Parkside Financial
BANK & TRUST

Monthly Market Update - September 2019

Global Economy

Shaking off continued geopolitical uncertainty, investors provided a renewed bid for risk assets in September. Accordingly, global equities advanced modestly while interest rates reversed a portion of the prior month's sharp decline. Manufacturing data continued to show signs of slowing and there was even some moderation in consumer spending and sentiment. US-China trade talks are scheduled to officially resume in mid-October, while the British Prime Minister faces political and legal challenges in the bid to complete Brexit negotiations by the October 31st deadline. An impeachment inquiry has taken center stage in the US in light of the President's recent call with Ukrainian leadership.

The Federal Open Market Committee (FOMC) met in mid-September and, as widely expected, reduced the Federal Funds rate by 25 bps to a targeted range of 1.75% to 2.00%. The Committee's latest projections suggests the "mid-cycle adjustment" may be complete, even as the futures market is pricing in at least two more cuts over the next 12 months. Chairman Powell continues to emphasize a willingness by the FOMC to act as appropriate when economic conditions warrant it. Amid some dissent, the European Central Bank's (ECB) outgoing President Mario Draghi responded in mid-September, with a rate cut, a renewed asset purchase program, and calls for fiscal stimulus.

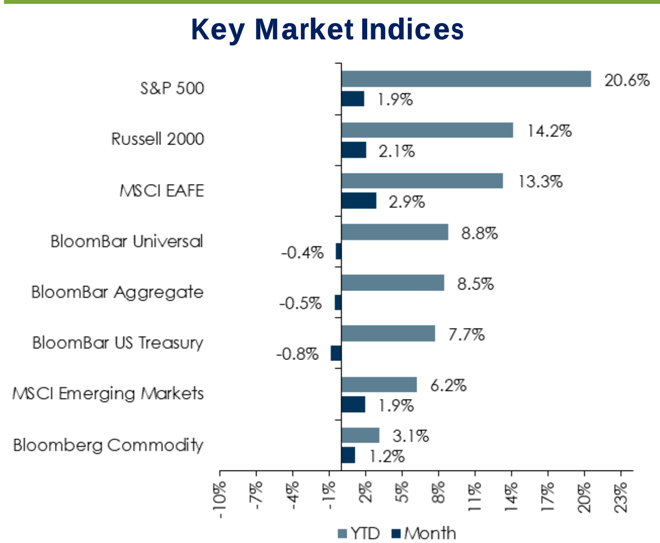
The third estimate of 2Q-19 real GDP reported growth at an annualized rate of 2.0%, the same as the second estimate. A slight downward revision for consumer spending to 4.6% growth was offset by upward revisions to government spending and net exports. Consensus GDP expectations for 3Q-19 have risen slightly, recently residing between 1.5% and 2.0%.

Slightly below expectations, 136,000 new jobs were added in September. The unemployment rate unexpectedly declined to 3.5%, the lowest level since December 1969. Labor participation held steady at 63.2%, while average hourly wages advanced at a year-over-year pace of 2.9%, the lowest year-over-year increase since July 2018. The Core CPI index trended slightly higher to 2.4% year-over-year, while the FOMC's preferred measure, the Core PCE index, increased to 1.8% year-over-year through August and remains below the "symmetrical" 2.0% target.

	Current	Dec-18
US GDP (%)	2.00	3.40
US Unemployment (%)	3.50	3.90
CPI (Core) (%)	2.40	2.20
Fed Funds (%)	1.75 – 2.00	2.25 – 2.50
10 Year UST Yld (%)	1.67	2.69
S&P 500 Div Yld (%)	1.92	2.15
S&P 500 P/E (Trailing)	19.58	17.12
Gold/oz.	$1,465.70	$1,281.30
Oil (Crude)	$54.07	$45.41
Gasoline (Natl Avg)	$2.74	$2.36
USD/Euro	$1.09	$1.15
USD/GBP	$1.23	$1.28
Yen/USD	¥108.08	¥109.69

Source: Bloomberg

Global Markets



Source: Bloomberg

Returns were up solidly across most risk assets in September, with international stocks slightly outperforming domestic counterparts. The S&P 500, which represents large US-based entities, reversed its August decline by appreciating +1.9% for the month and is back up over 20% for the year. Strength was generally broad based, with Financials (+4.5%), Utilities (+4.0%), and Energy (+3.6%) leading the way. Health Care (-0.3%) showed some weakness and was the only sector to decline. Small cap stocks, as represented by the Russell 2000, outperformed large stocks by 20 bps at +2.1%. Value (+5.1%) outperformed Growth (-0.8%) by nearly 600 bps, but still trails by 250 bps year-to-date,

In the broad international developed markets, the MSCI EAFE index was up strongly at +2.9%, even as ongoing strength in the US dollar weighs on returns for US-based investors. Sector returns roughly followed the pattern witnessed in the S&P 500, and at the country level Japan was a slight upside outlier at +4.2% as their "safe haven" currency continued to appreciate. Pacific ex-Japan was the relative laggard, with Hong Kong tipping negative.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were up moderately at +1.9%, but the category is still significantly underperforming other major equity indexes for the year at +6.2%. Performance was positive across all major regions for the month. Year-to-date, strength has been shown by Taiwan (+16.7%) and Brazil (+10.8%) in particular, with China (+7.8%) doing moderately. India (+2.2%) and South Korea (-0.6%) have struggled.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up solidly at +2.5% during the month, and is up an impressive +20.7% for the year. The Alerian MLP index was up slightly at 0.7%, further securing it double-digit return profile for 2019. The near-month NYMEX oil contract advanced nearly 15% following an attack on Saudi infrastructure before finishing down -1.9% for the month. Gold retreated -3.8% from recent highs as investors embraced risk-seeking assets. The broadly diversified Bloomberg Commodity index was up +1.2% for the month.

Global Markets (continued)

US Treasury (UST) yields increased rapidly during the first half of September, before softening somewhat by month-end as geopolitical uncertainty and global growth concerns captured the spotlight. With policy easing by the FOMC, the yield curve steepened modestly as longer-term rates sold off slightly more than short-end rates. In this environment, the high-quality government bond complex returned -0.9% overall. The commonly referenced 10-year UST yield traded as much as 45 bps higher intra-month before settling at 1.67%. While the global stock of negative yielding debt contracted by more than $2 trillion as rates moved higher, demand for US assets remains robust given the relative yield advantage.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis. Despite suffering a loss of -0.5% in September, year-to-date performance of +8.5% remains quite remarkable given prevailing yield levels. Spreads for IG corporates were 5 bps tighter for the month, with BBB-rated issues leading in a more risk-on environment. The benchmark's yield-to-worst moved 13 bps higher, and now resides just above 2.25%.

The BloomBar 1-15-Year Municipal index returned -0.8% in September, taking year-to-date performance to +5.6%. Even as sustained inflows continue to benefit the category, an uptick in new issue municipal supply weighed on the category. As such, the 10-year municipal/UST ratio of ~88% has edged closer to fair value following historic richness this past May.

Despite continued weakness in the less-liquid CCC-rated sleeve, the BloomBar US Corporate High Yield index advanced +0.4% for the month and has now delivered +11.4% year-to-date. Benchmark spreads tightened back 20 bps, and all-in yields have fallen to just under 5.7%. Global yield movements were directionally consistent with US government bonds, but ongoing US dollar strength caused unhedged international bonds to lag. Emerging market bonds provided mixed results, as local currency issues outperformed despite tighter spreads for US dollar-based sovereign and corporate credits.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)

	Current	Dec-18
Japan	-0.22	-0.01
Germany	-0.57	0.24
France	-0.28	0.71
United Kingdom	0.48	1.28
Spain	0.14	1.41
United States	1.67	2.69
Italy	0.82	2.74
Mexico	6.88	8.64
Brazil	7.05	9.24

Source: Bloomberg

Indices Report (Periods Ending September 30, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.87	20.55	4.25	13.39	10.84	13.24	9.01
Russell 1000	1.73	20.53	3.87	13.19	10.62	13.23	9.17
Russell 1000 Growth	0.01	23.30	3.71	16.89	13.39	14.94	10.40
Russell 1000 Value	3.57	17.81	4.00	9.43	7.79	11.46	7.82
Russell 2500	1.77	17.72	-4.04	9.51	8.57	12.22	9.16
Russell 2000	2.08	14.18	-8.89	8.23	8.19	11.19	8.19
Russell 2000 Growth	-0.82	15.34	-9.63	9.79	9.08	12.25	9.04
Russell 2000 Value	5.13	12.82	-8.24	6.54	7.17	10.06	7.23
Wilshire 5000 Cap Wtd	1.82	20.11	2.95	12.91	10.58	13.09	9.18
MSCI ACWI	2.15	16.71	1.95	10.30	7.23	8.93	7.64
MSCI ACWI ex US	2.62	12.06	-0.72	6.85	3.39	4.93	6.14
MSCI EAFE	2.92	13.35	-0.82	7.01	3.77	5.39	5.78
MSCI EAFE Local Currency	3.59	16.23	2.10	8.84	6.54	7.55	6.41
MSCI EAFE Growth	1.17	18.39	2.64	8.19	5.90	6.91	6.65
MSCI EAFE Value	4.90	8.31	-4.31	5.73	1.57	3.82	4.85
MSCI Emerging Markets	1.94	6.22	-1.63	6.37	2.71	3.73	8.18
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.11	3.03	4.37	1.52	1.32	1.18	2.12
BloomBar US Aggregate	-0.53	8.52	10.30	2.92	3.38	3.75	4.21
BloomBar Gov't Bond	-0.83	7.66	10.40	2.27	2.90	3.00	3.73
BloomBar US Credit	-0.65	12.61	12.63	4.33	4.54	5.32	5.12
BloomBar 10 Yr Municipal	-0.98	6.86	9.09	3.16	3.80	4.42	4.62
BloomBar US Corp High Yield	0.36	11.41	6.36	6.07	5.37	7.94	7.34
FTSE World Govt Bond	-1.30	6.27	8.13	1.19	1.80	1.69	3.31
BloomBar Global Aggregate	-1.02	6.32	7.60	1.59	1.99	2.34	3.58
BloomBar Multiverse	-0.95	6.45	7.54	1.81	2.14	2.55	3.73
Real Assets							
FTSE NAREIT US Real Estate	2.93	26.96	18.42	7.36	10.26	13.04	9.02
FTSE EPRA/NAREIT Dev RE	2.46	20.69	14.11	6.62	7.78	9.50	7.81
Bloomberg Commodity	1.17	3.13	-6.57	-1.50	-7.18	-4.32	-3.13
Cash and Equivalents							
US T-Bills 90 Day	0.18	1.81	2.39	1.54	0.98	0.54	1.40

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.