clearstead MARKET MINUTE

2019 VOLUME 7: JUNE REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Brad Turner.

OVERVIEW

Risk assets of all types performed well in June, amid significant monetary support and the prospect of improved trade relations. After the final day of trading for the month, President Trump and President Xi agreed to restart trade talks, avoiding – at least for the time being – an escalation of the tariff war. This announcement bodes well for risk assets maintaining their recent gains as investors await quarterly corporate earnings reports in the weeks ahead. However, current risk asset valuations leave little room for disappointment. Should global growth slow or trade tensions escalate, recent investor sentiment and market momentum will likely reverse. Faced with this uncertainty, we remain defensively positioned and continue to think the most reliable tactical decision investors can make is to maintain a disciplined rebalancing protocol.

DOMESTIC EQUITY

As of June 30, 2019

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	7.3%	3.2%	15.4%	12.2%
S&P 500	7.0%	4.3%	18.5%	10.4%
Russell 2000	7.1%	2.1%	17.0%	-3.3%
Russell 1000 Growth	6.9%	4.6%	21.5%	11.6%
Russell 1000 Value	7.2%	3.8%	16.2%	8.5%

The S & P 500 – representing the largest publicly-traded companies in the U.S. – closed at a record high during the month, reversing the losses experienced in May. The index now stands approximately 25% above the lows experienced during the market's sell-off during the final months of 2018.

There was relatively little divergence between the performance of large-cap and small-cap equities during the month. Large value stocks marginally outperform large growth stocks, a notable exception to a trend that has persisted for more than a decade.

Analysts expect a year-over-year decline in corporate earnings during the second quarter, but full year earnings are still expected to grow by low-single digits. Investors will be monitoring the upcoming quarterly corporate earnings reports closely. Any negative adjustment to expectations will likely dampen the recent price momentum. Given the rebound in valuations during the month, we characterize domestic equity valuations as fair.


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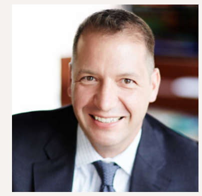
Managing Director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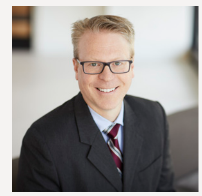
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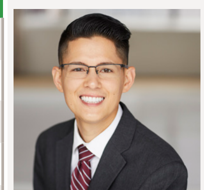
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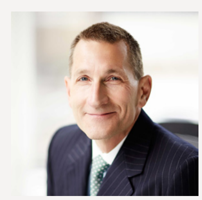
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INTERNATIONAL EQUITY

As of June 30, 2019

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	6.0%	3.0%	13.6%	1.3%
MSCI EAFE	5.9%	3.7%	14.0%	1.1%
MSCI Emerging Markets	6.2%	0.6%	10.6%	1.2%
MSCI EAFE Small Cap	4.2%	1.7%	12.5%	-6.3%

Non-US equity developed markets also rallied in June but not as strongly as their U.S. counterparts. Emerging markets were slightly stronger than international developed markets after a steep sell-off in May.

Based on current estimates, corporate earnings in the developed and emerging markets should increase in the high single-digits this year, outpacing the growth projected for domestic companies. At current price levels, we believe developed international equities to be fairly valued. Emerging markets equities are somewhat more attractive given the favorable long-term growth prospects of the underlying economies.

Further upside for international equities will likely be predicated on the outcome of US-China trade talks and a modest acceleration or at least stabilizing of global growth. Some signs of progress on Brexit would be viewed positively, too.

FIXED INCOME

As of June 30, 2019

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.3%	3.1%	6.1%	7.9%
BarCap Global Aggregate	2.2%	3.3%	5.6%	5.8%
BarCap US High Yield	2.3%	2.5%	9.9%	7.5%
JPM Emerging Market Bond	3.0%	3.8%	10.6%	11.3%
BarCap Muni	0.4%	2.1%	5.1%	6.7%

Bond market investors responded favorably to the prospect that the Federal Reserve may cut short-term interest rates. High-yield and emerging market debt instruments outperformed Treasuries as spreads tightened throughout the month. As of this writing, the futures market is pricing in a 100% probability of a July rate cut, most likely of 25 basis points.

Based on the comments of the Federal Reserve and similar ones from the central banks of Europe, the universe of negative-yielding bonds now stands at over $13 trillion.

With absolute yields low and real (i.e., inflation-adjusted) yields barely positive we believe investment-grade, high-yield and emerging market debt instruments are rich-to-fairly valued. We continue to encourage investors to improve the quality of their fixed income holdings by adding Treasuries, despite their recent rally.

CLOSING

We entered 2019 with a favorable view toward risk assets, largely driven by the significant sell-off these assets experienced in the final months of 2018. These assets have performed impressively in the first half of the year despite low global growth, mounting trade tensions, and significant geopolitical risks. Unless one or more of these situations improve, it is hard to come up with a scenario for an improvement in the valuations of risk assets from here. As mentioned earlier, the potential slowing of global growth or escalation of trade tensions could reverse recent investor sentiment and market momentum. This uncertainty leads us to remain defensively positioned and believe that investors should maintain a disciplined rebalancing protocol.