Parkside Financial
BANK & TRUST

Monthly Market Update - August 2019

Global Economy

Uncertainty and volatility ruled the month of August, with globally depressed interest rates, US/China trade issues and the increased likelihood of a no-deal hard Brexit at the forefront. While economic data indicates "consumers are consuming," manufacturing data were not as strong, causing some dashboards to flash rising recession probabilities. Interest rates moved sharply lower, resulting in an inverted US yield curve and increasing amounts of negatively yielding debt abroad. The cycle of tariff threats, trade talks, altered implementation, and more talks continued, but with increasing intensity. As financial markets seemingly hung on every word coming from Beijing or Washington, day-to-day price movements were both more significant and less predictable.

The Federal Open Market Committee (FOMC) did not formally meet in August. That said, Chairman Powell's speech at the annual Jackson Hole summit expressed concern about trade policy, global growth and market volatility while committing to "act as appropriate to sustain the expansion." Mid-September meetings by the Federal Reserve, overwhelming expectation for at least a 25 bps cut to the targeted Fed Funds range, and the European Central Bank should provide critical policy signals going forward.

The second estimate of 2Q-19 real GDP reported growth at an annualized rate of 2.0%, down slightly from the initial estimate of 2.1%. Consumer expenditures were revised up to an impressive 4.7%, even as surveys now show mixed consumer sentiment going forward. Downward revisions included state and local government spending, inventories, and net exports. Consensus GDP expectations for 3Q-19 have fallen slightly to 1.8%.

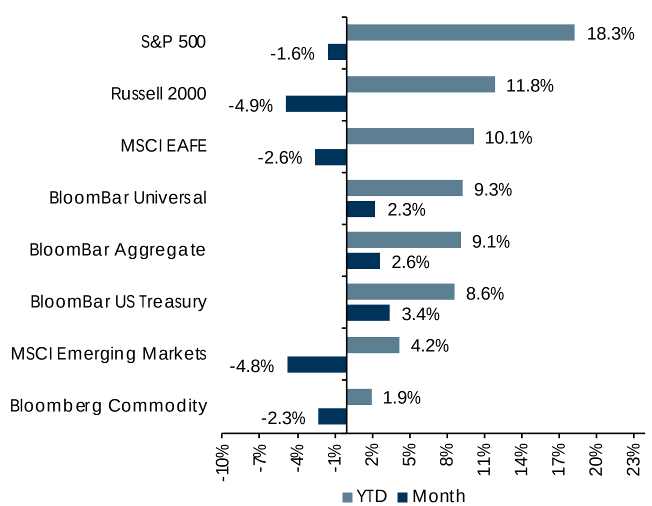
Slightly below expectations, 130,000 new jobs were added in July. The unemployment rate held steady at 3.7% for the third month in a row as the labor participation rate edged up to 63.2%. Average hourly wages advanced at a year-over-year pace of 3.2%, unchanged from the prior month. The Core CPI index trended slightly higher to 2.2% year-over-year, while the FOMC's preferred measure, the Core PCE index, remained at 1.6% year-over-year through July.

	Current	Dec-18
US GDP (%)	2.00	3.40
US Unemployment (%)	3.70	3.90
CPI (Core) (%)	2.20	2.20
Fed Funds (%)	2.00 – 2.25	2.25 – 2.50
10 Year UST Yld (%)	1.50	2.69
S&P 500 Div Yld (%)	1.95	2.15
S&P 500 P/E (Trailing)	19.17	17.12
Gold/oz.	$1,523.00	$1,281.30
Oil (Crude)	$55.10	$45.41
Gasoline (Natl Avg)	$2.66	$2.36
USD/Euro	$1.10	$1.15
USD/GBP	$1.22	$1.28
Yen/USD	¥106.28	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Investors became decidedly more risk-averse in August, sending both equity markets and bond yields sharply lower. The S&P 500, which represents large US-based entities, declined -1.6% for August, but is still up +18.3% year-to-date. Energy was hit particularly hard during the month (-8.7%), with Financials (-5.1%), Materials (-3.1%) and the more cyclical Industrials (-3.0%) also declining. Higher-yielding Utilities (+4.7%) and Real Estate (4.6%) were positive outliers during the month. Small cap stocks, as represented by the Russell 2000, dropped more meaningfully at -4.9%, moving the category's relative underperformance to -6.5% for the year when compared to Large Cap stocks.

In the broad international developed markets, the MSCI EAFE index declined for the month (-2.6%) yet remained up double-digits year-to-date at 10.1%. Sector returns were generally negative and followed the pattern of domestic counterparts, with Energy (-8.3%), Materials (-5.7%) and Financials (-5.6%) weighing on the index. Consumer Staples (+1.9%) and Healthcare (+1.5%) were notable for their positive performance for the month. Continued US dollar strength perpetuated the challenges in attaining meaningful international returns for US-based investors.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down sharply at -4.8%, extending the run of underperformance versus developed market peers. Sector performance was relatively consistent, as all major sectors produced negative returns. Based on geography, only a small percentage of the index managed positive returns, with the Latin America region (specifically Brazil and Argentina) lagging materially.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up solidly at +1.9% during the month, and is up +17.8% for the year. The Alerian MLP index was meaningfully down at -5.5%, but has still produced double-digit positive returns in 2019. The near-month NYMEX oil contract was down similarly at -5.9% for the month, and despite volatility remains up +21.3% for the year. Gold continued to perform well (+6.8%) amid geopolitical uncertainly. The broadly diversified Bloomberg Commodity index declined -2.3% for the month, and is now up just +1.9% for the year.

Global Markets (continued)

US Treasury (UST) yields collapsed throughout August, responding forcefully to geopolitical uncertainty, threats to global growth, and the growing stockpile of negative yielding debt abroad. Even as short-end rates moved dramatically lower (discounting future FOMC policy easing), longer-term rates continued their remarkable decline and the yield curve inverted across key segments. In this environment, the high-quality government bond complex returned +3.4% overall. The commonly referenced 10-year UST yield traded through the 1.5% level, and the 30-year long bond established an all-time low yield below 2.0% as demand for US assets remained robust given the relative yield advantage.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on a duration-matched basis but provided another +2.6% in August, and year-to-date performance of +9.1% reached previously unimagined levels. Spreads for IG corporates were 12 bps wider for the month, with BBB-rated issues lagging in a risk-off environment. With the dramatic decline in base rates, the benchmark's yield-to-worst shed 40 bps to settle at just over 2.1%.

The Bloombar 1-15-Year Municipal index returned +1.2% in August. Sustained inflows continue to benefit the category, which has now provided year-to-date returns of +6.5% despite modest initial yields. While the tax-exempt curve participated in the robust bull flattening environment, the 10-year municipal/UST ratio of ~85% edged closer to fair value.

Despite a notable sell-off in the risky CCC-rated sleeve, the Bloombar US Corporate High Yield index advanced +0.4% for the month and has now delivered +11.0% year-to-date. Benchmark spreads widened 22 bps, but all-in yields have fallen to just over 5.7%. Global yield movements were directionally consistent with US government bonds, and unhedged international bonds performed well despite persistent US dollar strength. Emerging market bonds produced softer results, with the local currency basket weakening and spreads widening for US dollar-based sovereign and corporate issues.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.28	-0.01
Germany	-0.70	0.24
France	-0.41	0.71
United Kingdom	0.48	1.28
Spain	0.10	1.41
United States	1.50	2.69
Italy	1.00	2.74
Mexico	6.98	8.64
Brazil	7.43	9.24

Source: Bloomberg

Indices Report (Periods Ending August 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-1.58	18.34	2.92	12.70	10.11	13.45	8.95
Russell 1000	-1.83	18.48	2.49	12.57	9.85	13.49	9.14
Russell 1000 Growth	-0.77	23.28	4.27	17.03	13.06	15.42	10.47
Russell 1000 Value	-2.94	13.75	0.62	8.08	6.59	11.49	7.68
Russell 2500	-4.00	15.67	-7.14	9.04	7.06	12.65	9.30
Russell 2000	-4.94	11.85	-12.89	7.89	6.41	11.59	8.37
Russell 2000 Growth	-4.32	16.30	-11.02	10.62	8.06	13.06	9.50
Russell 2000 Value	-5.58	7.31	-14.89	5.05	4.63	10.05	7.15
Wilshire 5000 Cap Wtd	-2.05	17.96	1.27	12.26	9.73	13.34	9.17
MSCI ACWI	-2.33	14.26	0.28	9.76	6.09	9.19	7.63
MSCI ACWI ex US	-3.07	9.19	-2.78	6.38	1.85	5.19	6.18
MSCI EAFE	-2.58	10.14	-2.75	6.44	2.38	5.49	5.76
MSCI EAFE Local Currency	-2.40	12.20	0.02	7.69	5.83	7.40	6.26
MSCI EAFE Growth	-1.20	17.02	1.23	8.32	4.90	7.22	6.74
MSCI EAFE Value	-4.09	3.25	-6.84	4.41	-0.23	3.68	4.70
MSCI Emerging Markets	-4.85	4.19	-3.99	6.15	0.75	4.43	8.45
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.80	3.13	4.34	1.60	1.33	1.21	2.12
BloomBar US Aggregate	2.59	9.10	10.17	3.09	3.35	3.91	4.26
BloomBar Gov't Bond	3.36	8.56	10.31	2.52	2.96	3.17	3.80
BloomBar US Credit	3.13	13.35	12.99	4.47	4.38	5.57	5.20
BloomBar 10 Yr Municipal	1.54	7.91	9.48	3.39	3.98	4.85	4.73
BloomBar US Corp High Yield	0.40	11.00	6.56	6.17	4.85	8.50	7.41
FTSE World Govt Bond	2.66	7.67	8.44	1.85	1.38	2.05	3.50
BloomBar Global Aggregate	2.03	7.42	7.77	2.12	1.63	2.66	3.73
BloomBar Multiverse	1.83	7.47	7.77	2.32	1.74	2.87	3.88
Real Assets							
FTSE NAREIT US Real Estate	3.40	23.34	12.12	5.70	8.29	13.41	8.80
FTSE EPRA/NAREIT Dev RE	1.94	17.79	9.10	5.44	5.89	9.84	7.72
Bloomberg Commodity	-2.32	1.93	-5.89	-0.87	-8.58	-4.28	-2.78
Cash and Equivalents							
US T-Bills 90 Day	0.20	1.63	2.36	1.50	0.95	0.52	1.40

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