



# **PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS**

**JUNE 2019**

**Capital Markets Update**



# Market commentary

## U.S. ECONOMICS

- Total nonfarm payroll employment rose by 224,000 jobs in June (exp. +160,000), bouncing back from a softer May figure of +72,000. The education and health services (+61,000) and professional and business services (+51,000) sectors led job gains in June and have added the most jobs over the trailing year.
- The New York Fed's Empire State Manufacturing Business Conditions survey fell 26.4 points to -8.6 in June, indicating a shift in activity from expansion to contraction. The drop was the largest monthly decline since the inception of the indicator in 2001.
- The ISM Manufacturing Index fell from 52.1 to 51.7 in June, and slightly beat expectations for a 51.0 reading. Leading the decline were the new orders and prices paid components, which fell from 52.7 to 50.0 and from 53.2 to 47.9, respectively.

## U.S. EQUITIES

- The S&P 500 Index rebounded in June, gaining 7.0% following a 6.4% pull-back in May. Perceptions of an accommodative Federal Reserve and views that U.S-China relations were on a productive track likely helped to push the S&P 500 Price Index to fresh all-time highs.
- The CBOE VIX Index faded its gains in May, and fell from 18.7 to 15.1 in June, a level below its long-term average of 18.0. Realized 30-day volatility on the S&P 500 Index was subdued at 12.2%.
- According to FactSet, the estimated Q2 earnings decline of the S&P 500 Index rose from 0.5% to 2.6% over the second quarter. Nine of eleven sectors saw downward revisions to EPS estimates.

## U.S. FIXED INCOME

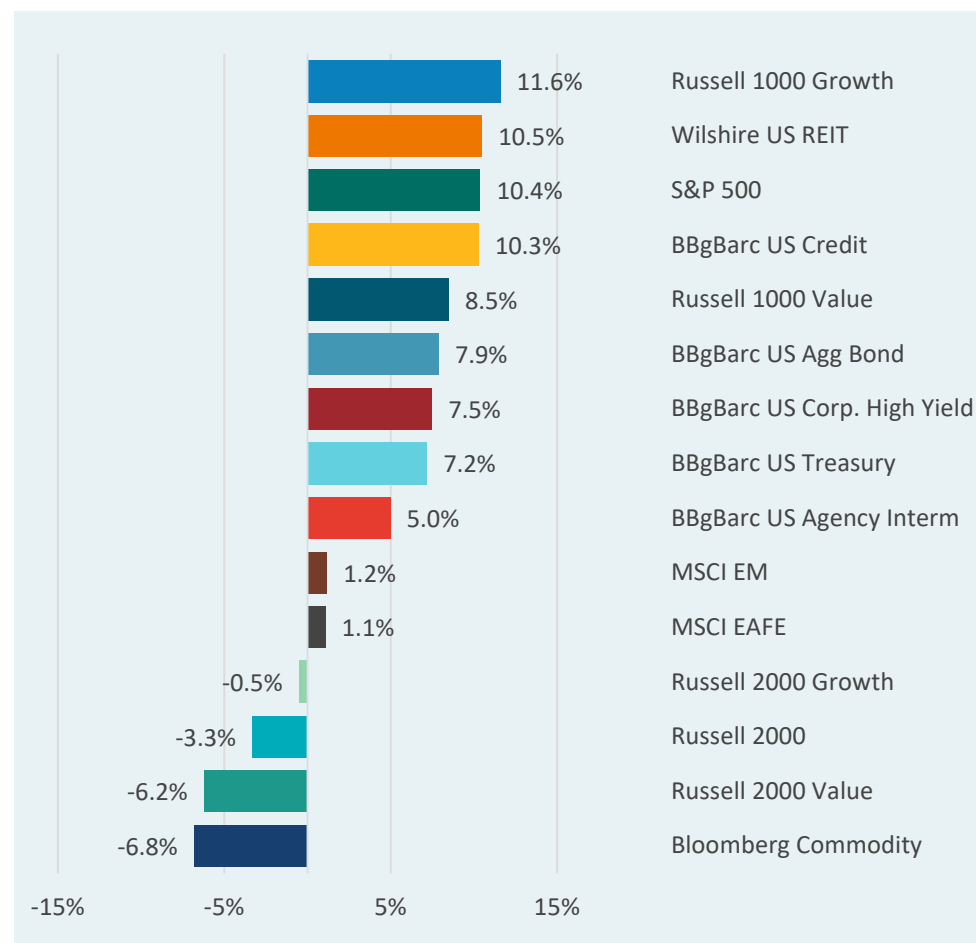
- The Federal Open Market Committee left the range for its benchmark interest rate unchanged at 2.25%-2.50% and reiterated that it would continue to act appropriately to sustain the expansion. Markets viewed the Fed's press conference as successful in setting up an "insurance" rate cut of 0.25% in July.
- Over the course of the month, the futures implied probability of the fed funds range being cut by a total of 0.75% by year-end increased from 35% to 61%. The strong June jobs report took the possibility for a 0.50% rate cut in July off the table, but a 0.25% rate cut remained 100% priced in.
- Treasury yields continued to push lower following the messaging from the Federal Reserve. Ten-year Treasury yields touched below 2.00% intra-month and ended June 0.12% lower at 2.01%.

## INTERNATIONAL MARKETS

- U.S. exceptionalism remained the story in a bounce-back month for global equities. The S&P 500 Index (+7.0%) outpaced the MSCI ACWI Index (+6.5%), and the MSCI Emerging Markets Index (+6.2%) outperformed the MSCI EAFE Index (+5.9%).
- The Citi Global Economic Surprise Index fell from -18.8 to -27.7, registering its 15<sup>th</sup> consecutive month in negative territory. The next longest streak was 12 months, between 2008 and 2009.
- The J.P. Morgan Emerging Market Currency Index gained 2.2% in June, its first monthly advance since January. The South African rand and the Mexican peso strengthened significantly vs. pairs while weakness in the Turkish lira persisted.

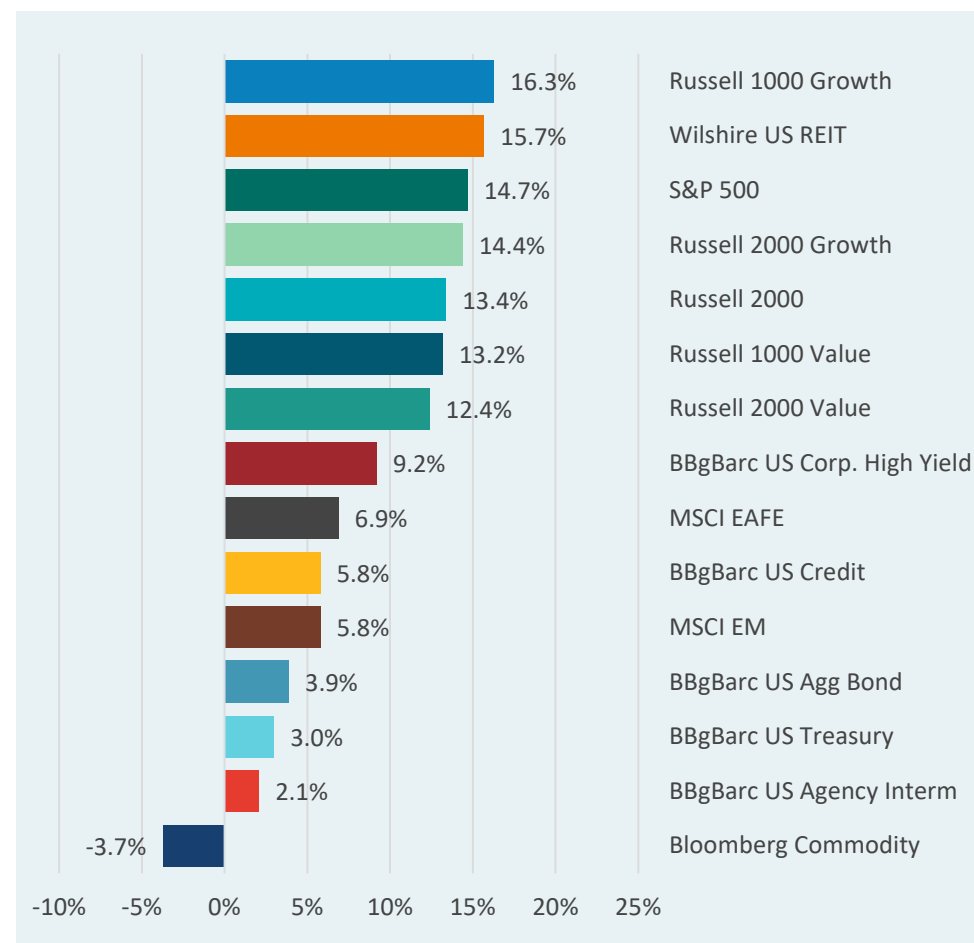
# Major asset class returns

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/19

TEN YEARS ENDING JUNE



Source: Morningstar, as of 6/30/19

# U.S. large cap equities

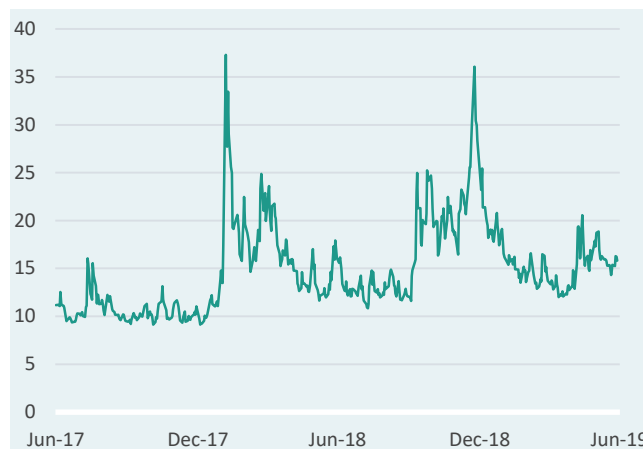
- The S&P 500 Index gained 7.0% in June, more than recovering from its 6.4% retreat in May. Within the index, Materials (+11.7%), Energy (+9.3%), and Information Technology (+9.1%) stocks outperformed.
- The Materials sector (+11.7%) was the top performer in June and tallied its best monthly return since October 2015. Dovish language from the Fed likely fueled the advance for the sector, which is heavily dependent on interest rates for capital expenditures and a weaker dollar for strong demand from foreign investors.
- Defensive sectors underperformed, and most cyclical sectors outperformed. Communication Services stocks (+4.3%) trailed the overall index, as reports that the Department of Justice was preparing an anti-trust investigation against Google put pressure on the sector.
- Per FactSet, the bottom-up June 30<sup>th</sup> 2020 target price for the S&P 500 Index is 3219, which would imply a year-over-year price appreciation of 8.3%. Analysts have overestimated the price index by 2.2%, 3.3%, and 9.8% on average over the last 5, 10, and 15 years.

**S&P 500 PRICE INDEX**



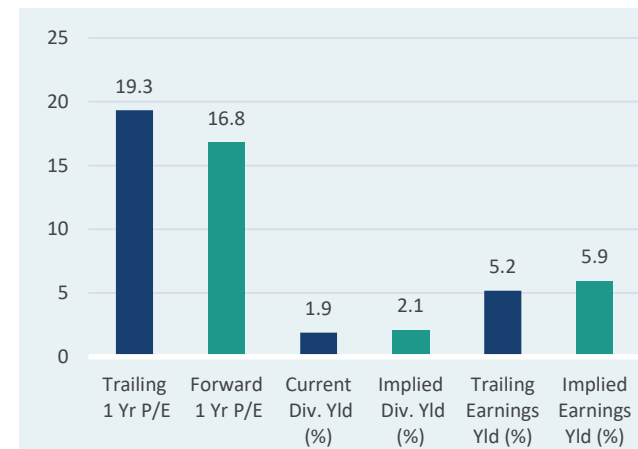
Source: Bloomberg, as of 6/30/19

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 6/30/19

**S&P 500 VALUATION SNAPSHOT**

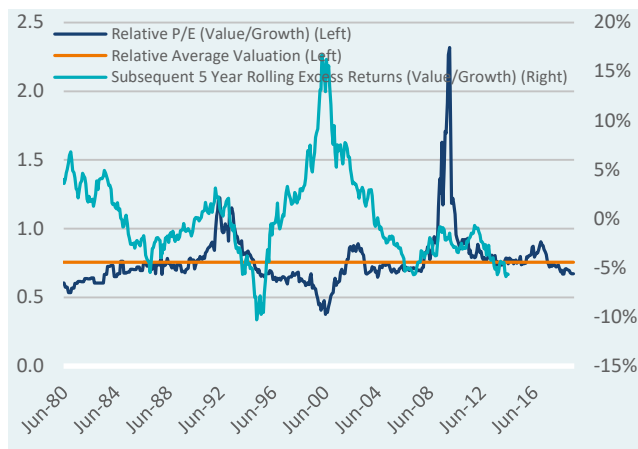


Source: Bloomberg, as of 6/30/19

# Domestic equity size and style

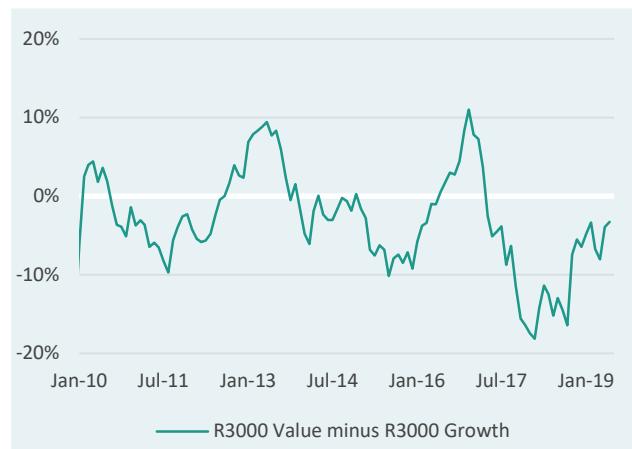
- Small-cap equities outperformed large-cap equities for the first time since February, although outperformance was slight. The Russell 2000 Index returned 7.1% while the Russell 1000 Index returned 7.0%. Year-to-date, small-cap stocks (+17.0%) have underperformed large-cap stocks (+18.8%).
- The S&P 500 Price Index closed the month at 2942, above its 50-, 100-, and 200-day moving-averages, indicating that there has been an upward price trend over the past six months.
- Value stocks outperformed growth stocks over the period, marking their first month of positive relative performance since last November. The Russell 3000 Value Index advanced 7.1% while the Russell 3000 Growth Index gained 6.9%.
- The growth style underperformed within large-cap and outperformed within small-cap. The last time that happened was March 2018, when the U.S. Federal Trade Commission reported it would be investigating Facebook following the Cambridge Analytica scandal.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



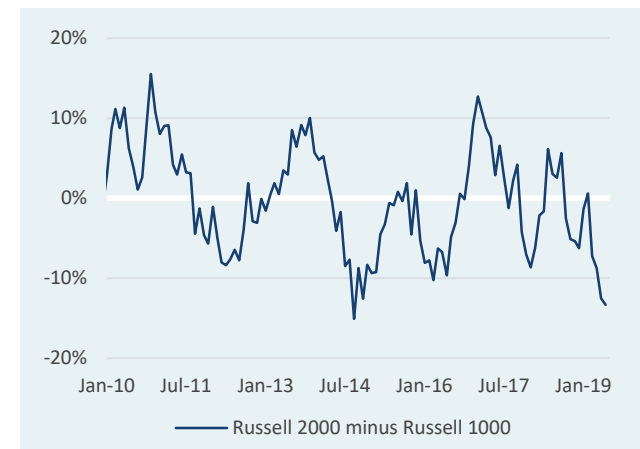
Source: Russell, Bloomberg, as of 6/30/19

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



Source: FTSE, as of 6/30/19

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

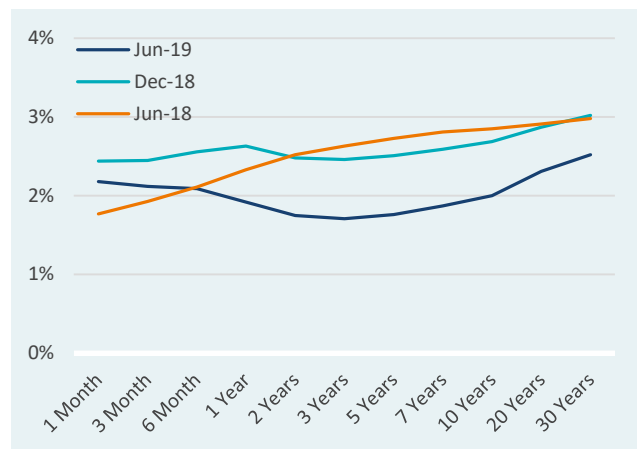


Source: FTSE, as of 6/30/19

# Fixed income

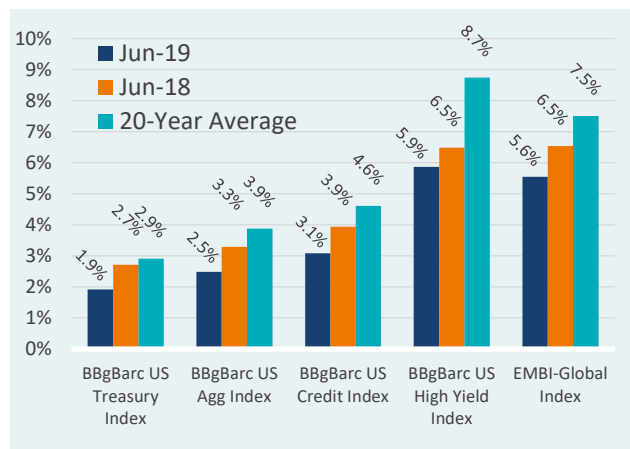
- European Central Bank President Mario Draghi issued dovish forward guidance, announcing that “additional stimulus” was on the table should the economic backdrop worsen, and inflation remain subdued. Over the month, the likelihood that the ECB would cut its main deposit rate from -0.40% to -0.50% by its September meeting rose from 18% to 67%.
- Emerging market debt was the top performer in fixed income. EM currency strength provided tailwinds for local-currency denominated EMD, which gained 6.5%.
- Sovereign yields continued to grind lower in June, encouraged by dovish language from central banks across the globe. Ten-year German bond yields sunk from -0.21% to new all-time lows of -0.33%, and ten-year French bond yields breached negative territory for the first time in their history.
- Ten-year Italian bond yields drifted from 2.67% to 2.10%, their lowest level in over a year. Many analysts viewed the rally as a reach for yield following the ECB’s decision to leave the door open for fresh stimulus.

**U.S. TREASURY YIELD CURVE**



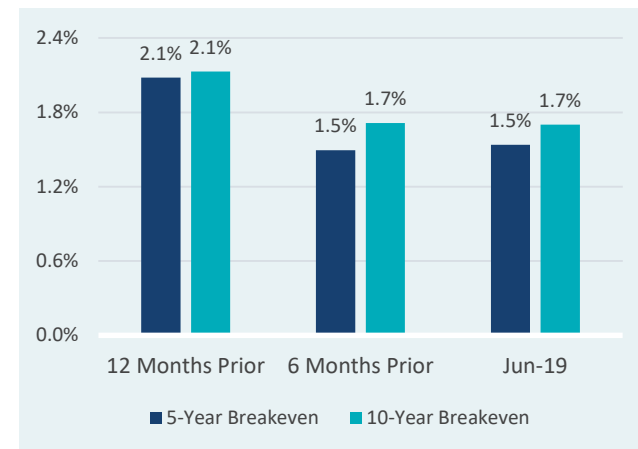
Source: Bloomberg, as of 6/30/19

**NOMINAL YIELDS**



Source: Morningstar, as of 6/30/19

**BREAKEVEN INFLATION RATES**

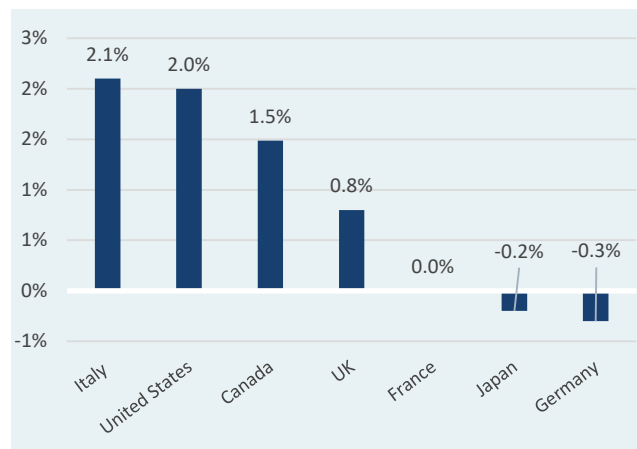


Source: Bloomberg, as of 6/30/19

# Global markets

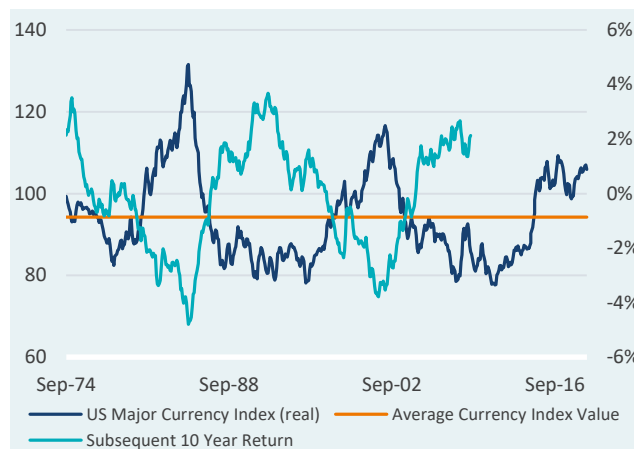
- On the sidelines of the G20 summit, Presidents Trump and Xi agreed to a “trade truce”, reopening trade talks and putting additional tariff rate hikes on pause. President Trump relaxed his stance on Huawei by allowing the Chinese company to resume importing high-tech U.S. intermediate goods in exchange for bolstered Chinese purchases of U.S. agricultural goods.
- The Bloomberg Dollar Spot Index declined for the first time since January, indicating that the U.S. dollar weakened relative to trade-weighted currency pairs.
- U.S.-Iranian tensions escalated materially over the month. Since May, six oil tankers and an unmanned U.S. spy drone have been attacked near or in the Strait of Hormuz, a global oil shipping chokepoint. Iran also began enriching uranium past the limit specified in the 2015 Iran Nuclear Deal, further stressing relations.
- The U.S. Trade Representative’s office proposed tariffs on \$4 billion worth of EU exports. The tariffs would be tacked on to the \$21 billion worth of EU exports the USTR said could be subject to tariffs back in April.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



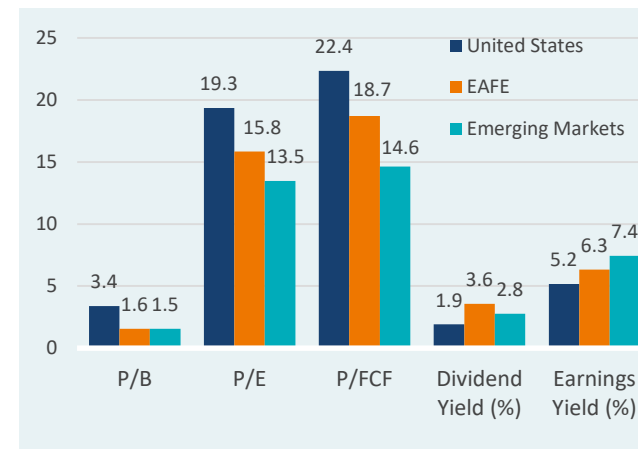
Source: Bloomberg, as of 6/30/19

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



Source: Federal Reserve, as of 6/30/19

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



Source: Bloomberg, as of 6/30/19

# Commodities

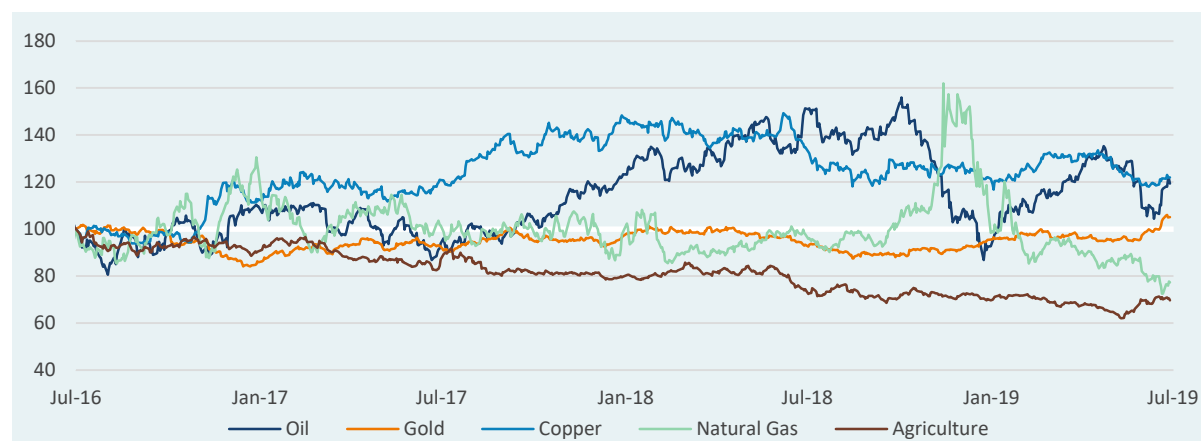
- The Bloomberg Commodity Index gained 2.7%, bringing its year-to-date advance to 5.1%. Precious metals, particularly gold, as well as oil prices supported the overall index, while the livestock sector presented headwinds for performance.
- West Texas Intermediate crude oil recovered in June, as the price of a barrel rose from \$53.64 to \$58.47. Elevated tensions between the U.S. and Iran, the formulation of a U.S.-China “trade truce”, and a decision from OPEC+ to extend oil production cuts all supported the rally.
- Precious metals (+7.3%) delivered the highest return of any sector within the overall commodity basket, propelled by surging gold prices. The price of an ounce of gold jumped from \$1,306 to \$1,410 over the course of the month, as elevated geopolitical uncertainty as well as dollar weakness boosted the haven asset’s appeal.
- The Livestock sector declined 3.5% in June, led by falling lean hogs futures prices. China’s pork imports grew 63% in May from the prior year, but U.S. pork shipments to China still missed expectations, and pork supplies swelled.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	2.7	(1.2)	5.1	(6.8)	(2.2)	(9.1)	(3.7)
Bloomberg Agriculture	0.5	4.5	1.2	(4.2)	(10.3)	(9.7)	(2.9)
Bloomberg Energy	4.0	(4.6)	10.6	(14.3)	(0.5)	(18.2)	(11.9)
Bloomberg Grains	0.3	8.4	2.1	(0.2)	(9.1)	(10.2)	(4.0)
Bloomberg Industrial Metals	2.0	(7.2)	4.7	(11.0)	6.4	(3.0)	(0.4)
Bloomberg Livestock	(3.5)	(11.0)	(6.8)	(3.5)	(2.5)	(7.1)	(2.1)
Bloomberg Petroleum	6.9	(1.1)	24.5	(15.0)	5.4	(16.0)	(6.2)
Bloomberg Precious Metals	7.3	7.1	7.2	7.6	(0.8)	(1.3)	3.0
Bloomberg Softs	1.5	(0.3)	0.1	(11.8)	(14.3)	(11.6)	(3.7)

Source: Morningstar, as of 6/30/19

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 6/30/19



# Appendix

# Periodic table of returns

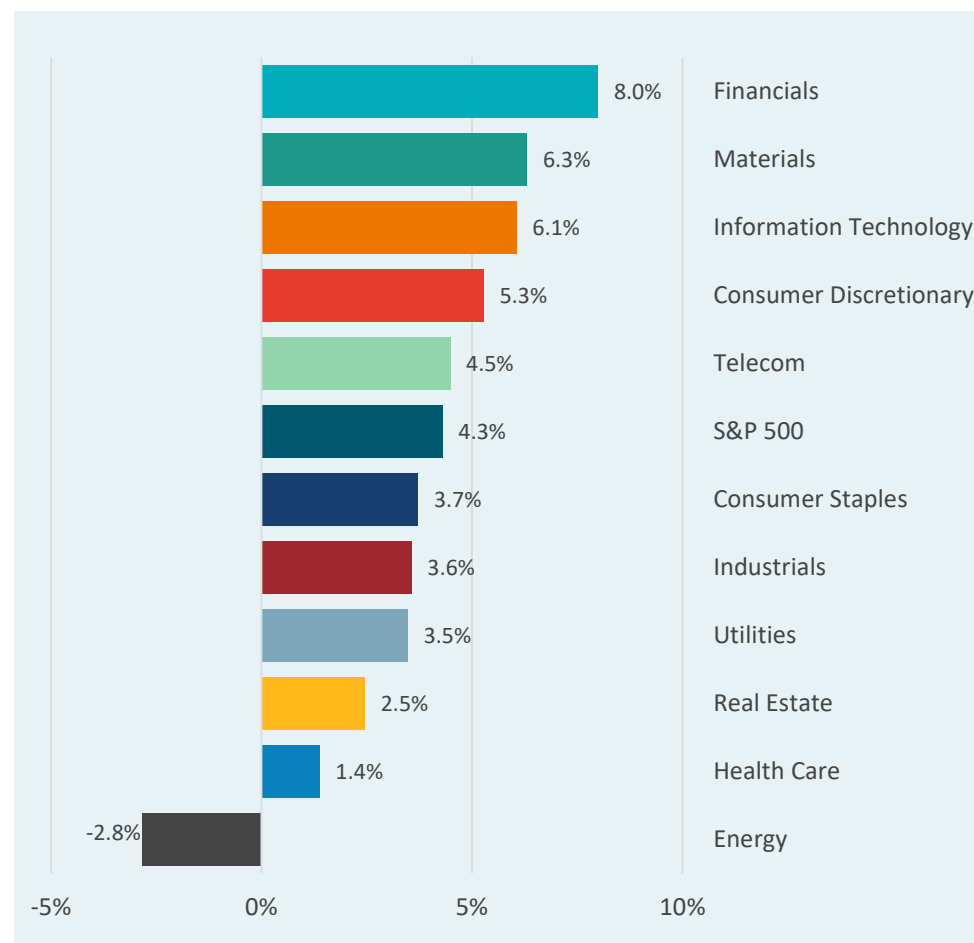
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	5-Year	10-Year
Large Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	21.5	13.4	16.3
Small Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	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	20.4	10.5	14.8
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	18.8	8.6	14.4
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	17.0	8.5	13.4
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	16.2	7.5	13.2
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	14.0	7.1	12.4
Small Cap Value	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	13.5	5.4	9.1
60/40 Global Portfolio	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	12.0	4.3	7.4
Emerging Markets Equity	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	10.6	2.9	6.9
Hedge Funds of Funds	-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	6.3	2.5	5.8
US Bonds	-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	6.1	2.2	3.9
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	5.1	2.2	3.2
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	0.9	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	1.2	-9.1	-3.7

Large Cap Equity	Small Cap Growth	Commodities
Large Cap Value	International Equity	Real Estate
Large Cap Growth	Emerging Markets Equity	Hedge Funds of Funds
Small Cap Equity	US Bonds	60% MSCI ACWI/40% BBgBarc Global Bond
Small Cap Value	Cash	

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.

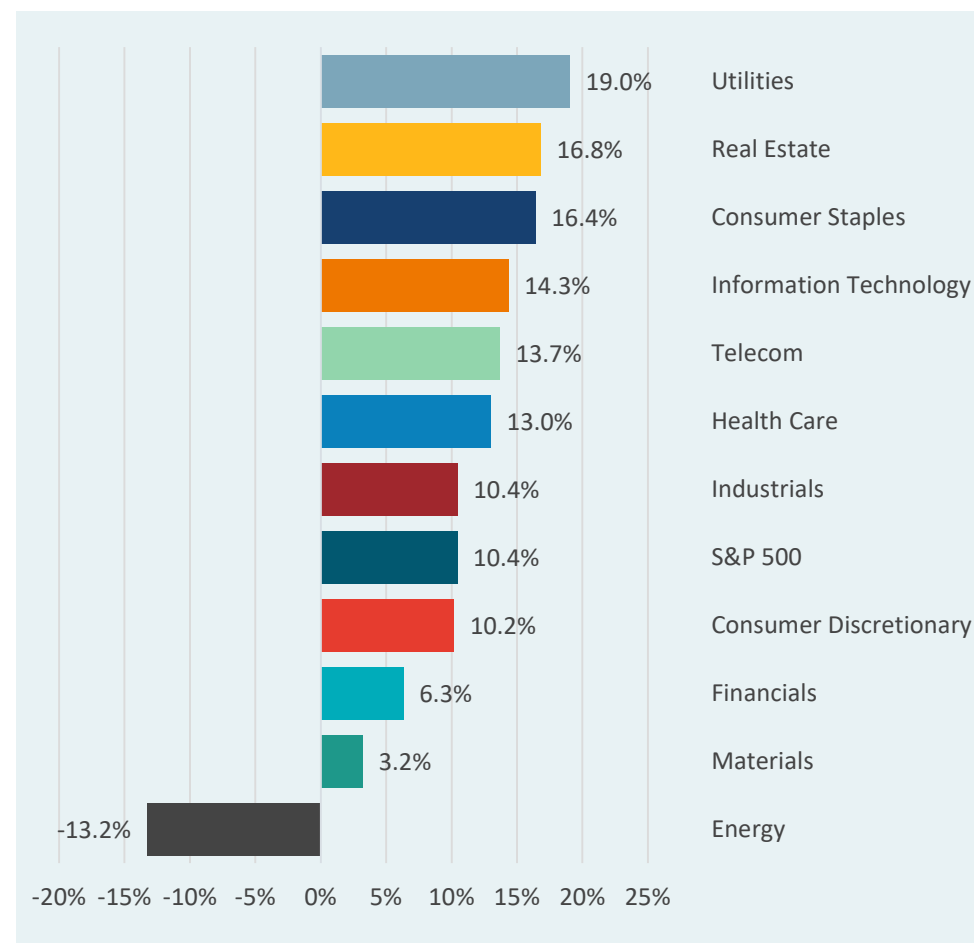
# S&P 500 sector returns

Q2



Source: Morningstar, as of 6/30/19

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/19

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	7.0	4.3	18.5	10.4	14.2	10.7	14.7
S&P 500 Equal Weighted	7.5	3.7	19.2	8.2	12.4	9.1	15.6
DJ Industrial Average	7.3	3.2	15.4	12.2	16.8	12.3	15.0
Russell Top 200	7.1	4.3	17.9	10.9	14.9	11.2	14.6
Russell 1000	7.0	4.2	18.8	10.0	14.1	10.5	14.8
Russell 2000	7.1	2.1	17.0	(3.3)	12.3	7.1	13.4
Russell 3000	7.0	4.1	18.7	9.0	14.0	10.2	14.7
Russell Mid Cap	6.9	4.1	21.3	7.8	12.2	8.6	15.2
<b>Style Index</b>							
Russell 1000 Growth	6.9	4.6	21.5	11.6	18.1	13.4	16.3
Russell 1000 Value	7.2	3.8	16.2	8.5	10.2	7.5	13.2
Russell 2000 Growth	7.7	2.7	20.4	(0.5)	14.7	8.6	14.4
Russell 2000 Value	6.4	1.4	13.5	(6.2)	9.8	5.4	12.4

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	6.5	3.6	16.2	5.7	11.6	6.2	10.1
MSCI ACWI ex US	6.0	3.0	13.6	1.3	9.4	2.2	6.5
MSCI EAFE	5.9	3.7	14.0	1.1	9.1	2.2	6.9
MSCI EM	6.2	0.6	10.6	1.2	10.7	2.5	5.8
MSCI EAFE Small Cap	4.2	1.7	12.5	(6.3)	9.1	4.4	9.7
<b>Style Index</b>							
MSCI EAFE Growth	6.5	5.7	18.5	4.2	9.7	4.4	8.2
MSCI EAFE Value	5.3	1.5	9.6	(2.1)	8.5	0.1	5.5
<b>Regional Index</b>							
MSCI UK	5.0	0.9	12.9	(2.0)	6.9	(0.3)	6.8
MSCI Japan	3.7	1.0	7.7	(4.2)	8.1	4.5	5.8
MSCI Euro	7.6	5.9	16.2	0.5	10.4	1.1	5.6
MSCI EM Asia	6.4	(1.2)	9.7	(2.3)	11.2	4.5	7.5
MSCI EM Latin American	6.2	4.4	12.6	18.4	10.8	(0.8)	2.3

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	0.9	2.9	6.2	4.8	2.1	1.8	3.6
BBgBarc US Treasury Bills	0.2	0.7	1.3	2.4	1.4	0.9	0.5
BBgBarc US Agg Bond	1.3	3.1	6.1	7.9	2.3	2.9	3.9
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.5	1.5	2.5	4.0	1.3	1.2	1.2
BBgBarc US Treasury Long	1.3	6.0	11.0	12.3	1.3	5.7	6.5
BBgBarc US Treasury	0.9	3.0	5.2	7.2	1.3	2.5	3.0
<b>Issuer</b>							
BBgBarc US MBS	0.7	2.0	4.2	6.2	2.1	2.6	3.2
BBgBarc US Corp. High Yield	2.3	2.5	9.9	7.5	7.5	4.7	9.2
BBgBarc US Agency Interim	0.6	1.7	3.1	5.0	1.6	1.8	2.1
BBgBarc US Credit	2.3	4.3	9.4	10.3	3.7	3.9	5.8

## OTHER

<b>Index</b>							
Bloomberg Commodity	2.7	(1.2)	5.1	(6.8)	(2.2)	(9.1)	(3.7)
Wilshire US REIT	1.4	1.6	17.9	10.5	4.1	7.8	15.7
CS Leveraged Loans	0.2	1.6	5.4	4.1	5.4	3.9	6.3
Alerian MLP	2.6	0.3	17.8	5.5	(0.4)	(6.5)	9.1
<b>Regional Index</b>							
JPM EMBI Global Div	3.4	4.1	11.3	12.4	5.5	5.3	7.8
JPM GBI-EM Global Div	5.5	5.6	8.7	9.0	4.2	(0.5)	3.4
<b>Hedge Funds</b>							
HFRI Composite	2.6	2.0	7.6	1.6	5.1	3.0	4.7
HFRI FOF Composite	1.7	1.6	6.3	1.3	4.3	2.2	3.2
<b>Currency (Spot)</b>							
Euro	2.2	1.4	(0.4)	(2.5)	0.8	(3.6)	(2.1)
Pound	1.0	(2.3)	(0.1)	(3.6)	(1.6)	(5.7)	(2.5)
Yen	0.8	2.7	1.8	2.8	(1.6)	(1.2)	(1.1)

Source: Morningstar, HFR, as of 6/30/19



# Notices & disclosures

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