP grew at an annualized rate of 3.1%, up moderately from initial estimates. The increase in real GDP reflected greater inventory buildup and exports pulled forward amid tariff fears. Forecasts for 2Q-19 are measurably lower, with consensus between 1.5% and 2.0%.

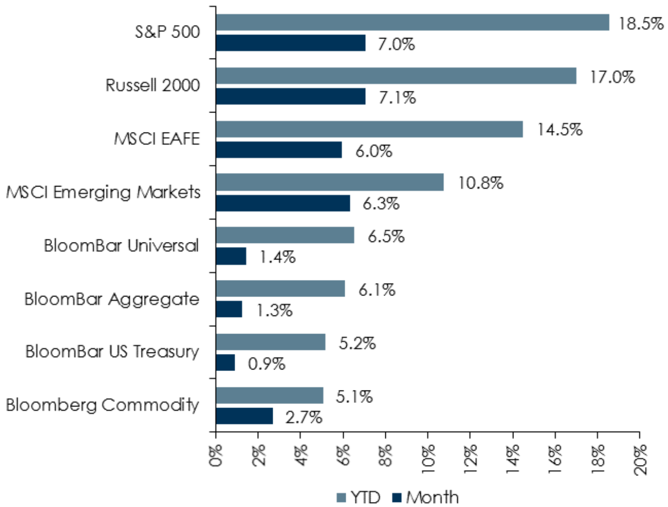
The unemployment rate increased slightly to 3.7% in June, despite 224,000 new jobs added, well above expectations. The labor participation rate also increased slightly to 62.9%, back to where it was a year ago. Average hourly wages rose at a year-over-year pace of 3.1%, the same as last month and continuing to limit inflation pressures from this source. The Core CPI index was up 2.0% year-over-year, down slightly from last month, while the FOMC's preferred measure, the Core PCE index, did not change at 1.6% year-over-year through May.

	Current	Dec-18
US GDP (%)	3.10	3.40
US Unemployment (%)	3.70	3.90
CPI (Core) (%)	2.00	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.01	2.69
S&P 500 Div Yld (%)	1.91	2.15
S&P 500 P/E (Trailing)	19.32	17.12
Gold/oz.	$1,413.70	$1,281.30
Oil (Crude)	$58.47	$45.41
Gasoline (Natl Avg)	$2.74	$2.36
USD/Euro	$1.14	$1.15
USD/GBP	$1.27	$1.28
Yen/USD	¥107.85	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

June was an exceptionally strong month, with returns in the major equity market indexes in the +6% to +7% range. The S&P 500, which represents large US-based entities, reversed notable losses from May, finishing up +7.0% for the month and up +18.5% year-to-date, the best first half performance since 1997. All major sectors in the domestic benchmark advanced, with several approaching or above double-digits. Materials led the way at +11.5%, with Energy (+9.1%) and IT (+9.0%) strong as well. Real Estate (+1.3%) and Utilities (+3.1%) were the relative laggards. Small cap stocks, as represented by the Russell 2000, were also up strongly at +7.1% for the month and are up +17.0% for the year. Within the category, the longer-term trend of Growth (+7.7%) leading Value (+6.4%) persists.

In the broad international developed markets, the MSCI EAFE index was solid at +6.0% for the month and is up +14.5% year-to-date. Sectors were up consistently across the board, with Real Estate (-2.1%) being the notable exception. Top sectors included IT (+6.7%), Consumer Discretionary and Industrials (both at +6.2%) and Financials (+4.7%). Notable US dollar weakness supported Euro-based country returns, while the UK (+0.9%) and Japan (+1.1%%) were relative laggards given more stable exchange rates throughout the month.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outpaced the developed international market with a return of +6.3% in June, but the category continues to trail year-to-date at +10.8%. The Eastern Europe region continued its strong 2019 run at +7.9% and is up +22.7% for the year. A relative underperformer for much of 2019 given China-related concern, Asia did well at +6.4% for the month and is now at +9.9% for the year.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up moderately at +1.7% during the month, and is up +15.1% for the year. Likewise, the Alerian MLP index was up +2.6% in June, but is up +17.0% year-to-date. The near-month NYMEX oil contract advanced +9.3% in June, with Iran tensions fostering a dramatic reversal from May that pushes the year-to-date change to +29.0%. While gold also rallied strongly (+8.3%), the broadly diversified Bloomberg Commodity index has been more stable, up +2.7% for the month and +5.1% thus far in 2019.

Global Markets (continued)

Abnormally correlating with the recovery in risk assets, US Treasury (UST) yields continued to move decisively lower in June. With expectations that the FOMC is prepared to embrace a more dovish policy, perhaps easing materially over the next 12-months, the slope of the yield curve bull steepened. Even as short-end rates declined more aggressively, the 3-month to 10-year segment remained inverted for the entire month. In this environment, the high-quality government bond complex returned +0.9% overall. The commonly referenced 10-year UST yield temporarily broke through the psychologically relevant 2% level, but ultimately ended 12 bps lower to finish at 2.01%.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on a duration-matched basis, providing another +1.3% in June and pushing year-to-date returns to an impressive +6.1%. Spreads for IG corporates were 13 bps tighter, reversing most of the prior month's sell-off. The securitized sub-sectors contributed modestly to outperformance. With both rates and spreads lower, the benchmark's yield-to-worst settled below 2.5% for the first time since mid-2017.

The Bloombar 1-15-Year Municipal index returned +0.4% in June. Despite lagging taxable counterparts as UST rates have moved rapidly lower, year-to-date returns of +4.4% are solid given initial yields. Robust demand for income has caused the tax-exempt yield curve to flatten in 2019, but 10-year yield ratios of ~81% have improved from historically rich levels.

As May's interruption in investor risk appetite proved fleeting, the Bloombar US Corporate High Yield index advanced +2.3% for the month and has delivered +9.9% year-to-date. Overall benchmark spreads tightened 56 bps, pushing all-in yields down to just 5.9%. Global yield moves were directionally consistent with US government bonds, and a weaker US dollar allowed unhedged international bonds to outperform. Emerging market bonds were strong across categories, as local rates in key countries declined and spreads for both US dollar-based sovereign and corporate issues tightened.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.16	-0.01
Germany	-0.33	0.24
France	-0.01	0.71
United Kingdom	0.83	1.28
Spain	0.39	1.41
United States	2.01	2.69
Italy	2.10	2.74
Mexico	7.57	8.64
Brazil	7.45	9.24

Source: Bloomberg

Indices Report (Periods Ending June 30, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	7.05	18.54	10.42	14.19	10.71	14.70	8.75
Russell 1000	7.02	18.84	10.02	14.15	10.45	14.77	8.94
Russell 1000 Growth	6.87	21.49	11.56	18.07	13.39	16.28	9.90
Russell 1000 Value	7.18	16.24	8.46	10.19	7.46	13.19	7.84
Russell 2500	7.09	19.25	1.77	12.34	7.66	14.44	9.07
Russell 2000	7.07	16.98	-3.31	12.30	7.06	13.45	8.15
Russell 2000 Growth	7.70	20.36	-0.49	14.69	8.63	14.41	8.90
Russell 2000 Value	6.37	13.47	-6.24	9.81	5.39	12.40	7.28
Wilshire 5000 Cap Wtd	6.96	18.66	9.09	14.03	10.33	14.66	8.96
MSCI ACWI	6.59	16.60	6.32	12.22	6.74	10.73	7.59
MSCI ACWI ex US	6.07	13.99	1.80	9.91	2.65	7.03	6.33
MSCI EAFE	5.97	14.49	1.60	9.65	2.74	7.40	5.84
MSCI EAFE Local Currency	4.30	14.15	2.70	10.34	6.36	8.85	6.21
MSCI EAFE Growth	6.52	18.87	4.67	10.12	4.79	8.63	6.56
MSCI EAFE Value	5.38	10.12	-1.48	9.11	0.63	6.10	5.04
MSCI Emerging Markets	6.32	10.76	1.61	11.06	2.87	6.17	9.06
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.51	2.42	3.96	1.29	1.21	1.20	2.15
BloomBar US Aggregate	1.26	6.11	7.87	2.31	2.95	3.90	4.27
BloomBar Gov't Bond	0.92	5.15	7.21	1.39	2.48	2.97	3.78
BloomBar US Credit	2.26	9.35	10.34	3.74	3.92	5.77	5.20
BloomBar 10 Yr Municipal	0.37	5.36	7.63	2.63	3.81	4.95	4.81
BloomBar US Corp High Yield	2.28	9.94	7.48	7.52	4.70	9.24	7.58
FTSE World Govt Bond	2.33	5.38	5.48	1.00	0.85	2.21	3.48
BloomBar Global Aggregate	2.22	5.57	5.85	1.62	1.20	2.89	3.76
BloomBar Multiverse	2.28	5.78	6.01	1.95	1.35	3.13	3.93
Real Assets							
FTSE NAREIT US Real Estate	1.26	17.78	11.21	4.20	7.92	15.46	9.04
FTSE EPRA/NAREIT Dev RE	1.71	15.09	8.64	5.45	5.79	11.45	8.00
Bloomberg Commodity	2.69	5.06	-6.75	-2.18	-9.15	-3.74	-2.58
Cash and Equivalents							
US T-Bills 90 Day	0.21	1.24	2.31	1.38	0.87	0.49	1.39

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