

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

OVERVIEW

As we finished the year's first half, our focus was on monetary policy, trade negotiations, and weakening global growth. July has been a waiting period as we seek clarity in what the year's second half may present. On July 31st the Federal Reserve lowered the Fed Funds rate for the first time in over ten years. The Fed chairman's comments that the cut was a "mid-cycle adjustment," rather than the start of a prolonged cycle of rate, has investors questioning whether this is the end or if there is more to come. At month-end July, U.S. and Chinese representatives resumed negotiations to end the escalating tariff war. The "... frank, efficient and constructive in-depth exchanges ..." ⁽¹⁾ will lead to more talks that will take place in the U.S. in September. Although incoming economic growth data has confirmed a slowing trend, it appears the slowdown is bottoming and fears of a recession are diminishing. The dog days of summer require cool heads as investors navigate the road ahead.

DOMESTIC EQUITY

As of July, 31, 2019

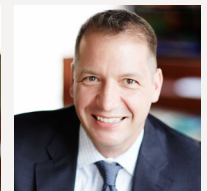
U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.1%	1.1%	16.7%	8.2%
S&P 500	1.4%	1.4%	20.2%	8.0%
Russell 2000	0.6%	0.6%	17.6%	-4.5%
Russell 1000 Growth	2.3%	2.3%	24.2%	10.8%
Russell 1000 Value	0.8%	0.8%	17.2%	5.2%

Amid this waiting game, earnings for large caps were better than expected and provided the momentum for the U.S. equity markets to grind higher. Market participants continued to reward the usual suspects as large caps outperformed small caps and growth stocks outperformed value.

As investors strive to stay ahead, they appear willing to pay-up for those growth stocks that dominate their industries and where the visibility of earnings is clear. There are many buying into this strategy and driving market multiples above their long-term averages. As such, we still find it prudent to be defensive in our positioning given the volatility of sentiment and the market's capacity to quickly reverse direction.



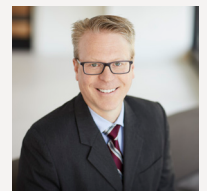
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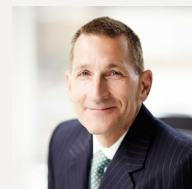
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INTERNATIONAL EQUITY

As of July 31, 2019

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-1.2%	-1.2%	12.2%	-2.3%
MSCI EAFE	-1.3%	-1.3%	12.6%	-2.6%
MSCI Emerging Markets	-1.2%	-1.2%	9.2%	-2.2%
MSCI EAFE Small Cap	-0.7%	-0.7%	11.7%	-7.6%

Non-US equities markets finished the month down about one percent mostly due to a stronger dollar. During the month, non-US markets traded sideways as they largely waited for end-of-month clarity from the European Central Bank (ECB), the U.S. Federal Reserve, and US-China trade talks. Recent earnings and economic data from Europe, Japan, and China have been on the weaker side, but announced stimulus measures, both fiscal and monetary, by key global and regional institutions have helped offset these developments. Although the International Monetary Fund revised down global growth for 2019 to 3.2% from 3.3% in April, it indicated that global growth should pick-up in late 2019 and into 2020, which should help support non-US corporate earnings and risk assets over second half of 2019.

The soap opera called Brexit continues its three-year run, but there appears to be an end date in sight – October 31, 2019. If no-deal is reached by such date, Britain's new prime minister, Boris Johnson, appears willing to push the country closer to a no-deal exit from the European Union, insisting he will not hold Brexit talks with EU leaders unless the EU lifts its refusal to reopen the existing divorce deal. This may be the end of this melodrama, but "Life After Brexit" could be a more telling story.

FIXED INCOME

As of July 31, 2019

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.2%	0.2%	6.3%	8.1%
BarCap Global Aggregate	-0.3%	-0.3%	5.3%	5.7%
BarCap US High Yield	0.6%	0.6%	10.6%	6.9%
JPM Emerging Market Bond	1.2%	1.2%	11.9%	10.3%
BarCap Muni	0.8%	0.8%	5.9%	7.3%

Although the Federal Reserve telegraphed that a cut in the Fed Funds rate was likely on July 31st, the 25 basis points reduction and the Fed's guidance that this is not the start of a cycle of rate cuts left the markets uncertain as to the direction interest rates are heading. As such, U.S. Treasury interest rates were essentially unchanged in July and remain close to year-to-date lows.

Given that investors believe the Fed will lower rates to prolong the longest economic expansion in U.S. history, economically sensitive risk assets (e.g. corporate and emerging market debt) performed well in July and continued to add to impressive year-to-date gains. Corporate spreads have tightened considerably in 2019 and are below long-term averages; but, given the Fed's desire to support the economy and stable corporate earnings, the outlook for risk assets remains favorable despite slightly rich valuations

CLOSING

We believe the issues that drove the market in the year's first half will continue to do so for the remainder of 2019. How much will the Fed ease? How will the U.S./China trade negotiations end? What phase of the global growth cycle are we in? Given the impressive results financial markets have posted so far this year, one must wonder how much more upside remains before the markets experience some sort of retreat. Faced with this uncertainty and while we play the waiting game, we remain defensively positioned and continue to think the most reliable tactical decision investors can make is to maintain a disciplined rebalancing protocol.

Sources:

¹Xinhua News Agency July 31, 2019

Disclosures

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