

Global Economy

Uncertainty and volatility ruled the month of August, with globally depressed interest rates, US/China trade issues and the increased likelihood of a no-deal hard Brexit at the forefront. While economic data indicates “consumers are consuming,” manufacturing data were not as strong, causing some dashboards to flash rising recession probabilities. Interest rates moved sharply lower, resulting in an inverted US yield curve and increasing amounts of negatively yielding debt abroad. The cycle of tariff threats, trade talks, altered implementation, and more talks continued, but with increasing intensity. As financial markets seemingly hung on every word coming from Beijing or Washington, day-to-day price movements were both more significant and less predictable.

The Federal Open Market Committee (FOMC) did not formally meet in August. That said, Chairman Powell’s speech at the annual Jackson Hole summit expressed concern about trade policy, global growth and market volatility while committing to “act as appropriate to sustain the expansion.” Mid-September meetings by the Federal Reserve, overwhelming expectation for at least a 25 bps cut to the targeted Fed Funds range, and the European Central Bank should provide critical policy signals going forward.

The second estimate of 2Q-19 real GDP reported growth at an annualized rate of 2.0%, down slightly from the initial estimate of 2.1%. Consumer expenditures were revised up to an impressive 4.7%, even as surveys now show mixed consumer sentiment going forward. Downward revisions included state and local government spending, inventories, and net exports. Consensus GDP expectations for 3Q-19 have fallen slightly to 1.8%.

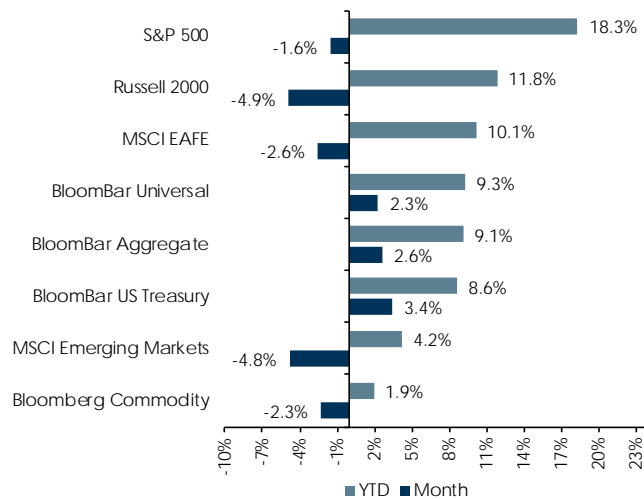
Slightly below expectations, 130,000 new jobs were added in July. The unemployment rate held steady at 3.7% for the third month in a row as the labor participation rate edged up to 63.2%. Average hourly wages advanced at a year-over-year pace of 3.2%, unchanged from the prior month. The Core CPI index trended slightly higher to 2.2% year-over-year, while the FOMC’s preferred measure, the Core PCE index, remained at 1.6% year-over-year through July.

	Current	Dec-18
US GDP (%)	2.00	3.40
US Unemployment (%)	3.70	3.90
CPI (Core) (%)	2.20	2.20
Fed Funds (%)	2.00 – 2.25	2.25 – 2.50
10 Year UST Yld (%)	1.50	2.69
S&P 500 Div Yld (%)	1.95	2.15
S&P 500 P/E (Trailing)	19.17	17.12
Gold/oz.	\$1,523.00	\$1,281.30
Oil (Crude)	\$55.10	\$45.41
Gasoline (Natl Avg)	\$2.66	\$2.36
USD/Euro	\$1.10	\$1.15
USD/GBP	\$1.22	\$1.28
Yen/USD	¥106.28	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Investors became decidedly more risk-averse in August, sending both equity markets and bond yields sharply lower. The S&P 500, which represents large US-based entities, declined -1.6% for August, but is still up +18.3% year-to-date. Energy was hit particularly hard during the month (-8.7%), with Financials (-5.1%), Materials (-3.1%) and the more cyclical Industrials (-3.0%) also declining. Higher-yielding Utilities (+4.7%) and Real Estate (4.6%) were positive outliers during the month. Small cap stocks, as represented by the Russell 2000, dropped more meaningfully at -4.9%, moving the category’s relative underperformance to -6.5% for the year when compared to Large Cap stocks.

In the broad international developed markets, the MSCI EAFE index declined for the month (-2.6%) yet remained up double-digits year-to-date at 10.1%. Sector returns were generally negative and followed the pattern of domestic counterparts, with Energy (-8.3%), Materials (-5.7%) and Financials (-5.6%) weighing on the index. Consumer Staples (+1.9%) and Healthcare (+1.5%) were notable for their positive performance for the month. Continued US dollar strength perpetuated the challenges in attaining meaningful international returns for US-based investors.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down sharply at -4.8%, extending the run of underperformance versus developed market peers. Sector performance was relatively consistent, as all major sectors produced negative returns. Based on geography, only a small percentage of the index managed positive returns, with the Latin America region (specifically Brazil and Argentina) lagging materially.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up solidly at +1.9% during the month, and is up +17.8% for the year. The Alerian MLP index was meaningfully down at -5.5%, but has still produced double-digit positive returns in 2019. The near-month NYMEX oil contract was down similarly at -5.9% for the month, and despite volatility remains up +21.3% for the year. Gold continued to perform well (+6.8%) amid geopolitical uncertainty. The broadly diversified Bloomberg Commodity index declined -2.3% for the month, and is now up just +1.9% for the year.

Global Markets (continued)

US Treasury (UST) yields collapsed throughout August, responding forcefully to geopolitical uncertainty, threats to global growth, and the growing stockpile of negative yielding debt abroad. Even as short-end rates moved dramatically lower (discounting future FOMC policy easing), longer-term rates continued their remarkable decline and the yield curve inverted across key segments. In this environment, the high-quality government bond complex returned +3.4% overall. The commonly referenced 10-year UST yield traded through the 1.5% level, and the 30-year long bond established an all-time low yield below 2.0% as demand for US assets remained robust given the relative yield advantage.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on a duration-matched basis but provided another +2.6% in August, and year-to-date performance of +9.1% reached previously unimagined levels. Spreads for IG corporates were 12 bps wider for the month, with BBB-rated issues lagging in a risk-off environment. With the dramatic decline in base rates, the benchmark's yield-to-worst shed 40 bps to settle at just over 2.1%.

The Bloombar 1-15-Year Municipal index returned +1.2% in August. Sustained inflows continue to benefit the category, which has now provided year-to-date returns of +6.5% despite modest initial yields. While the tax-exempt curve participated in the robust bull flattening environment, the 10-year municipal/UST ratio of ~85% edged closer to fair value.

Despite a notable sell-off in the risky CCC-rated sleeve, the Bloombar US Corporate High Yield index advanced +0.4% for the month and has now delivered +11.0% year-to-date. Benchmark spreads widened 22 bps, but all-in yields have fallen to just over 5.7%. Global yield movements were directionally consistent with US government bonds, and unhedged international bonds performed well despite persistent US dollar strength. Emerging market bonds produced softer results, with the local currency basket weakening and spreads widening for US dollar-based sovereign and corporate issues.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.28	-0.01
Germany	-0.70	0.24
France	-0.41	0.71
United Kingdom	0.48	1.28
Spain	0.10	1.41
United States	1.50	2.69
Italy	1.00	2.74
Mexico	6.98	8.64
Brazil	7.43	9.24

Source: Bloomberg

Indices Report (Periods Ending August 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-1.58	18.34	2.92	12.70	10.11	13.45	8.95
Russell 1000	-1.83	18.48	2.49	12.57	9.85	13.49	9.14
Russell 1000 Growth	-0.77	23.28	4.27	17.03	13.06	15.42	10.47
Russell 1000 Value	-2.94	13.75	0.62	8.08	6.59	11.49	7.68
Russell 2500	-4.00	15.67	-7.14	9.04	7.06	12.65	9.30
Russell 2000	-4.94	11.85	-12.89	7.89	6.41	11.59	8.37
Russell 2000 Growth	-4.32	16.30	-11.02	10.62	8.06	13.06	9.50
Russell 2000 Value	-5.58	7.31	-14.89	5.05	4.63	10.05	7.15
Wilshire 5000 Cap Wtd	-2.05	17.96	1.27	12.26	9.73	13.34	9.17
MSCI ACWI	-2.33	14.26	0.28	9.76	6.09	9.19	7.63
MSCI ACWI ex US	-3.07	9.19	-2.78	6.38	1.85	5.19	6.18
MSCI EAFE	-2.58	10.14	-2.75	6.44	2.38	5.49	5.76
MSCI EAFE Local Currency	-2.40	12.20	0.02	7.69	5.83	7.40	6.26
MSCI EAFE Growth	-1.20	17.02	1.23	8.32	4.90	7.22	6.74
MSCI EAFE Value	-4.09	3.25	-6.84	4.41	-0.23	3.68	4.70
MSCI Emerging Markets	-4.85	4.19	-3.99	6.15	0.75	4.43	6.45
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.80	3.13	4.34	1.60	1.33	1.21	2.12
BloomBar US Aggregate	2.59	9.10	10.17	3.09	3.35	3.91	4.26
BloomBar Gov't Bond	3.36	8.56	10.31	2.52	2.96	3.17	3.80
BloomBar US Credit	3.13	13.35	12.99	4.47	4.38	5.57	5.20
BloomBar 10 Yr Municipal	1.54	7.91	9.48	3.39	3.98	4.85	4.73
BloomBar US Corp High Yield	0.40	11.00	6.56	6.17	4.85	8.50	7.41
FTSE World Govt Bond	2.66	7.67	8.44	1.85	1.38	2.05	3.50
BloomBar Global Aggregate	2.03	7.42	7.77	2.12	1.63	2.66	3.73
BloomBar Multiverse	1.83	7.47	7.77	2.32	1.74	2.87	3.88
Real Assets							
FTSE NAREIT US Real Estate	3.40	23.34	12.12	5.70	8.29	13.41	8.80
FTSE EPRA/NAREIT Dev RE	1.94	17.79	9.10	5.44	5.89	9.84	7.72
Bloomberg Commodity	-2.32	1.93	-5.89	-0.87	-5.58	-4.28	-2.78
Cash and Equivalents							
US T-Bills 90 Day	0.20	1.63	2.36	1.50	0.95	0.52	1.40

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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