



# **PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS**

JULY 2019

Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- U.S. GDP expanded at an annualized quarterly rate of 2.1% (exp. 1.8%) in Q2 2019, the lowest since Q1 2017. Personal consumption drove growth, contributing 2.9% to the quarterly rate. This was partially offset by a 1.0% decrease in gross private domestic investment, the lowest since Q4 2015.
- Total nonfarm payroll employment rose by 164,000 in July, in line with expectations of an increase of 165,000. Hiring activity was strongest in professional and technical services (+31k) and health care (+30k). Unemployment remained unchanged at 3.7% (exp. 3.6%).
- Consumer confidence rebounded and beat estimates substantially in July. The Conference Board Consumer Confidence Index rose from 121.5 to 135.7 (exp. 125.0) its highest level since November 2018.

## U.S. EQUITIES

- The S&P 500 Index rose 1.4% in July and continued to all time highs. At the end of July, the S&P 500 Index had generated a year-to-date total return of 20.2%.
- With 85% of companies reporting as of August 6<sup>th</sup>, revenue and earnings growth for the S&P 500 have come in at 3.4% and 1.5%, respectively. Revenue growth modestly topped expectations with a 0.6% surprise, while the earnings surprise of 5.2% was more substantial.
- Per FactSet the July 2020 bottom up price target for the S&P 500 is 3296 which represents an 11.6% year over year return. The Energy sector is expected to see the largest price appreciation of 20.3% while Real Estate is projected to see the smallest of 4.7%.

## U.S. FIXED INCOME

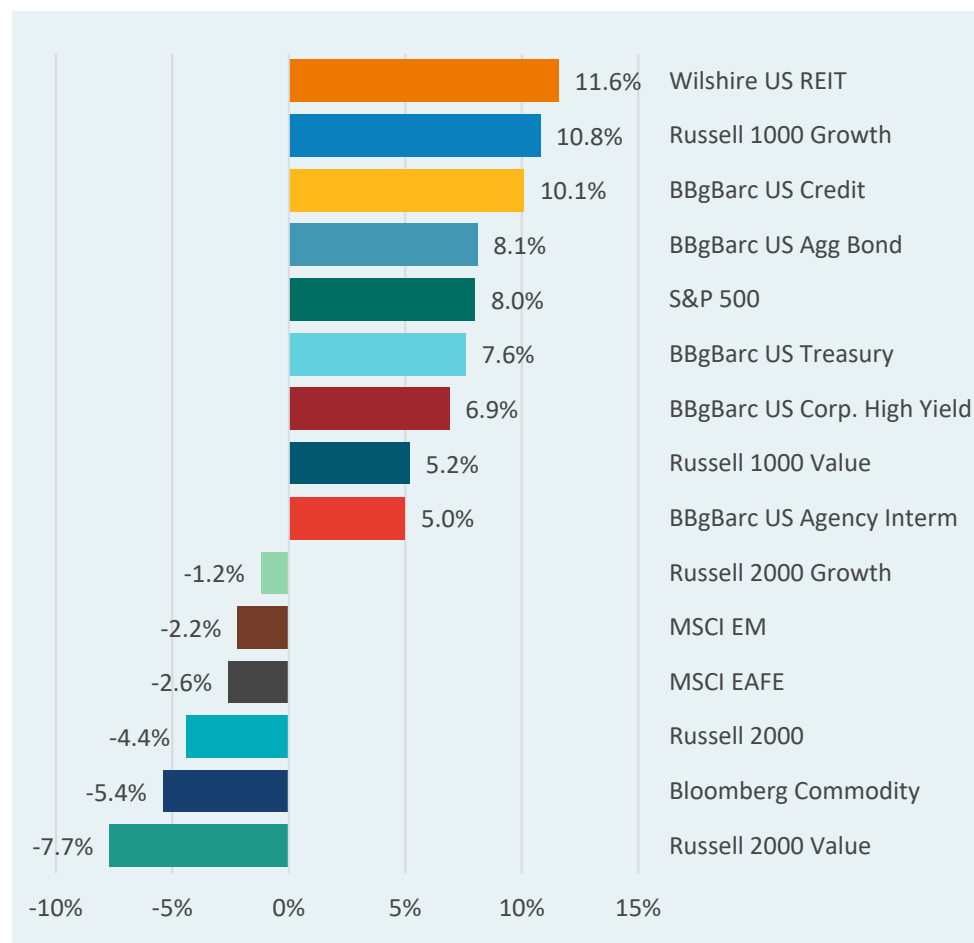
- The Federal Reserve cut rates 0.25%, bringing its new federal funds range to 2.00-2.25%. In his press conference following the release, Chairman Powell described the cut as a “mid-cycle adjustment” and noted that the cut was not an indication of the beginning of a “lengthy cutting cycle.”
- Following the FOMC meeting, Chairman Powell announced that the balance sheet unwind, which had been scheduled to conclude in September, would be concluding August 1st.
- Markets viewed the Fed’s release as less dovish than expected and appeared unconvinced of the Fed’s guidance relating to the rate-cutting cycle. At month-end, futures implied an 85% chance of at least another 0.25% cut by year-end, and a 43% chance of at least another 0.50% in cuts to the fed funds range by year-end.

## INTERNATIONAL MARKETS

- U.S. equities extended outperformance in global equity markets. The S&P 500 Index advanced 1.4%, while emerging market (MSCI EM Index -1.2%) and international developed (MSCI EAFE Index -1.3%) equities offered negative performance for the month.
- The British pound depreciated sharply versus pairs as uncertainty surrounding “Brexit” built. Recently elected this month, Prime Minister Boris Johnson took a harder negotiating stance with the E.U., stoking speculation that the U.K. could leave the E.U. without a deal by October 31<sup>st</sup>.
- PMI data continued to paint a gloomy picture for the European industrial economy. The German Manufacturing PMI fell from 45.0 to 43.2 in July, farther into the contractionary level below 50.0.

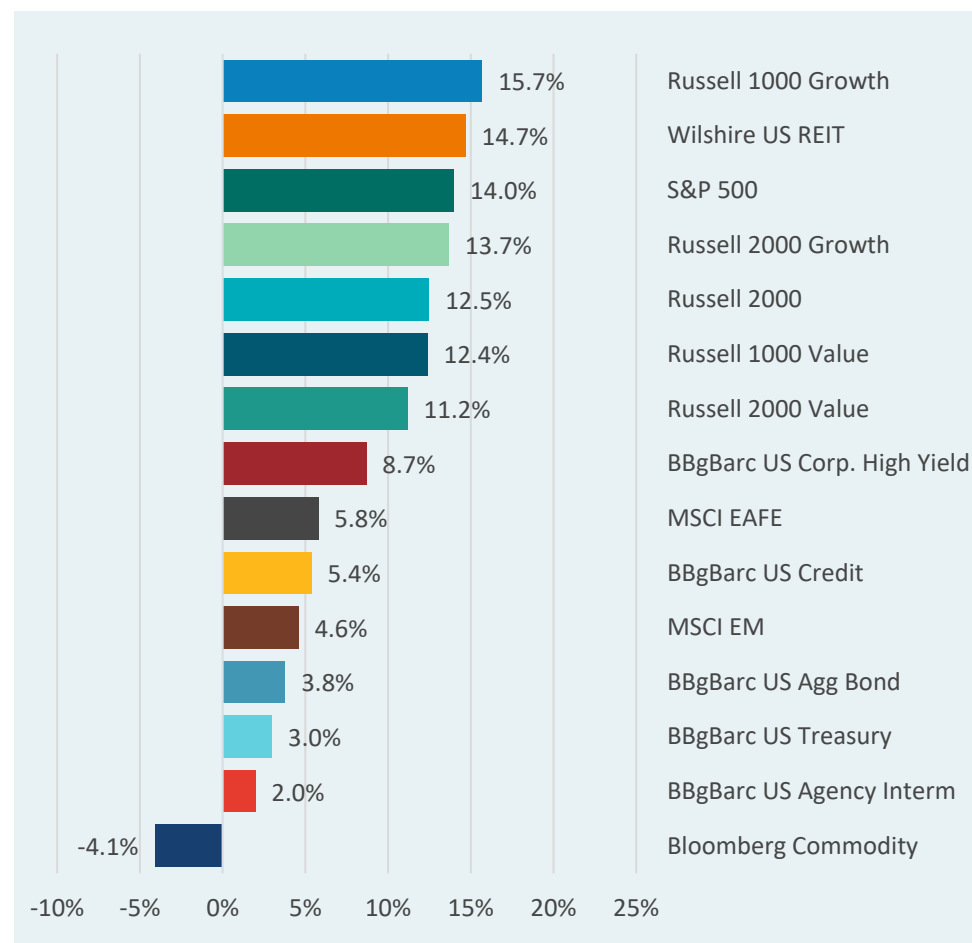
# Major asset class returns

ONE YEAR ENDING JULY



Source: Morningstar, as of 7/31/19

TEN YEARS ENDING JULY



Source: Morningstar, as of 7/31/19

# U.S. large cap equities

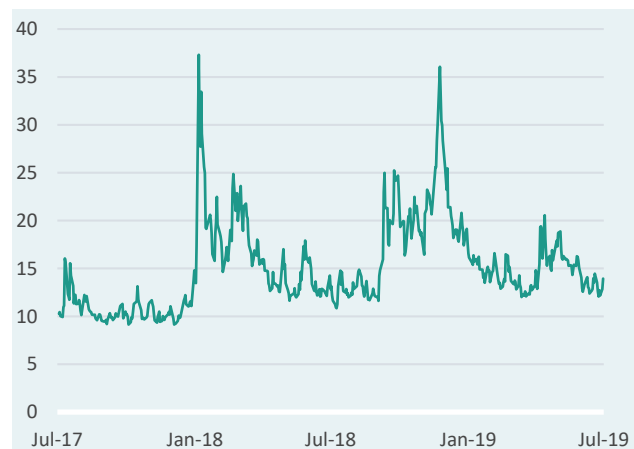
- The S&P 500 Index gained 1.4% in July. Telecom (+3.4%), Information Technology (+3.3%), and Consumer Staples (+2.5%) were the top performers of the month with Energy (-1.8%) and Health Care (-1.6%) lagging.
- At a weight of roughly 22% the Information Technology sector helped lead the overall index higher with a return of 3.3%. Apple's earnings beat, driven by an uptick in "Services" and wearables, helped to contribute 0.3% to the 1.4% index increase.
- At month-end, the forward one-year P/E ratio of the S&P 500 Index was 16.8, which exceeded both its 5- and 10-year averages of 16.5 and 14.8, respectively. Per FactSet, the Consumer Discretionary (21.3) and Financials (11.9) sectors have the highest and lowest forward one-year P/E.
- The CBOE VIX Index ticked up in July from 15.1 to 16.1, below its 20-year average of 19.7. The S&P 500 trailing 30- and 90-day realized volatility was subdued at 8.7 and 10.8, respectively.

**S&P 500 PRICE INDEX**



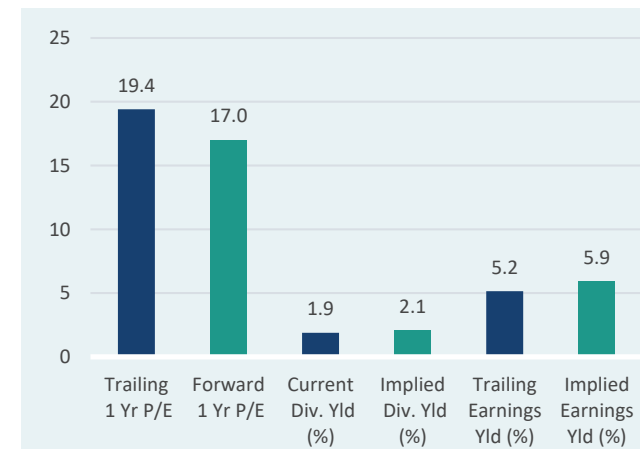
Source: Bloomberg, as of 7/31/19

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 7/31/19

**S&P 500 VALUATION SNAPSHOT**

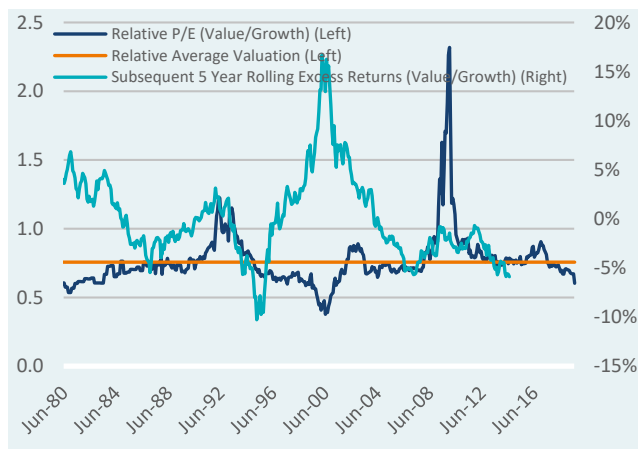


Source: Bloomberg, as of 7/31/19

# Domestic equity size and style

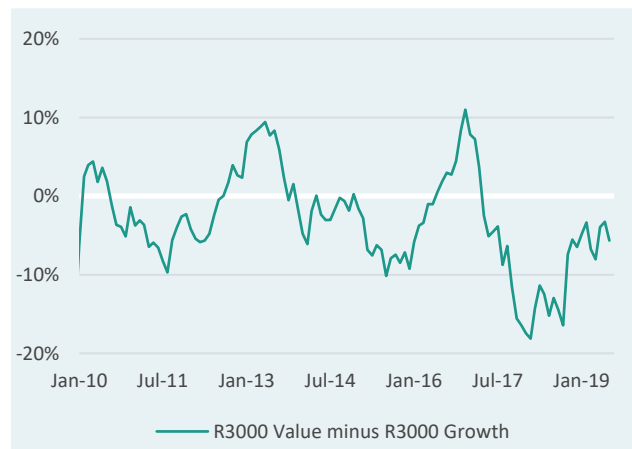
- Large cap stocks resumed outperformance over small-cap stocks. The Russell 1000 Index returned 1.6% while the Russell 2000 Index added 0.6%. Over the year-to-date, large cap equities (+20.7%) have outperformed their small-cap peers (+17.7%) by 3.0%.
- Growth outperformed value in July, across both large- and small-cap universes. The Russell 3000 Growth Index advanced 2.2%, outpacing the Russell 3000 Value Index (+0.8%) for six out of seven months this year. The price of value stocks relative to growth stocks remains in a normal range.
- Growth outperformance over the month was largely attributed to the outperformance of the Telecom (+3.4%) and Information Technology (+3.3%) sectors which at month-end held a combined weight of 47% in the Russell 3000 Growth Index and a 14% weight in the Russell 3000 Value Index.
- The S&P 500 Price Index closed the month at 2980, above its 50-, 100-, and 200-day moving-averages, indicating that there has been an upward price trend over the past six months.

**VALUE VS. GROWTH RELATIVE VALUATIONS**



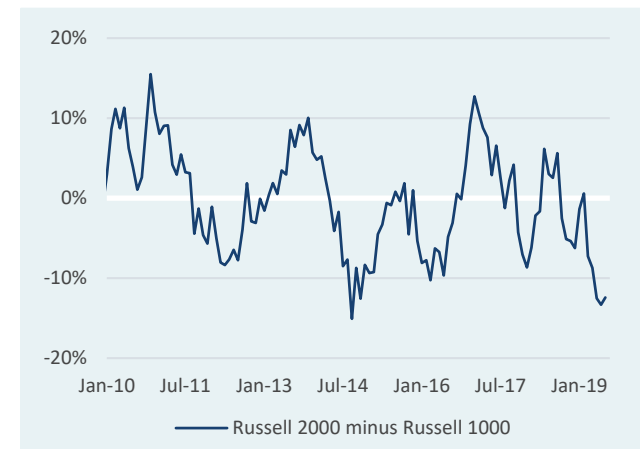
Source: Russell, Bloomberg, as of 7/31/19

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



Source: FTSE, as of 7/31/19

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

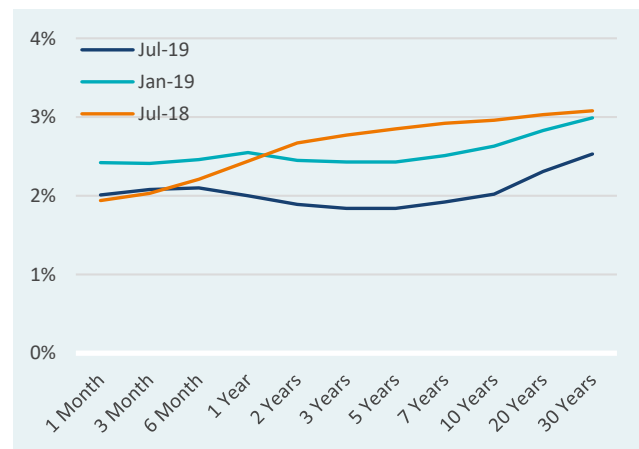


Source: FTSE, as of 7/31/19

# Fixed income

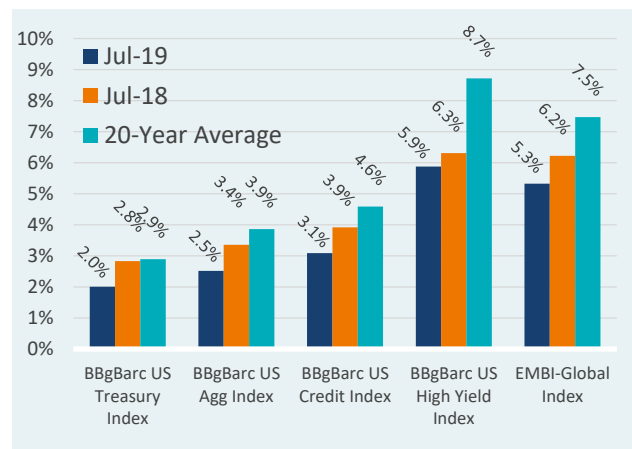
- The European Central Bank decided in its July meeting to keep its key interest rates unchanged but issued a dovish shift in forward guidance. The ECB now expects interest rates to remain “at present or lower levels, at least through the first half of 2020.” At month-end, futures implied a 92% chance the ECB would cut its main deposit rate by 10 bps to -0.5% in September.
- Emerging market debt extended year-to-date gains. Hard-currency EMD (+1.2%) and local-currency EMD (+0.9%) both outperformed U.S. credit.
- Ten-year Italian bond yields plunged from 2.1% to 1.5%, back below the 1.8% level held prior to the 2018 Italian election which yielded a hung Parliament, a coalition government, and a spike in sovereign yields. Rome’s decision to cut its 2019 budget deficit target, as well as hints of new stimulus from the ECB fueled the rally for Italian sovereign bonds.
- U.S. credit spreads ticked lower in July. Investment-grade spreads dropped 7 bps to YTD tight of 1.08% while high-yield spreads tightened 6 bps to 3.71%.

U.S. TREASURY YIELD CURVE



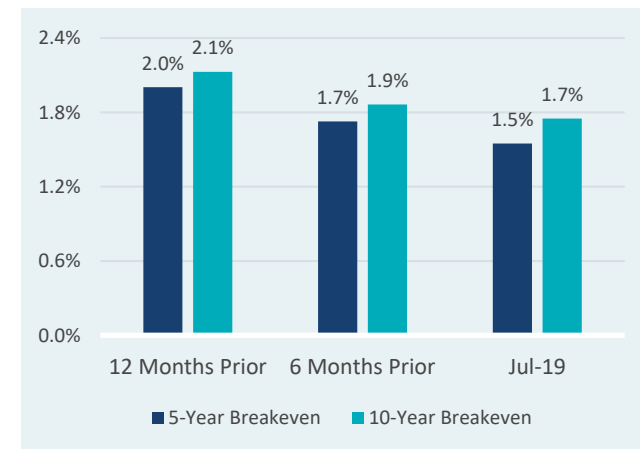
Source: Bloomberg, as of 7/31/19

NOMINAL YIELDS



Source: Morningstar, as of 7/31/19

BREAKEVEN INFLATION RATES

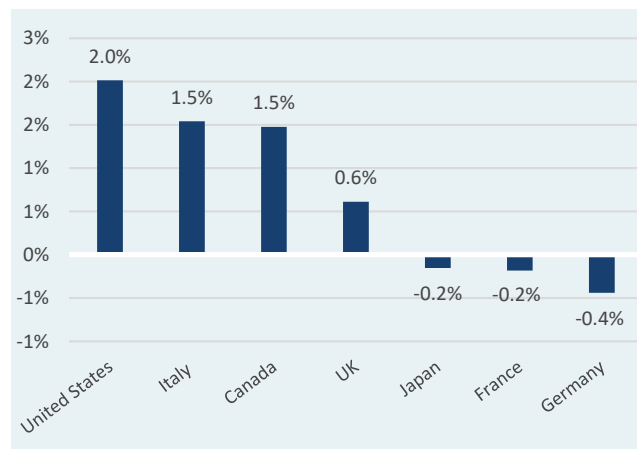


Source: Bloomberg, as of 7/31/19

# Global markets

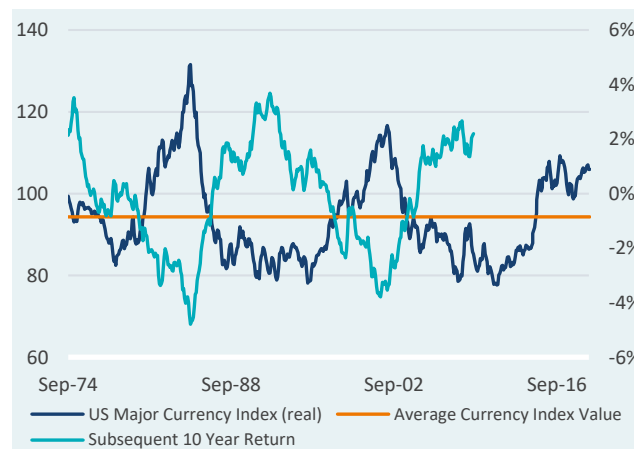
- U.S. and Chinese officials restarted trade negotiations for the first time since May. While official reports indicated that the talks were constructive, President Trump announced that a 10% tariff would be applied to the remaining \$300b in Chinese imports, effective September 1<sup>st</sup>. China responded by immediately halting U.S. purchases of U.S. agricultural goods.
- The U.S. dollar rebounded, appreciating materially versus trade-weighted pairs. The Bloomberg Dollar Spot Index added 1.8%, erasing its -1.6% slide in June.
- Global sovereign yields continued to sink, and ten-year bond yields in France and Germany established fresh all-time lows. French yields fell 18 bps to -0.19% and German yields fell from -0.33% to -0.44%, below the ECB's main deposit rate of -0.40%.
- Over the month of July, the value of global negative-yielding debt grew from \$12.9T to \$14.1T, representing 26% of global debt outstanding. At the end of 2018, the value of global negative-yielding debt was \$8.3T, representing only 17% of global debt outstanding.

**GLOBAL SOVEREIGN 10-YEAR YIELDS**



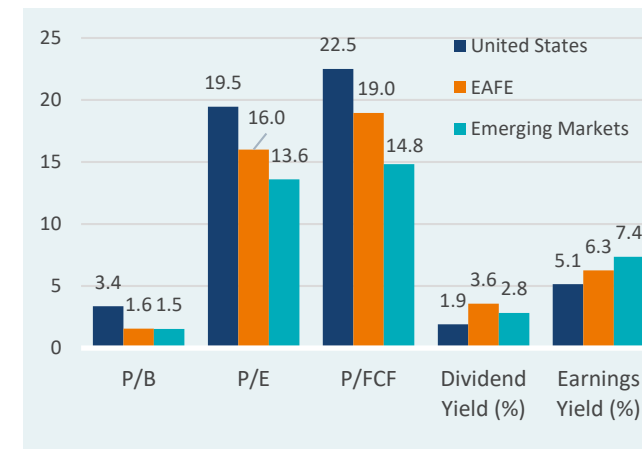
Source: Bloomberg, as of 7/31/19

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



Source: Federal Reserve, as of 7/31/19

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



Source: Bloomberg, as of 7/31/19

# Commodities

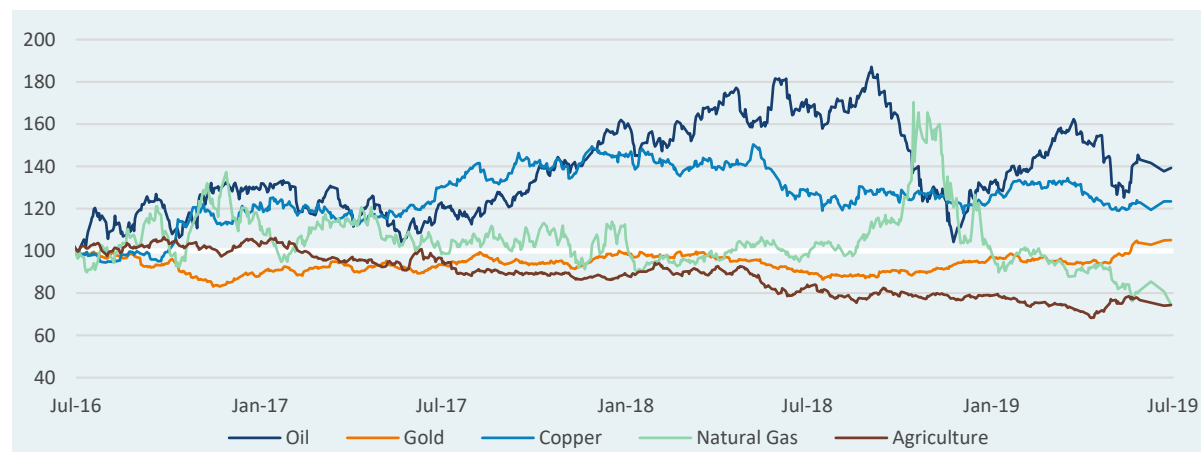
- The Bloomberg Commodity Index fell 0.7% over the month. The Livestock (+2.9%) and Precious Metals (+2.4%) sectors outperformed the overall index, while Softs (-5.2%) and Agriculture (-5.1%) underperformed.
- The Precious Metals Index continued its advance in July (+2.4%) driven by climbing silver prices. Silver gained 7.1% and reached its highest point since June 2018 of \$16.40 per ounce. Easier monetary policy from global central banks as well as simmering tensions in the Middle East have likely boosted demand for low-correlation assets.
- Grains (-5.7%) offered the poorest performance of any commodity sector in July, as Chinese demand for U.S. agricultural products came in below expectations. African swine fever has continued to drive pig culling in China, which has softened demand for soybeans and pig feed.
- Following President Trump's proposal to levy tariffs of 10% on \$300 in Chinese imports on September 1<sup>st</sup>, the Chinese halted domestic purchases of U.S. agricultural goods. In 2018, China spent \$5.9 billion on U.S. farm products, and purchased 60% of U.S. soybean exports.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.7)	(0.7)	4.4	(5.4)	(0.7)	(8.3)	(4.1)
Bloomberg Agriculture	(5.1)	(5.1)	(4.0)	(11.5)	(9.5)	(9.3)	(3.5)
Bloomberg Energy	0.1	0.1	10.8	(10.3)	3.3	(16.8)	(11.7)
Bloomberg Grains	(5.7)	(5.7)	(3.7)	(11.5)	(7.7)	(9.2)	(4.4)
Bloomberg Industrial Metals	1.4	1.4	6.2	(5.3)	5.8	(3.1)	(1.7)
Bloomberg Livestock	2.9	2.9	(4.2)	3.8	1.6	(5.9)	(1.7)
Bloomberg Petroleum	0.7	0.7	25.4	(10.4)	11.0	(15.0)	(6.2)
Bloomberg Precious Metals	2.4	2.4	9.7	13.2	(1.4)	(0.2)	3.0
Bloomberg Softs	(5.2)	(5.2)	(5.1)	(11.3)	(15.6)	(12.2)	(4.7)

Source: Morningstar, as of 7/31/19

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 7/31/19



# 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	24.2	14.3	15.7
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	21.5	11.2	14.1
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	20.7	10.2	13.7
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	17.7	8.8	12.5
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	17.2	8.5	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	13.6	8.0	11.2
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	12.6	6.7	9.3
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	12.1	4.6	6.8
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	9.2	3.0	5.8
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	6.9	2.4	4.6
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	6.3	2.4	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	4.4	1.8	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	3.3	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	1.4	-8.3	-4.1

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

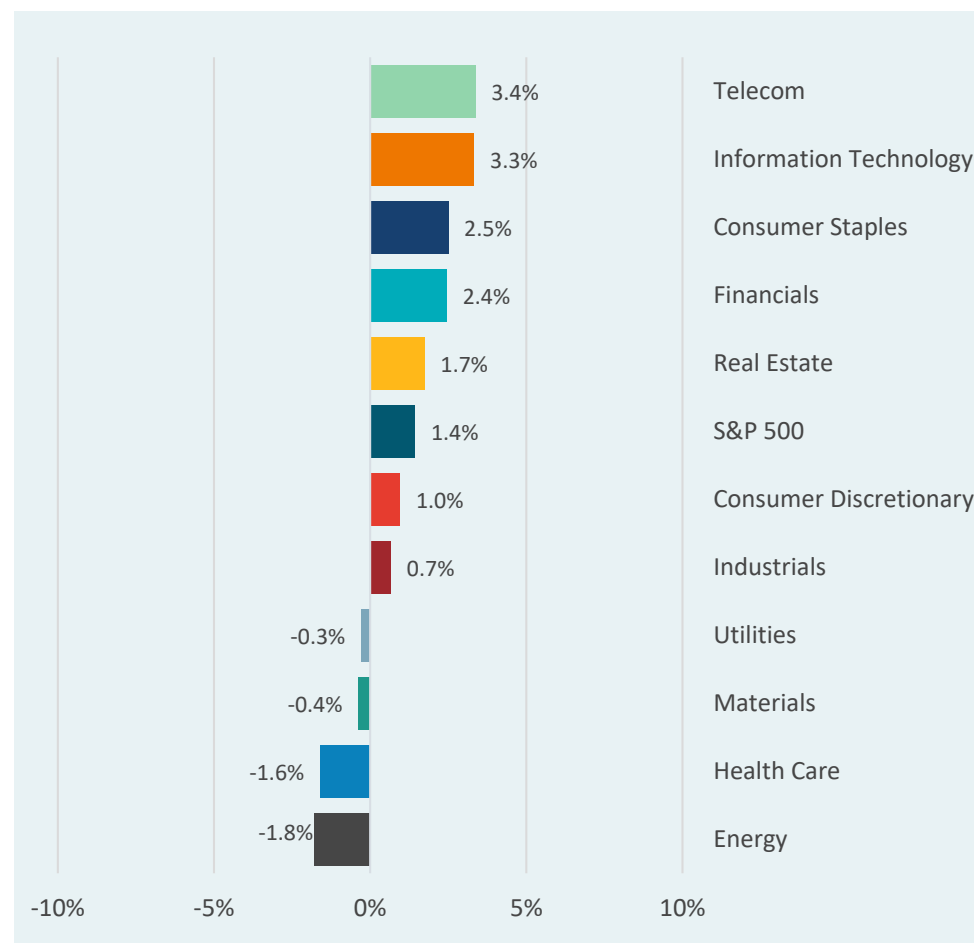
Hedge Funds of Funds

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 6/30/19.

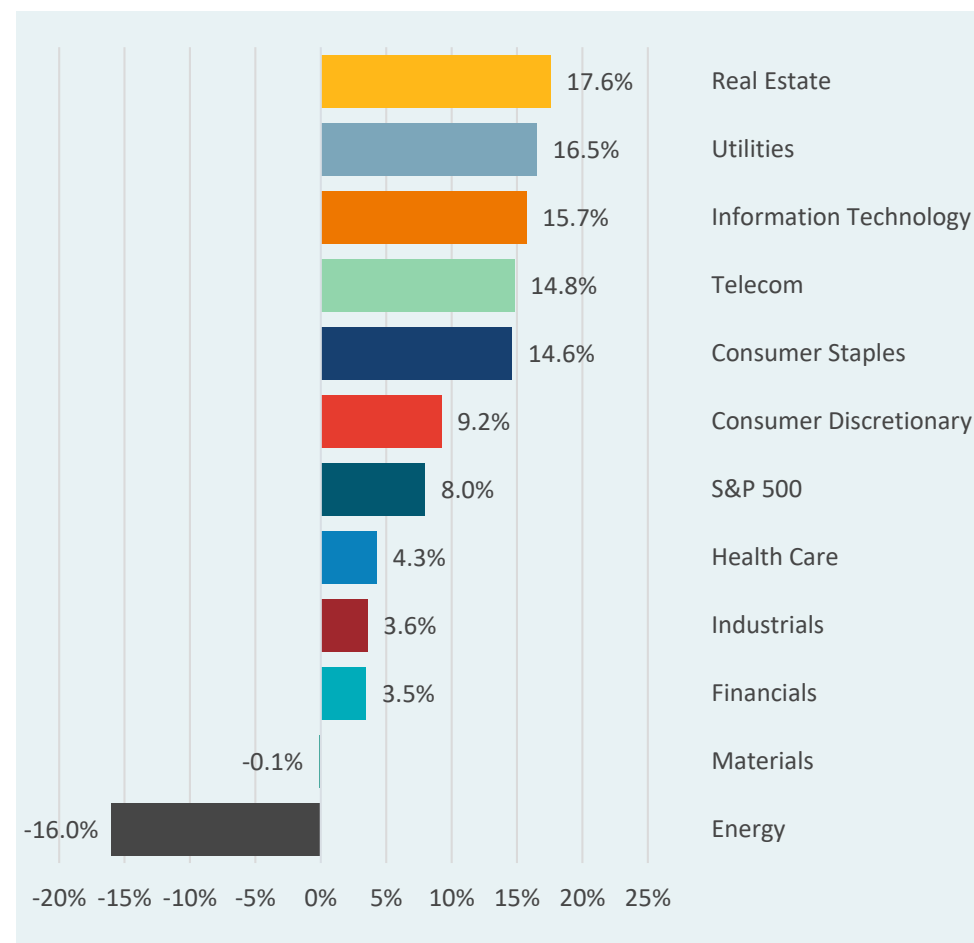
# S&P 500 sector returns

QTD



Source: Morningstar, as of 7/31/19

ONE YEAR ENDING JULY



Source: Morningstar, as of 7/31/19

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	1.4	1.4	20.2	8.0	13.4	11.3	14.0
S&P 500 Equal Weighted	0.9	0.9	20.2	5.7	11.2	9.8	14.6
DJ Industrial Average	1.1	1.1	16.7	8.2	16.1	12.9	14.2
Russell Top 200	1.6	1.6	19.8	8.5	14.2	11.8	14.0
Russell 1000	1.6	1.6	20.7	8.0	13.3	11.2	14.1
Russell 2000	0.6	0.6	17.7	(4.4)	10.4	8.5	12.5
Russell 3000	1.5	1.5	20.5	7.0	13.1	11.0	14.0
Russell Mid Cap	1.4	1.4	23.1	6.7	11.0	9.6	14.3
<b>Style Index</b>							
Russell 1000 Growth	2.3	2.3	24.2	10.8	17.1	14.3	15.7
Russell 1000 Value	0.8	0.8	17.2	5.2	9.4	8.0	12.4
Russell 2000 Growth	1.0	1.0	21.5	(1.2)	12.7	10.2	13.7
Russell 2000 Value	0.2	0.2	13.6	(7.7)	8.0	6.7	11.2

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	0.3	0.3	16.6	2.9	10.2	6.5	9.3
MSCI ACWI ex US	(1.2)	(1.2)	12.2	(2.3)	7.2	2.1	5.4
MSCI EAFE	(1.3)	(1.3)	12.6	(2.6)	6.9	2.4	5.8
MSCI EM	(1.2)	(1.2)	9.2	(2.2)	8.4	1.8	4.6
MSCI EAFE Small Cap	(0.7)	(0.7)	11.7	(7.6)	6.7	4.7	8.8
<b>Style Index</b>							
MSCI EAFE Growth	(0.4)	(0.4)	18.0	1.8	7.8	4.8	7.3
MSCI EAFE Value	(2.2)	(2.2)	7.1	(7.0)	5.8	(0.1)	4.3
<b>Regional Index</b>							
MSCI UK	(1.8)	(1.8)	10.9	(4.6)	5.3	(0.4)	5.7
MSCI Japan	0.1	0.1	7.9	(4.4)	5.9	4.4	5.4
MSCI Euro	(2.2)	(2.2)	13.6	(5.2)	7.6	1.8	4.3
MSCI EM Asia	(1.6)	(1.6)	8.0	(4.5)	8.9	3.5	6.0
MSCI EM Latin American	0.1	0.1	12.8	8.6	8.9	(0.9)	1.5

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	0.4	0.4	6.5	5.7	1.9	1.8	3.7
BBgBarc US Treasury Bills	0.2	0.2	1.5	2.4	1.4	0.9	0.5
BBgBarc US Agg Bond	0.2	0.2	6.3	8.1	2.2	3.0	3.8
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	(0.1)	(0.1)	2.4	3.9	1.3	1.2	1.2
BBgBarc US Treasury Long	0.2	0.2	11.2	14.2	0.6	5.6	6.5
BBgBarc US Treasury	(0.1)	(0.1)	5.1	7.6	1.2	2.5	3.0
<b>Issuer</b>							
BBgBarc US MBS	0.4	0.4	4.6	6.8	2.1	2.8	3.2
BBgBarc US Corp. High Yield	0.6	0.6	10.6	6.9	6.8	5.1	8.7
BBgBarc US Agency Interim	(0.0)	(0.0)	3.1	5.0	1.6	1.8	2.0
BBgBarc US Credit	0.5	0.5	9.9	10.1	3.5	4.0	5.4

## OTHER

<b>Index</b>							
Bloomberg Commodity	(0.7)	(0.7)	4.4	(5.4)	(0.7)	(8.3)	(4.1)
Wilshire US REIT	1.6	1.6	19.8	11.6	3.2	8.2	14.7
CS Leveraged Loans	0.8	0.8	6.2	4.1	5.2	4.0	5.9
Alerian MLP	(0.5)	(0.5)	17.2	(1.7)	(0.8)	(5.9)	7.7
<b>Regional Index</b>							
JPM EMBI Global Div	1.2	1.2	12.7	11.0	5.3	5.5	7.6
JPM GBI-EM Global Div	0.9	0.9	9.7	8.0	4.4	(0.1)	3.0
<b>Hedge Funds</b>							
HFRI Composite	0.7	0.7	8.0	1.6	4.5	3.2	4.5
HFRI FOF Composite	0.7	0.7	6.9	1.7	4.0	2.4	3.1
<b>Currency (Spot)</b>							
Euro	(2.2)	(2.2)	(2.6)	(4.8)	(0.1)	(3.6)	(2.4)
Pound	(3.8)	(3.8)	(3.9)	(6.7)	(2.7)	(6.2)	(3.0)
Yen	(0.8)	(0.8)	1.0	3.1	(1.9)	(1.1)	(1.3)

Source: Morningstar, HFR, as of 7/31/19



# Notices & disclosures

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