Parkside Financial
BANK & TRUST

Monthly Market Update - July 2019

Global Economy

Markets maintained risk-on momentum in July, even as the Federal Reserve's rate cut left investors questioning the degree of certainty around future policy easing. Economic data releases, consumer confidence, and better-than-feared quarterly earnings reports portrayed a relatively stable environment in the US. Manufacturing data in the Eurozone warranted attention, even as the European Central Bank indicated intent to employ monetary policy tools in September to address the economic slowdown. Inflation is a global concern, with the world's major economies generally below 2%. Trade talks between the US and China showed little progress, and a new UK Prime Minister may stoke Brexit-driven volatility.

The Federal Open Market Committee (FOMC) met on July 30th/31st, lowering the Fed Funds rate for the first time since October 2008. Deemed a "mid-cycle adjustment," this 25 bps cut reduced the targeted range to 2.00% - 2.25% and was accompanied by the immediate end of quantitative tightening. The official statement retained an easing bias, with Chairman Powell using the press conference to cite weaker global growth, the impact of trade tensions on business investment, and the potential harm these could have on overall confidence levels as key "uncertainties." Post-meeting, the Fed Funds futures priced in a nearly 80% chance of at least two additional cuts over the next 12-months.

The initial estimate of 2Q-19 real GDP reported growth at an annualized rate of 2.1%, exceeding most expectations. Consumer expenditures were up an impressive 4.3%, and the contribution from government expenditures was the highest in a decade amid fiscal stimulus. Conversely, a decline in business fixed investment, slower inventory growth, and weaker trade detracted from growth. Consensus growth estimates were 1.9% for 3Q-19 and 2.5% for the full year.

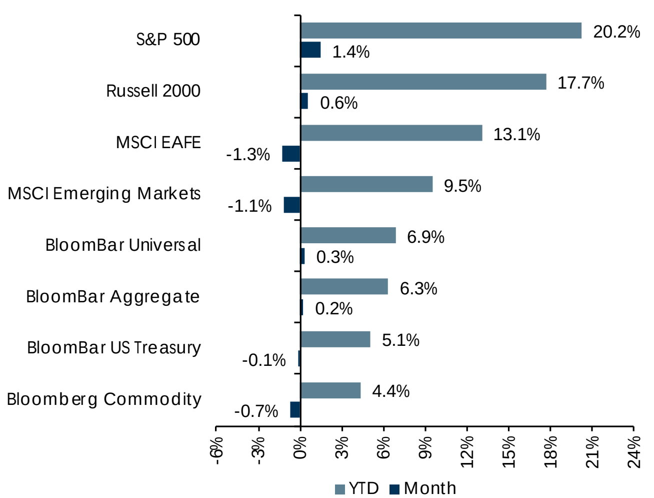
In line with expectations, 164,000 new jobs were added in July. The unemployment rate held steady at 3.7% as the labor participation rate increased slightly to 63.0%. Average hourly wages advanced at a year-over-year pace of 3.2%, a modest uptick from the previous reading. The Core CPI index was up 2.1% year-over-year, up slightly from last month, while the FOMC's preferred measure, the Core PCE index, was up 1.6% year-over-year through June.

	Current	Dec-18
US GDP (%)	2.10	3.40
US Unemployment (%)	3.70	3.90
CPI (Core) (%)	2.10	2.20
Fed Funds (%)	2.00 – 2.25	2.25 – 2.50
10 Year UST Yld (%)	2.02	2.69
S&P 500 Div Yld (%)	1.89	2.15
S&P 500 P/E (Trailing)	19.40	17.12
Gold/oz.	$1,426.10	$1,281.30
Oil (Crude)	$58.58	$45.41
Gasoline (Natl Avg)	$2.80	$2.36
USD/Euro	$1.11	$1.15
USD/GBP	$1.22	$1.28
Yen/USD	¥108.78	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Solid demand for risk persisted into July, driven almost entirely by a dovish shift in global monetary policy messaging. The S&P 500, which represents large US-based entities, achieved several all-time highs throughout the month, and despite a post-FOMC plunge advanced +1.4% for July and is now up +20.2% year-to-date. Performance within the domestic benchmark varied materially by sector. IT led the way at +3.3%, with Communication Services (+3.0%) and Consumer Staples (+2.3%) also solid. Energy (-1.9%), Healthcare (-1.7%), Materials (-0.4%), and Utilities (-0.4%) were the relative laggards. Small cap stocks, as represented by the Russell 2000, continued to trail on a relative basis, but returned +0.6% for the month and are up +17.7% thus far in 2019.

In the broad international developed markets, the MSCI EAFE index declined modestly for the month (-1.3%) but remained up +13.1% year-to-date. Sector returns were quite varied, with Materials (-3.6%), Energy (-3.5%), and Financials (-2.6%) detracting the most, while Consumer Staples (+0.5%), Communications Services (+0.4%), and Health Care (+0.1%) held onto gains. Notable US dollar strength, particularly versus the Euro (given dovish ECB rhetoric) and the British pound (increased potential for "hard" Brexit) created a stiff headwind for US-based investors.

Emerging markets stocks, as represented by the MSCI Emerging Markets index, declined -1.1% in July. The category continued to trail developed market peers on a year-to-date basis, despite a respectable total return of +9.5%. The Latin America region produced a small gain for the month. A relative underperformer for much of 2019 given China-related concern, the Asia region surrendered -1.5% for the month and was at +8.2% for the year.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up slightly at +0.4% during the month, and was up +15.6% for the year. The Alerian MLP index gave back -0.2% in July but remained up +16.7% year-to-date. The near-month NYMEX oil contract was essentially flat for the month, while gold continued to advance (+0.9%). The broadly diversified Bloomberg Commodity index declined -0.7% for the month and is now up +4.4% for the year.

Global Markets (continued)

US Treasury (UST) yields traded in a range-bound fashion throughout July, fully expecting the FOMC to deliver a series of "insurance cuts" to sustain the economic expansion. Despite the announced 25 bps reduction in the Fed Funds rate, the slope of the yield curve bear flattened as short-end rates notched a bit higher (discounting future easing) while longer-term rates declined (seeing less catalyst for inflation). In this environment, the high-quality government bond complex returned -0.1% overall. The commonly referenced 10-year UST yield spent a few days below the psychologically relevant 2% level, but ended the month virtually unchanged at 2.02%.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on a duration-matched basis, providing another +0.2% in July and pushed year-to-date returns to an impressive +6.3%. Spreads for IG corporates were 7 bps tighter and have now fully retraced May's sell-off. The mortgage-related securitized sub-sectors also contributed to outperformance. With rates opposing spreads, the benchmark's yield-to-worst settled just above 2.5%.

The Bloombar 1-15 Year Municipal index returned +0.8% in July. Positive technical demand continued to benefit the category, which has now provided year-to-date returns of +5.2% despite modest initial yields. As front-end yields fell sharply, the tax-exempt curve re-steepened somewhat. Still, 10-year municipal/UST ratios of ~76% reflect rich valuations.

With ongoing investor risk appetite, the Bloombar US Corporate High Yield index advanced +0.6% for the month and delivered +10.6% year-to-date. Overall benchmark spreads tightened 6 bps, pushing all-in yields down to just below 5.9%. Global yields (many of which are negative) sank relative to US government bonds, but a stronger US dollar caused unhedged international bonds to underperform. Emerging markets bonds remained 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	-0.44	0.24
France	-0.19	0.71
United Kingdom	0.61	1.28
Spain	0.28	1.41
United States	2.02	2.69
Italy	1.54	2.74
Mexico	7.50	8.64
Brazil	7.23	9.24

Source: Bloomberg

Indices Report (Periods Ending July 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.44	20.24	7.99	13.36	11.34	14.03	9.10
Russell 1000	1.55	20.69	8.00	13.31	11.15	14.10	9.31
Russell 1000 Growth	2.26	24.23	10.82	17.13	14.25	15.74	10.49
Russell 1000 Value	0.83	17.20	5.20	9.44	8.01	12.40	8.00
Russell 2500	1.04	20.49	0.87	10.83	8.98	13.57	9.58
Russell 2000	0.58	17.66	-4.42	10.36	8.53	12.47	8.70
Russell 2000 Growth	0.98	21.54	-1.22	12.66	10.21	13.67	9.66
Russell 2000 Value	0.16	13.65	-7.71	7.96	6.74	11.19	7.63
Wilshire 5000 Cap Wtd	1.49	20.43	7.01	13.14	11.07	13.98	9.34
MSCI ACWI	0.33	16.98	3.52	10.77	7.06	9.83	7.85
MSCI ACWI ex US	-1.18	12.65	-1.78	7.72	2.60	5.90	6.46
MSCI EAFE	-1.26	13.05	-2.09	7.40	2.88	6.33	5.98
MSCI EAFE Local Currency	0.72	14.96	0.77	8.91	6.55	8.13	6.42
MSCI EAFE Growth	-0.36	18.44	2.18	8.25	5.20	7.69	6.83
MSCI EAFE Value	-2.23	7.66	-6.38	6.45	0.50	4.89	5.05
MSCI Emerging Markets	-1.14	9.50	-1.80	8.83	2.22	4.92	9.11
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.11	2.32	3.84	1.28	1.20	1.17	2.11
BloomBar US Aggregate	0.22	6.35	8.08	2.17	3.05	3.75	4.21
BloomBar Gov't Bond	-0.11	5.03	7.53	1.21	2.49	2.91	3.70
BloomBar US Credit	0.52	9.92	10.12	3.47	4.03	5.43	5.15
BloomBar 10 Yr Municipal	0.87	6.28	8.15	2.90	3.93	4.81	4.77
BloomBar US Corp High Yield	0.56	10.56	6.92	6.77	5.10	8.66	7.52
FTSE World Govt Bond	-0.47	4.88	5.42	0.67	0.94	1.98	3.48
BloomBar Global Aggregate	-0.28	5.28	5.73	1.28	1.33	2.63	3.74
BloomBar Multiverse	-0.23	5.54	5.83	1.58	1.49	2.87	3.91
Real Assets							
FTSE NAREIT US Real Estate	1.28	19.29	11.73	3.23	8.19	14.46	9.11
FTSE EPRA/NAREIT Dev RE	0.40	15.55	8.13	3.87	5.81	10.44	7.97
Bloomberg Commodity	-0.67	4.35	-5.36	-0.68	-8.34	-4.11	-2.74
Cash and Equivalents							
US T-Bills 90 Day	0.19	1.43	2.34	1.44	0.91	0.51	1.39

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.