

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.

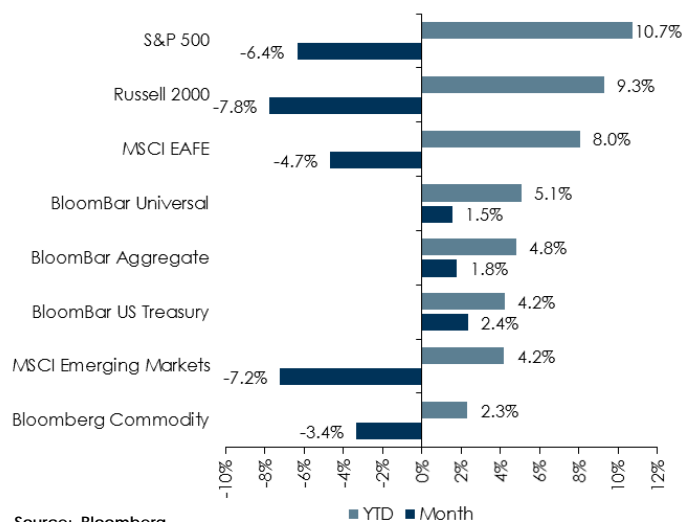
The unemployment rate was stable at 3.6% in May, but only 75,000 jobs were added, as the labor participation rate remained at 62.8%. Inclusive of negative revisions to prior reports, job gains in 2019 have averaged 164K per month, down from 223K per month in 2018. Average hourly wages rose at a year-over-year 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 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 Gov't 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

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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