Parkside Financial
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Monthly Market Update - May 2019

Global Economy

To paraphrase, the month of May came “in like a lamb” but went “out like a lion.” It was a month offering little to calm investor nerves, given continued concern over tariffs and the relationship between the US and China, potential new tariffs with Mexico tied to immigration, conflict between the US and Iran, no resolution of Brexit amid the resignation of Prime Minister May, and economic news that is increasingly slanted toward a global slowdown. Offsetting these concerns is a general expectation that the next monetary policy move in the US will be a rate cut, perhaps within the next 60 days. The European Central Bank has also turned increasingly dovish, with the intent of supporting risk assets.

The Federal Open Market Committee (FOMC) met on April 30th/May 1st, ultimately leaving interest rates at 2.25% - 2.50%. Chairman Powell‘s hawkish tone around the “transitory” weakness in inflation was not terribly disruptive to the markets, as investors do not share the expectation of future increases. In fact, the uncertainty that persisted throughout May has driven the futures market to price a greater than 90% probability of at least one 25 bps cut by year-end.

The second estimate of 1Q-19 GDP growth showed an annualized rate of 3.1%, reflecting downward revisions to business investment and inventories that offset upward revisions to exports and personal consumption. The Federal Reserve Bank of Atlanta was projecting 2Q-19 GDP growth between 1.1% and 1.6% for most of the month, ending around 1.3%. The Conference Board remains slightly less pessimistic, with an estimate of 2.2% for the quarter and 2.7% for all of 2019.

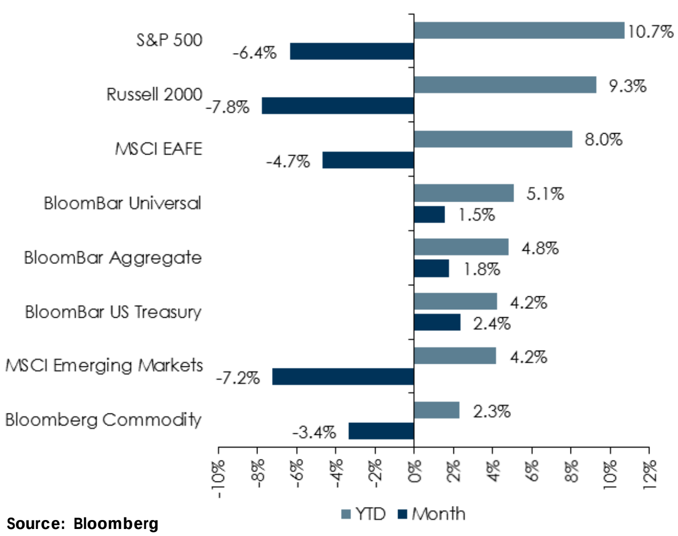
The unemployment rate was stable at 3.6% in May, but only 75,000 jobs were added, as the labor participation rate remained at 62.8%. Inclusive of negative revisions to prior reports, job gains in 2019 have averaged 164K per month, down from 223K per month in 2018. Average hourly wages rose at a year-over-year pace of 3.1%, continuing to limit inflation pressures from this source. The Core CPI index advanced marginally to 2.1% year-over-year, while the FOMC’s preferred measure, the Core PCE index, did not change at 1.6% year-over-year through April.

	Current	Dec-18
US GDP (%)	3.10	3.40
US Unemployment (%)	3.60	3.90
CPI (Core) (%)	2.10	2.20
Fed Funds (%)	2.25 – 2.50	2.25 – 2.50
10 Year UST Yld (%)	2.13	2.69
S&P 500 Div Yld (%)	2.03	2.15
S&P 500 P/E (Trailing)	18.02	17.12
Gold/oz.	$1,305.80	$1,281.30
Oil (Crude)	$53.50	$45.41
Gasoline (Natl Avg)	$2.91	$2.36
USD/Euro	$1.12	$1.15
USD/GBP	$1.26	$1.28
Yen/USD	¥108.29	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

May returns reflected global growth concerns and international trade issues with significant drops in the major equity indices. The S&P 500, which represents large US-based entities, was down -6.4% for the month, but is still up an impressive +10.7% on the year. Most major sectors in the domestic benchmark were down substantially, with Energy (-11.7%), IT (-8.9%), Materials (-8.5%) and Industrials (-8.1%) the hardest hit. Real Estate actually ended up (+0.9%) and the Utility sector was a relative outperformer at -1.3%. Small cap stocks, as represented by the Russell 2000, lagged larger counterparts (-7.8%), but remain up +9.3% for the year. Growth (-7.4%) and Value (-8.2%) were both weak.

In the broad international developed markets, the MSCI EAFE index outperformed domestic stocks. That said, the benchmark was down -4.7% for the month, and still trails domestic stocks for the year at +8.1%. Sectors were down across the board, with the relative outperformers being less-cyclical Utilities (-1.0%), Real Estate (-1.2%), Communication Services (-1.9%) and Health Care (-2.0%). The safe haven status of the Japanese Yen caused it to advance versus the US dollar, and allowed the Japan sub-index (-4.0%) to outperform the European region (-5.3%).

Emerging market stocks, as represented by the MSCI Emerging Markets index, felt the brunt of the US-China tensions, declining -7.2% and reducing year-to-date performance to just +4.2%. While the Eastern Europe region (+1.4%) and even Latin America (-2.0%) showed some resilience, Asia was hit particularly hard at -8.8%.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down just slightly at -0.2% during the month, and remains up +13.2% for the year. Likewise, the Alerian MLP index was down -1.1% in May, but continues to boast a +14.0% total return for the year. The near-month NYMEX oil contract was down -16.3% for the month, but is still up +17.8% thus far in a volatile 2019. The broadly diversified Bloomberg Commodity index has been more stable, but it could not avoid a loss of -3.4% for the month, and the year-to-date return is now a modest +2.3%.

Global Markets (continued)

Consistent with the cautious signaling in risk assets, US Treasury (UST) yields moved decisively lower in May. As interest rate volatility spiked, the slope of the yield curve flattened further, and the 3-month to 10-year segment inverted as it had briefly done in March. In this environment, the high-quality government bond complex returned +2.4% overall. Expectations that the FOMC is poised to embrace a proactively accommodative posture, perhaps easing materially over the next 12-months, juiced the rally in longer-term debt. The commonly referenced 10-year UST yield ultimately ended 38 bps lower to finish at 2.13%, and the 20+ Year sub-index produced total returns of +6.7% for the month.

The BloomBar US Aggregate Bond index trailed risk-free US Treasuries on a duration-matched basis, but still returned a notable +1.8% in May. Spreads for IG corporates widened by 17 bps, with selling mostly concentrated in BBB-rated Industrial credits. Short-maturity Asset Backed Securities (ABS) were the benchmark's only outperforming sub-sector. Despite the divergence between rates and spreads, the benchmark's yield-to-worst dropped to just below 2.7%.

The Bloombar 1-15-Year Municipal index returned +1.2% in May, driving year-to-date returns to a very respectable +4.0%. While capital continues to flow into tax-exempt bonds, the material drop in absolute yields has tempered retail demand. Comparable yield ratios increased from historically rich levels, even as credit spreads tightened amid the reach for yield.

The Bloombar US Corporate High Yield index surrendered a portion of its year-to-date gains with a return of -1.2% in May. CCC-rated issues sold off the most as investors shed risk. Overall benchmark spreads widened 75 bps, pushing all-in yields back up to nearly 6.6%. Global yield moves were directionally consistent with US government bonds, and a relatively stable US dollar allowed unhedged international bonds to perform. Hard-dollar emerging market bonds produced more modest gains, as spreads for both sovereigns and corporate issues widened to effectively offset declining base rates.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	**Dec-18**
Japan	-0.10	-0.01
Germany	-0.20	0.24
France	0.21	0.71
United Kingdom	0.89	1.28
Spain	0.71	1.41
United States	2.13	2.69
Italy	2.67	2.74
Mexico	8.00	8.64
Brazil	8.45	9.24

Source: Bloomberg

Indices Report (Periods Ending May 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-6.35	10.74	3.78	11.72	9.66	13.95	8.40
Russell 1000	-6.37	11.05	3.47	11.68	9.45	14.02	8.57
Russell 1000 Growth	-6.32	13.68	5.39	15.33	12.33	15.64	9.51
Russell 1000 Value	-6.43	8.45	1.45	7.98	6.53	12.33	7.51
Russell 2500	-7.11	11.35	-4.29	9.79	7.19	13.78	8.80
Russell 2000	-7.78	9.26	-9.04	9.75	6.71	12.84	7.96
Russell 2000 Growth	-7.42	11.76	-6.88	11.72	8.32	13.93	8.60
Russell 2000 Value	-8.17	6.67	-11.32	7.68	5.00	11.67	7.19
Wilshire 5000 Cap Wtd	-6.53	10.94	2.66	11.62	9.39	13.93	8.62
MSCI ACWI	-5.85	9.38	-0.75	9.66	5.79	9.97	7.28
MSCI ACWI ex US	-5.26	7.47	-5.79	7.24	1.79	6.28	6.06
MSCI EAFE	-4.66	8.05	-5.26	6.35	1.76	6.72	5.59
MSCI EAFE Local Currency	-4.49	9.44	-1.82	7.43	5.51	8.36	6.08
MSCI EAFE Growth	-3.78	11.59	-2.87	7.19	3.63	7.93	6.21
MSCI EAFE Value	-5.59	4.50	-7.66	5.44	-0.18	5.44	4.88
MSCI Emerging Markets	-7.22	4.18	-8.34	10.28	2.16	5.38	8.65
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.71	1.91	3.44	1.32	1.10	1.13	2.11
BloomBar US Aggregate	1.78	4.80	6.40	2.50	2.70	3.83	4.22
BloomBar Gov't Bond	2.33	4.20	6.26	1.79	2.26	2.86	3.74
BloomBar US Credit	1.47	6.94	7.40	3.75	3.47	5.78	5.07
BloomBar 10 Yr Municipal	1.50	4.98	7.31	3.08	3.71	4.76	4.81
BloomBar US Corp High Yield	-1.19	7.49	5.51	7.04	4.40	9.30	7.52
FTSE World Govt Bond	1.72	2.98	2.79	1.45	0.54	1.99	3.33
BloomBar Global Aggregate	1.35	3.28	3.09	1.86	0.91	2.70	3.63
BloomBar Multiverse	1.25	3.42	3.17	2.14	1.04	2.95	3.80
Real Assets							
FTSE NAREIT US Real Estate	0.22	16.32	14.62	6.13	7.89	14.88	9.16
FTSE EPRA/NAREIT Dev RE	-0.21	13.16	8.51	6.15	5.72	11.26	8.05
Bloomberg Commodity	-3.36	2.31	-12.37	-1.73	-9.52	-4.18	-3.03
Cash and Equivalents							
US T-Bills 90 Day	0.23	1.02	2.26	1.32	0.83	0.47	1.38

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