



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

MAY 2019  
Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- Nonfarm payrolls increased by 75,000 in May (exp. 180,000), and additions from March and April were revised lower by 75,000 in total. Monthly payroll gains have averaged 158,200 thus far in 2019, a slightly cooler rate than the 2018 average of 215,250.
- The Institute for Supply Management's Manufacturing Purchasing Managers Index registered a May reading of 52.1, below both its April reading of 52.8 and analysts' expectations for a 53.0 figure. Slumps in the supplier deliveries and inventories components contributed to the decline of the index to 3-year lows.
- Consumer confidence indicators topped estimates materially in May. The University of Michigan's Sentiment Index rose from 97.2 to 100.0 (exp. 97.2), while the Conference Board Consumer Confidence Index rose from 129.2 to 134.1 (exp. 130.0).

## U.S. EQUITIES

- The S&P 500 Index suffered its first monthly decline of the year and fell 6.4%. At the end of May, the S&P 500 Index had generated a year-to-date total return of 10.7%.
- The CBOE VIX Index ticked up from 13.1 to 18.7, indicating an increase in expectations for 30-day forward S&P 500 Index volatility. Trailing 30-day realized volatility ticked up from 9.4% to 13.1%, while the 90-day figure faded from 16.0% to 11.3%.
- According to FactSet, out of 110 S&P 500 Index companies posting 2Q 2019 EPS guidance, 76% have posted negative guidance, which is above the 5-year average of 70%. Analysts are expecting 2Q 2019 revenue growth of 4.1% and earnings contraction of 2.1%.

## U.S. FIXED INCOME

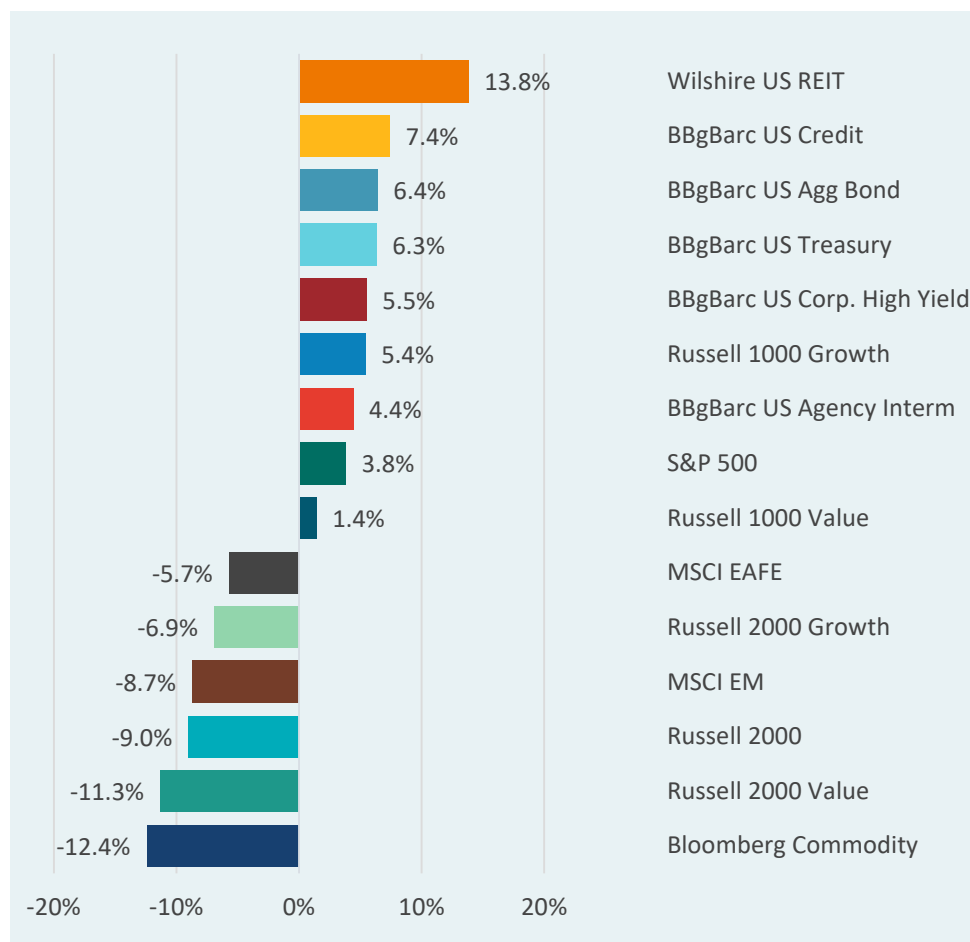
- Treasury yields plummeted in May, as renewed U.S.-China tensions likely fueled risk-off flows. Ten-year Treasury yields plunged from 2.50% to 2.13%, and 2-year Treasury yields dropped from 2.27% to 1.92%.
- At month-end, the market was pricing in a December 2019 fed funds rate of 1.86% and a June 2020 fed funds rate of 1.57%. These fed funds rate pricings reflect the market's expectation for the Federal Reserve to cut rates twice by the end of the year, and a third time within the first six months of 2020.
- In a June 4<sup>th</sup> press conference, Fed Chairman Jerome Powell expressed an openness to cutting rates, should "trade negotiations and other matters" pose material headwinds to the U.S. economic outlook.

## INTERNATIONAL MARKETS

- Following the expiration of U.S. sanction waivers for specific importers of Iranian crude oil, Iran reneged on several components of the Iran Nuclear Deal. President Trump responded with an executive order sanctioning Iranian industrial metals.
- The U.K. Prime Minister Theresa May announced her resignation effective June 7<sup>th</sup>, citing "deep regret" in failing to deliver Brexit. May will remain acting PM until a new leader is selected in July.
- Safe-haven currencies appreciated sharply as international investors sought insulation from a more uncertain geopolitical outlook. Relative to the U.S. dollar, the Japanese yen appreciated 2.6% and the Swiss franc appreciated 1.3%.

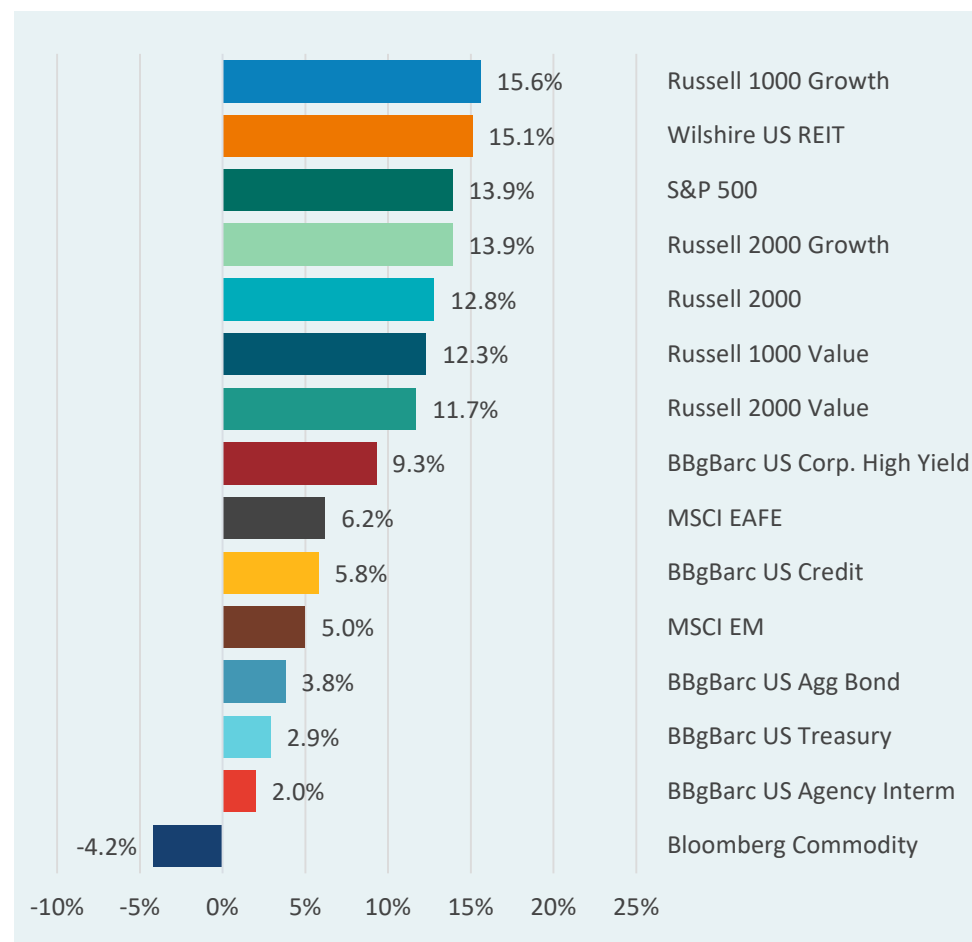
# Major asset class returns

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/19

TEN YEARS ENDING MAY



Source: Morningstar, as of 5/31/19

# U.S. large cap equities

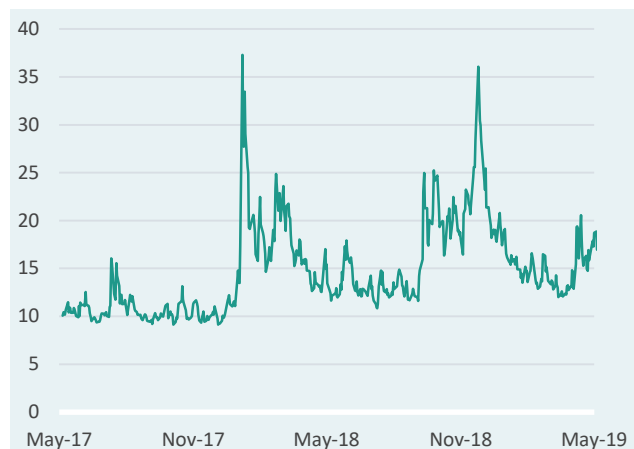
- The S&P 500 Index returned -6.4% in May, breaking its streak of 4 consecutive monthly advances. Within the overall index, energy (-11.1%) and information technology (-8.7%) stocks underperformed, while utilities (-0.8%) outperformed.
- At a weight of roughly 22%, the Information Technology sector was the largest within the S&P 500 Index, and its decline of 8.7% led the decline in the overall index. The Supreme Court's 5-4 decision to allow a massive anti-trust lawsuit against Apple likely weighed on big tech.
- Energy stocks lost 11.1%, led by ExxonMobil (-10.8%) which represented 26.5% of the sector on April 30<sup>th</sup>. On top of a high sensitivity to falling oil prices, Exxon faced operational challenges related to rising tensions in the Middle East, anti-corruption investigations in Guyana, and political tensions in Papua New Guinea.
- Over the month, the forward 12-month P/E ratio of the S&P 500 Index declined to 15.7 from 17.0. According to FactSet, the current level of 15.7 is below the 5-year average (16.5) but above the 10-year average (14.8).

**S&P 500 PRICE INDEX**



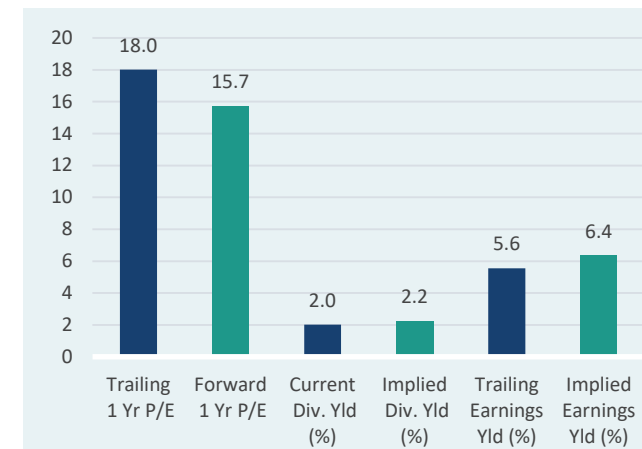
Source: Bloomberg, as of 5/31/19

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 5/31/19

**S&P 500 VALUATION SNAPSHOT**

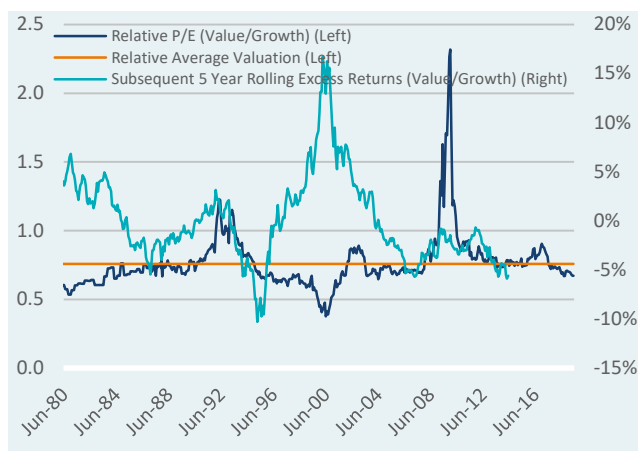


Source: Bloomberg, as of 5/31/19

# Domestic equity size and style

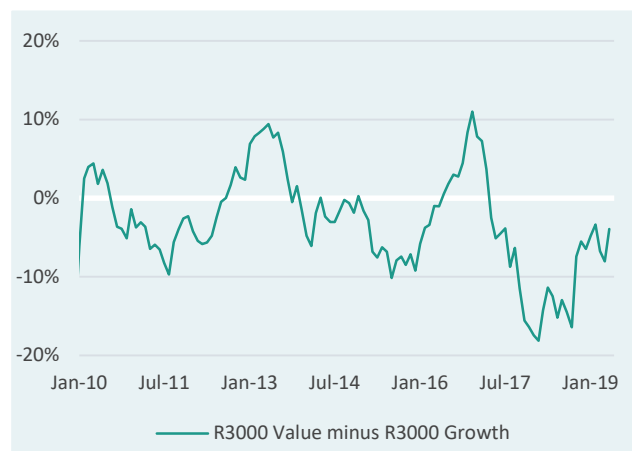
- Large cap stocks outperformed small cap stocks for the third straight month. The Russell 1000 Index lost 6.4%, while the Russell 2000 Index lost 7.8%. Several analysts have attributed the recent outperformance of large-cap stocks to their greater resilience to trade uncertainty.
- The iShares Edge MSCI USA Quality Factor ETF, which seeks to track the performance of high quality large- and mid-cap stocks based on ROE, earnings variability, and leverage, fell 6.6%, roughly in line with the S&P 500 Index.
- Value stocks underperformed growth stocks for the sixth consecutive month. The Russell 3000 Value Index posted May performance of -6.5%, compared with the Russell 3000 Growth Index, which returned -6.4%.
- While the difference in monthly return between growth- and value-oriented equities within the large cap universe was small (0.1%), growth-oriented equities outperformed value-oriented equities by 0.8% within the small-cap universe.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



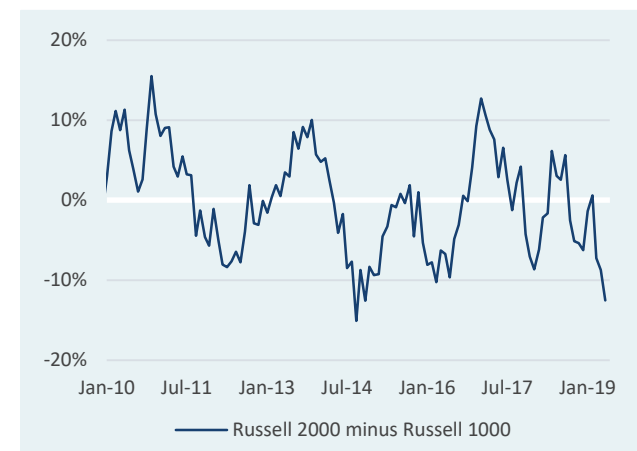
Source: Russell, Bloomberg, as of 5/31/19

**VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE**



Source: FTSE, as of 5/31/19

**SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE**

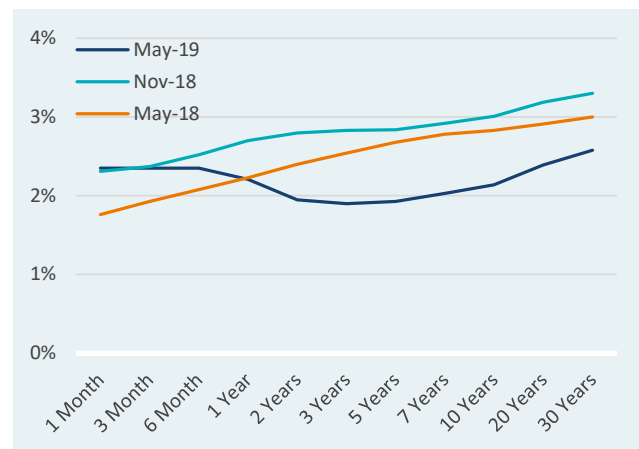


Source: FTSE, as of 5/31/19

# Fixed income

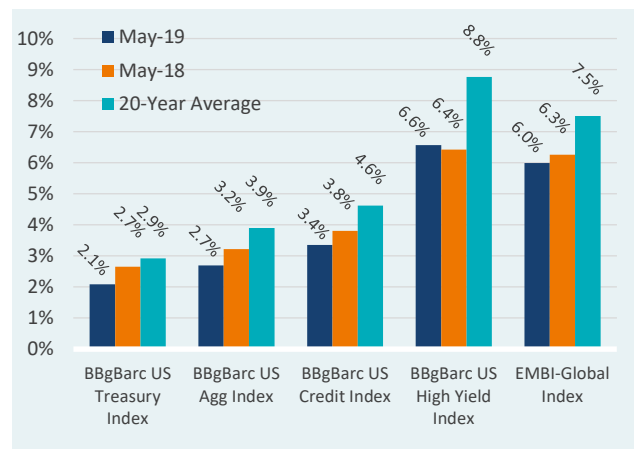
- Global sovereign yields moved in line with U.S. Treasury yields over the period and fell significantly. 10-year German bond yields dropped from 0.01% to fresh all-time lows of -0.21%, and 10-year Japanese bond yields fell from -0.06% to -0.11%.
- Long duration U.S. Treasuries extended their impressive year-to-date performance record. The Bloomberg Barclays U.S. Treasury Long TR USD Index delivered a return of 6.5% in May, bringing its year-to-date return to 9.5% and its trailing one-year return to 11.0%.
- Credit spreads expanded materially over the period. Investment-grade credit spreads widened from 1.10% to 1.32%, while high-yield spreads widened from 3.98% to 4.83%.
- Five-year breakeven inflation rates dropped from 1.9% to 1.6% while ten-year rates dropped from 1.9% to 1.7%. Rising pessimism concerning central banks' abilities to achieve their inflation targets, as well as a sell-off in the energy markets influenced the meaningful decline in expectations for future inflation.

**U.S. TREASURY YIELD CURVE**



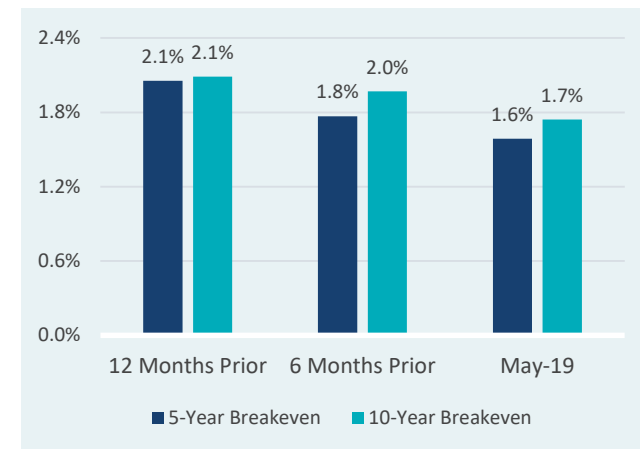
Source: Bloomberg, as of 5/31/19

**NOMINAL YIELDS**



Source: Morningstar, as of 5/31/19

**BREAKEVEN INFLATION RATES**

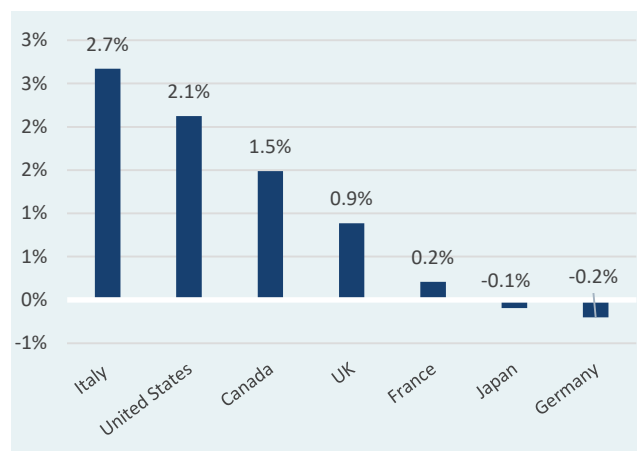


Source: Bloomberg, as of 5/31/19

# Global markets

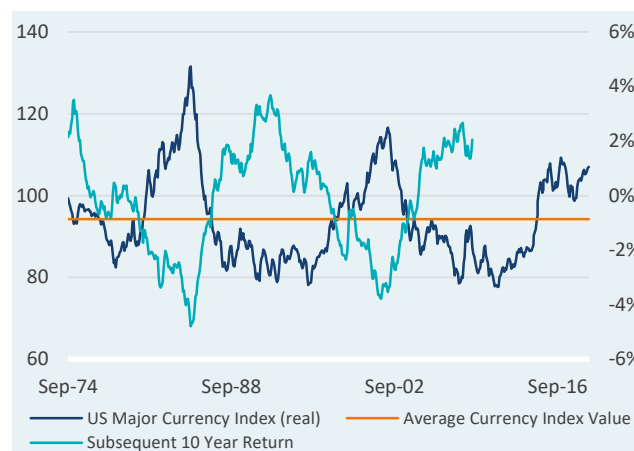
- U.S.-China trade reemerged at the fore of the geopolitical backdrop. Effective May 10<sup>th</sup>, U.S. tariff rates on \$200 billion in Chinese imports were hiked from 10% to 25%, and the Trump administration noted that 25% tariffs on an additional \$325 billion in imports were being considered. China responded in kind with commensurate tariff rate hikes on their U.S. imports.
- Yields on 10-year Italian bonds rose from 2.55% to 2.67%, fueled by a shift in the Italian political landscape favoring the Northern League, a Euro-skeptical party.
- The Trump administration blacklisted the Chinese firm Huawei, cutting it off from U.S. suppliers, and indicated that additional Chinese tech/surveillance firms were being considered for the blacklist. In China, President Xi visited a major rare earths production facility, stoking rumors that an export ban could be implemented.
- President Trump threatened to impose tariffs on all Mexican goods unless serious efforts were made to address illegal immigration. Tariffs would start at 5% on June 10<sup>th</sup> and rise monthly toward a maximum of 25%.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



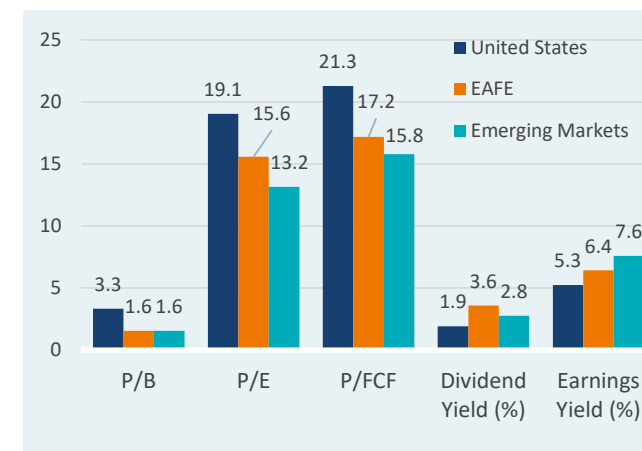
Source: Bloomberg, as of 5/31/19

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 5/31/19

**MSCI VALUATION METRICS (3-MONTH AVG)**



Source: Bloomberg, as of 5/31/19

# Commodities

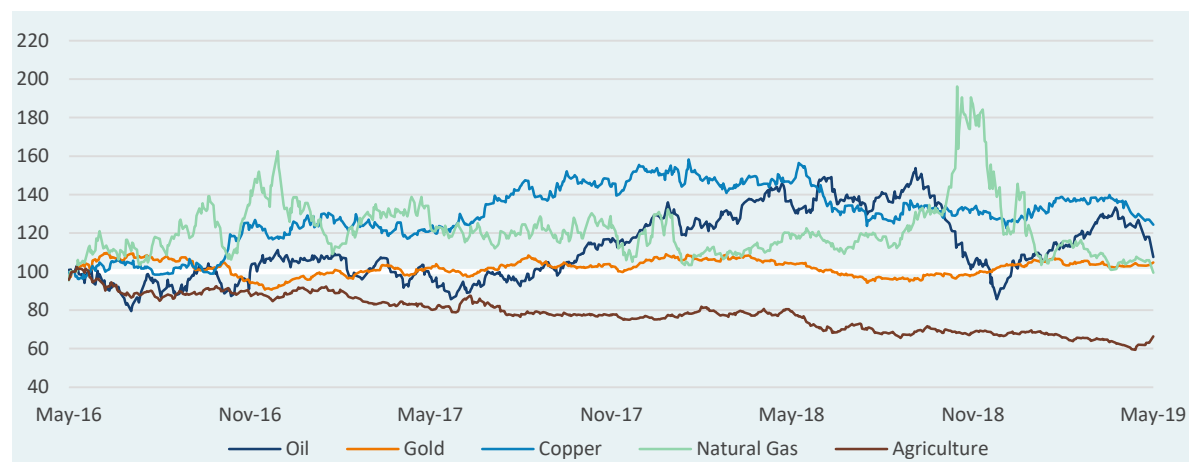
- The Bloomberg Commodity Index fell 3.4% amidst widely dispersed commodity sector returns. Energy (-12.0%), Petroleum (-13.6%), and Industrial Metals (-5.9%) led the overall index lower, while Grains (+12.4%) provided some support.
- The Energy sector dropped 12.0% in May, and crude oil led the decline. A barrel of West Texas Intermediate crude oil fell 16.5% to \$53.50 as demand concerns based on geopolitical developments coincided with a glut in domestic supply.
- Industrial Metals (-5.9%) struggled in May, as corporations around the globe worked to unpack the implications of the evolving trade narrative between the United States and China. Within the sector, copper (-9.2%) and zinc (-10.7%) underperformed.
- The Grains (+12.4%) sector, led by corn (+18.8%), was the top performer in the overall commodity index, as adverse global weather conditions softened supply outlooks. U.S. farmers faced planting delays due to flooded croplands while Australian farmers suffered a third year of drought.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(3.4)	(3.8)	2.3	(12.4)	(1.7)	(9.5)	(4.2)
Bloomberg Agriculture	7.6	4.0	0.7	(14.7)	(9.9)	(11.0)	(3.9)
Bloomberg Energy	(12.0)	(8.2)	6.4	(15.3)	(0.8)	(18.5)	(12.0)
Bloomberg Grains	12.4	8.1	1.8	(12.1)	(10.1)	(11.9)	(5.3)
Bloomberg Industrial Metals	(5.9)	(9.1)	2.6	(16.9)	8.0	(2.9)	(0.1)
Bloomberg Livestock	(5.6)	(7.8)	(3.5)	2.7	(1.6)	(5.1)	(1.8)
Bloomberg Petroleum	(13.6)	(7.5)	16.5	(17.4)	2.3	(16.5)	(6.5)
Bloomberg Precious Metals	0.7	(0.2)	(0.1)	(3.0)	0.2	(1.2)	1.5
Bloomberg Softs	0.9	(1.8)	(1.4)	(19.5)	(11.0)	(12.4)	(4.3)

Source: Morningstar, as of 5/31/19

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 5/31/19



# Appendix

# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	5-Year	10-Year
Large Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	13.7	12.3	15.6
Small Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	11.8	9.5	14.0
Large Cap Equity	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	11.0	9.1	13.9
Small Cap Equity	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	9.3	8.3	12.8
Large Cap Value	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	8.5	6.7	12.3
International Equity	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	7.6	6.5	11.7
60/40 Global Portfolio	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	6.9	5.0	8.5
Small Cap Value	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	6.7	3.6	6.9
Hedge Funds of Funds	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	4.9	2.7	6.2
US Bonds	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	4.8	2.2	5.0
Emerging Markets Equity	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	4.1	1.8	3.8
Commodities	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	2.3	1.3	3.1
Real Estate	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	1.8	0.8	0.5
Cash	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	1.0	-9.5	-4.2

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

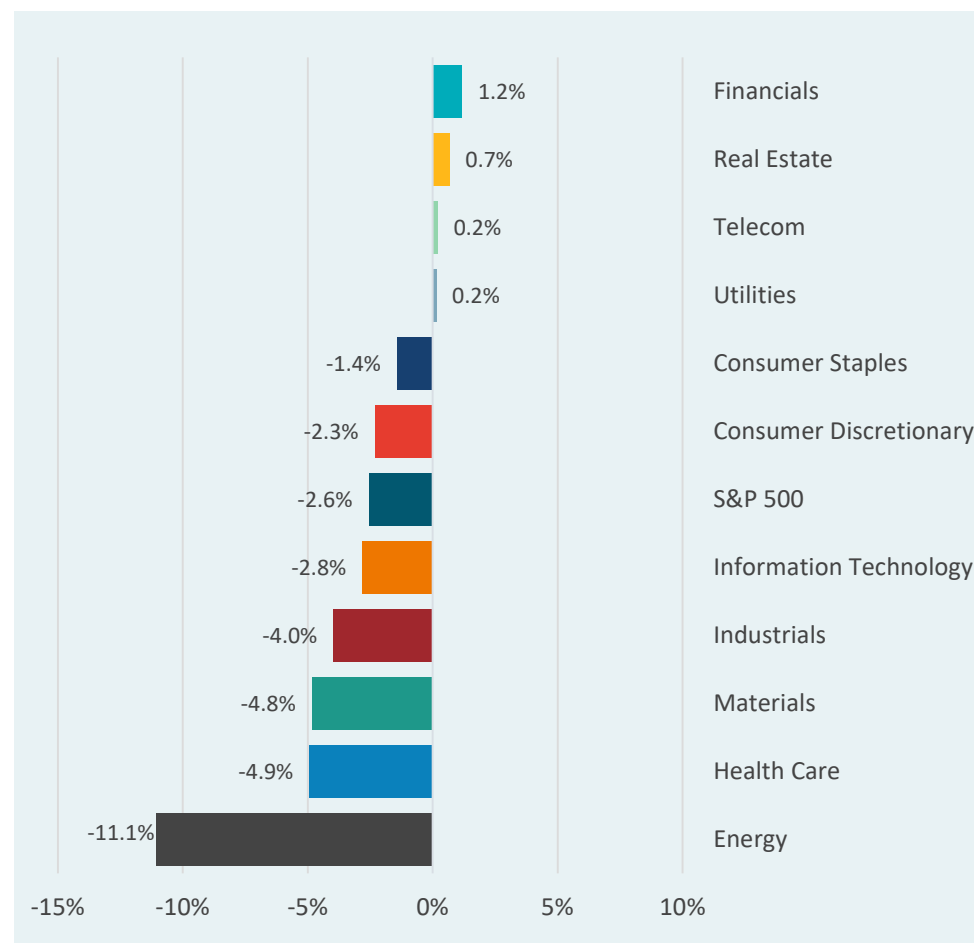
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 3/31/19.

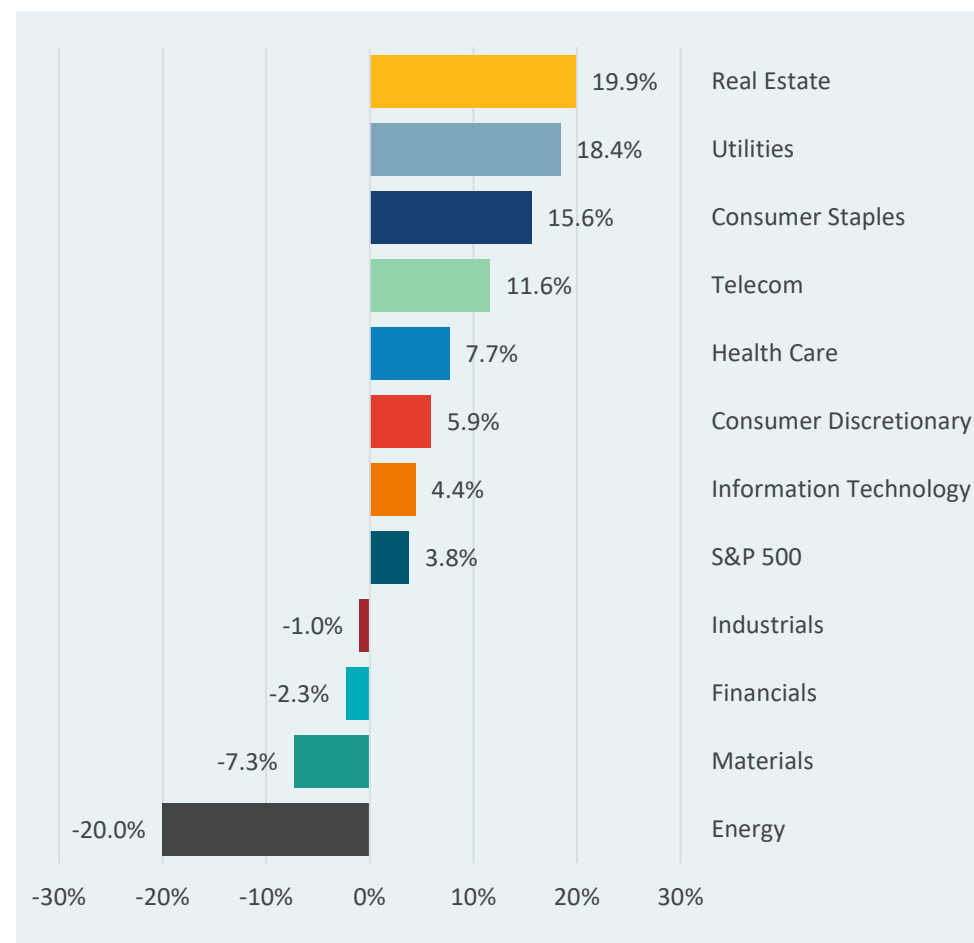
# S&P 500 sector returns

QTD



Source: Morningstar, as of 5/31/19

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/19

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	(6.4)	(2.6)	10.7	3.8	11.7	9.7	13.9
S&P 500 Equal Weighted	(6.9)	(3.5)	10.8	1.5	9.7	8.2	14.6
DJ Industrial Average	(6.3)	(3.8)	7.5	4.0	14.4	10.9	14.2
Russell Top 200	(6.5)	(2.6)	10.1	4.2	12.4	10.1	13.9
Russell 1000	(6.4)	(2.6)	11.0	3.5	11.7	9.5	14.0
Russell 2000	(7.8)	(4.6)	9.3	(9.0)	9.8	6.7	12.8
Russell 3000	(6.5)	(2.7)	10.9	2.5	11.5	9.2	13.9
Russell Mid Cap	(6.1)	(2.6)	13.5	1.6	9.9	7.9	14.4
<b>Style Index</b>							
Russell 1000 Growth	(6.3)	(2.1)	13.7	5.4	15.3	12.3	15.6
Russell 1000 Value	(6.4)	(3.1)	8.5	1.4	8.0	6.5	12.3
Russell 2000 Growth	(7.4)	(4.6)	11.8	(6.9)	11.7	8.3	13.9
Russell 2000 Value	(8.2)	(4.7)	6.7	(11.3)	7.7	5.0	11.7

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	(5.9)	(2.8)	9.1	(1.3)	9.1	5.2	9.4
MSCI ACWI ex US	(5.4)	(2.9)	7.1	(6.3)	6.7	1.3	5.8
MSCI EAFE	(4.8)	(2.1)	7.6	(5.7)	5.8	1.3	6.2
MSCI EM	(7.3)	(5.3)	4.1	(8.7)	9.9	1.8	5.0
MSCI EAFE Small Cap	(5.3)	(2.4)	8.0	(11.9)	5.6	3.8	9.4
<b>Style Index</b>							
MSCI EAFE Growth	(3.9)	(0.7)	11.2	(3.3)	6.8	3.2	7.5
MSCI EAFE Value	(5.8)	(3.6)	4.0	(8.2)	4.8	(0.7)	4.8
<b>Regional Index</b>							
MSCI UK	(6.0)	(3.9)	7.5	(7.6)	3.9	(1.1)	6.2
MSCI Japan	(4.0)	(2.6)	3.9	(10.0)	5.9	4.8	5.6
MSCI Euro	(6.4)	(1.6)	8.0	(7.3)	5.5	(0.4)	4.6
MSCI EM Asia	(8.8)	(7.1)	3.2	(12.4)	10.0	3.8	6.8
MSCI EM Latin American	(2.0)	(1.6)	6.1	8.2	12.6	(1.1)	1.5

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	1.7	2.0	5.2	4.4	2.5	1.6	3.6
BBgBarc US Treasury Bills	0.2	0.4	1.0	2.3	1.3	0.8	0.5
BBgBarc US Agg Bond	1.8	1.8	4.8	6.4	2.5	2.7	3.8
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.7	0.9	1.9	3.5	1.3	1.1	1.1
BBgBarc US Treasury Long	6.5	4.6	9.5	11.0	2.9	5.4	6.5
BBgBarc US Treasury	2.4	2.1	4.2	6.3	1.8	2.3	2.9
<b>Issuer</b>							
BBgBarc US MBS	1.3	1.2	3.4	5.5	2.1	2.5	3.2
BBgBarc US Corp. High Yield	(1.2)	0.2	7.5	5.5	7.0	4.4	9.3
BBgBarc US Agency Interm	1.0	1.1	2.5	4.4	1.6	1.6	2.0
BBgBarc US Credit	1.5	2.0	6.9	7.4	3.7	3.5	5.8

## OTHER

<b>Index</b>							
Bloomberg Commodity	(3.4)	(3.8)	2.3	(12.4)	(1.7)	(9.5)	(4.2)
Wilshire US REIT	0.4	0.2	16.3	13.8	5.8	7.7	15.1
CS Leveraged Loans	(0.2)	1.4	5.2	4.0	5.4	3.9	6.7
Alerian MLP	(1.0)	(2.2)	14.8	1.5	0.5	(5.9)	8.7
<b>Regional Index</b>							
JPM EMBI Global Div	0.4	0.7	7.7	7.5	5.5	4.7	7.6
JPM GBI-EM Global Div	0.3	0.1	3.0	0.3	4.4	(1.3)	3.0
<b>Hedge Funds</b>							
HFRI Composite	(1.5)	(0.2)	5.3	(0.9)	4.4	2.8	4.5
HFRI FOF Composite	(0.6)	0.3	4.9	(0.5)	3.7	2.2	3.1
<b>Currency (Spot)</b>							
Euro	(0.6)	(0.8)	(2.5)	(4.5)	0.3	(4.0)	(2.4)
Pound	(3.3)	(3.3)	(1.0)	(5.3)	(4.7)	(5.6)	(2.4)
Yen	2.6	1.9	1.1	0.1	0.7	(1.3)	(1.3)

Source: Morningstar, HFR, as of 5/31/19



# Notices & disclosures

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