



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

AUGUST 2019
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Total non-farm payrolls added 130,000 jobs in August (exp. +160,000), down from 164,000 in July. The professional and business services (+37,000) and government (+34,000) sectors led job gains for the month. The unemployment rate was unchanged from July at 3.7%.
- The ISM Manufacturing PMI fell from 51.2 to 49.1 in August (exp. 51.3), its lowest level in three years. The move below 50.0 represents a shift from expansion to contraction and was driven in part by new export orders falling 4.8 points to 43.3, their lowest level since 2009.
- Consumer confidence declined over the period. The University of Michigan's Consumer Sentiment Index fell from 98.4 to 89.8 (exp. 92.4) while the Conference Board's Consumer Confidence Index fell from 135.7 to 135.1 (exp. 129.0).

U.S. EQUITIES

- The S&P 500 Index suffered its second monthly decline of the year and fell -1.6%. At the end of the month, the S&P 500 Index had generated a year-to-date total return of +18.3%.
- The CBOE VIX Index rose from 16.1 to 19.0, indicating an increase in expectations for S&P 500 Index volatility over the upcoming 30 days. Trailing 30- and 90-day realized volatility on the S&P 500 Index rose to 20.7% and 15.3%, respectively.
- According to FactSet, out of the 109 companies posting Q3 2019 earnings guidance, 72% have issued negative guidance, above the 5-year average of 70%. Analysts are expecting revenue growth of +3.1% and earnings contraction of -3.5% in the third quarter of 2019.

U.S. FIXED INCOME

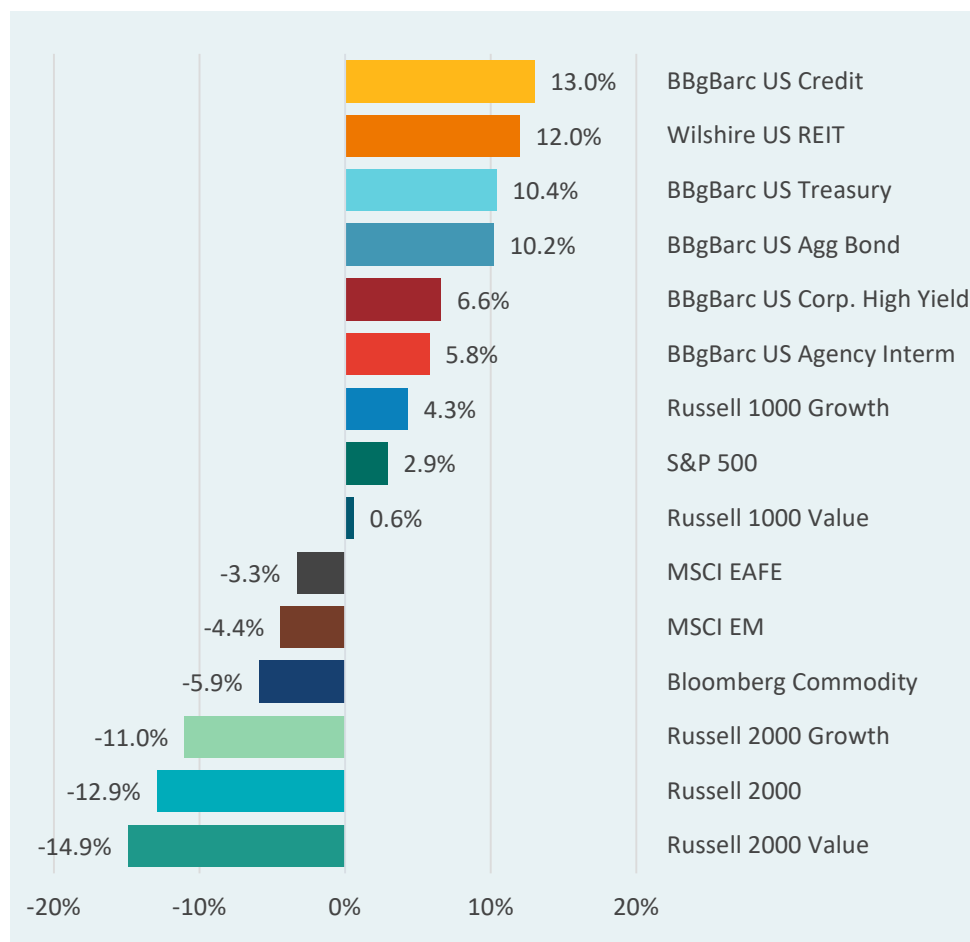
- U.S. Treasury bonds rallied as investors sought refuge from trade and geopolitical turbulence, and long-duration Treasuries outperformed. Over the month, long-duration Treasuries returned 10.5%, bringing year-to-date performance to 22.8%.
- Mid-month, the spread between the 10- and 2-year Treasury yields inverted for the first time since December 2005. Historically, the inversion of the 10-2y spread has proven a reliable leading indicator for recessions in the United States.
- Over the month, the futures implied probability of the fed funds range being cut 0.75% by year-end increased from 28% to 36%. At month-end, there was a 100% chance that the Federal Reserve would cut its fed funds range by at least 0.25% in September.

INTERNATIONAL MARKETS

- U.S. equities extended year-to-date outperformance of global equities. The S&P 500 Index fell -1.6% during the month while international developed (MSCI EAFE Index -2.6%) and emerging market (MSCI EM Index -4.9%) equities fared worse.
- In the United Kingdom, the House of Commons voted in favor of a law which could force Prime Minister Johnson to request a three-month extension to the current October 31st deadline for the U.K. to exit the European Union.
- The J.P. Morgan Emerging Market Currency Index fell 4.0%, signaling broad emerging market currency depreciation relative to the U.S. dollar. Within the index, the Brazilian real, the Russian ruble, and the Mexican peso depreciated most sharply.

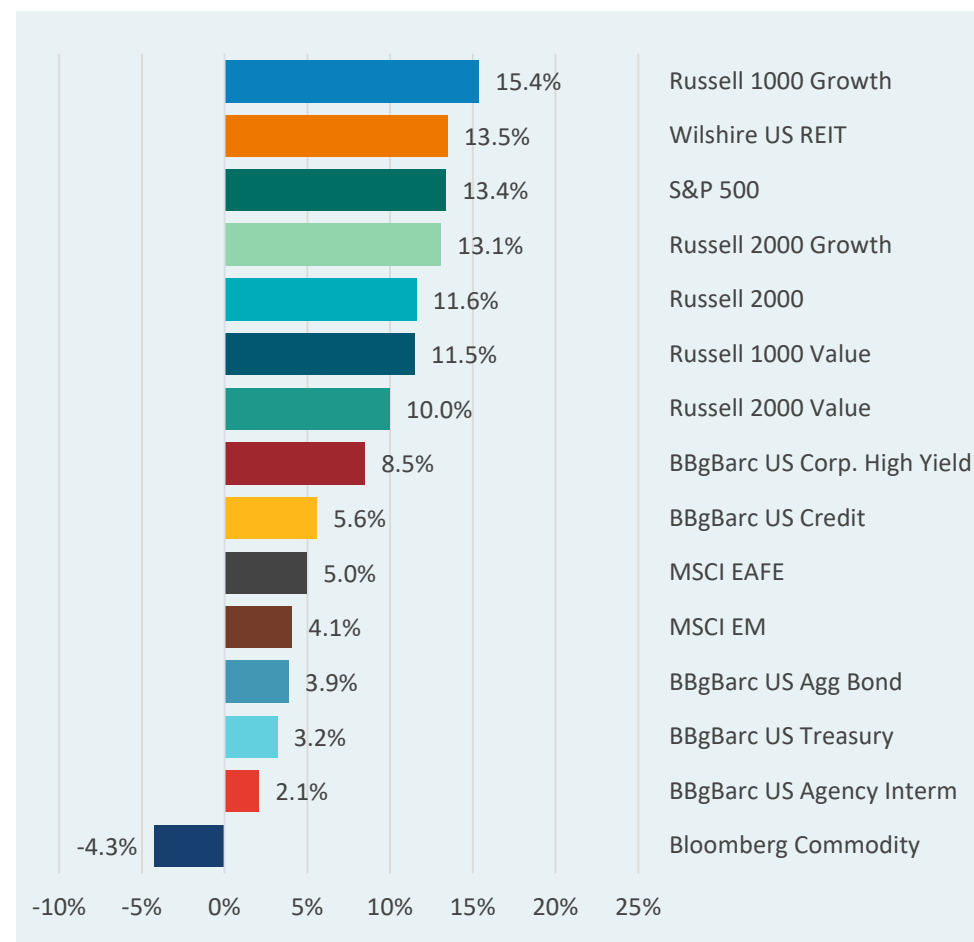
Major asset class returns

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/19

TEN YEARS ENDING AUGUST



Source: Morningstar, as of 8/31/19

U.S. large cap equities

- The S&P 500 Index fell -1.6% in August. Utilities (+5.2%), Real Estate (+4.9%), and Consumer Staples (+1.8%) were the top performers for the month and the only sectors that were positive. The Energy (-8.1%) and Financials (-4.9%) sectors weighed down the index.
- Per FactSet, at month-end there were 10,302 ratings on S&P 500 stocks: 51.8% were “Buy” ratings, 41.8% were “Hold” ratings and 6.4% were “Sell” ratings. At the sector level, Energy had the highest level of Buy ratings (66%) while Consumer Staples had the lowest (41%).
- Defensive sectors outperformed during the month with Utilities (+5.2%), Real Estate (+4.9%), and Consumer Staples (+1.8%) all seeing solid gains. Energy providers NextEra Energy (+6.4%) and Duke Energy (+8.1%) reached all time highs, which helped to propel the Utilities sector higher.
- The Energy (-8.1%) and Financials (-4.9%) sectors were the worst performers over the period. The prospect of a prolonged U.S.-Chinese trade war weighed on global oil demand, while flattening term spreads and shrinking net interest margin weighed on banks.

S&P 500 PRICE INDEX



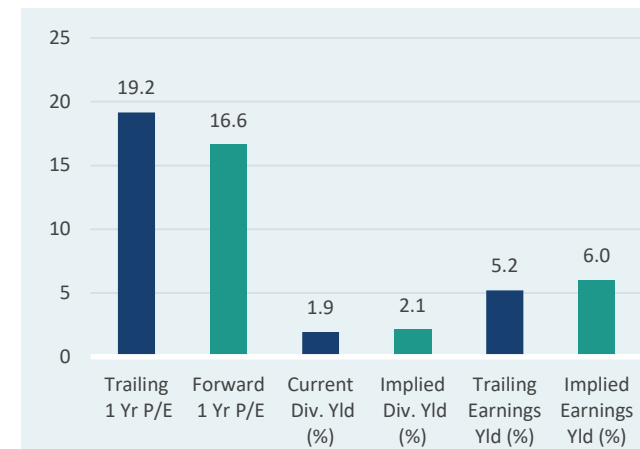
Source: Bloomberg, as of 8/31/19

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 8/31/19

S&P 500 VALUATION SNAPSHOT

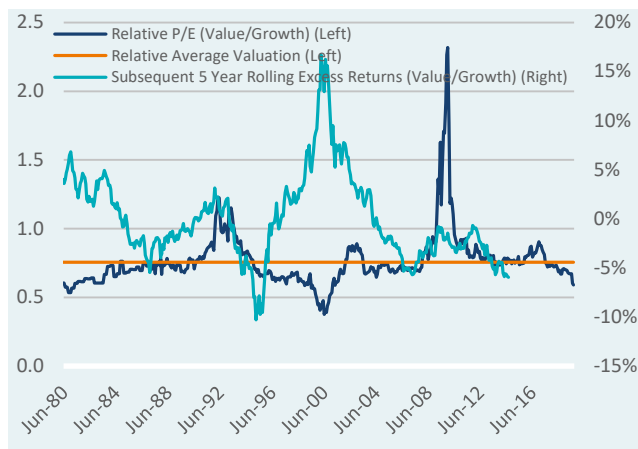


Source: Bloomberg, as of 8/31/19

Domestic equity size and style

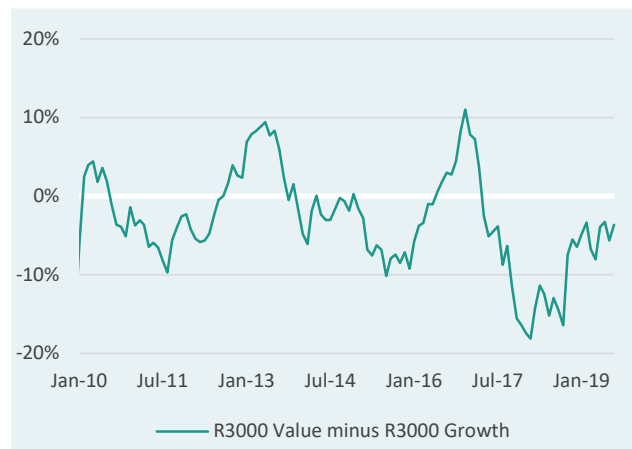
- Large-cap stocks continued to outperform small-cap stocks. The Russell 1000 Index faded -1.8% while the Russell 2000 Index fell -4.9%. Year-to-date, large cap equities (+18.5%) have outperformed their small-cap peers (+11.8%) by 6.7%.
- Growth outperformed value over the period, across both large- and small-cap universes. The Russell 3000 Growth Index fell -1.0% and has fared better than the Russell 3000 Value Index (-3.1%) for seven out of eight months this year.
- Growth outperformance was largely attributed to its smaller exposure to the Energy (-8.1%) and Financials (-4.9%) sectors. At month-end, the Energy and Financials sectors had a combined weight of 3.7% in the Russell 3000 Growth Index and a 32.2% weight in the Russell 3000 Value Index.
- The S&P 500 Price Index closed August at 2926, below its 50-day moving average but still above its 100- and 200-day moving-averages, signaling a positive price trend in prices over the intermediate-term.

VALUE VS. GROWTH RELATIVE VALUATIONS



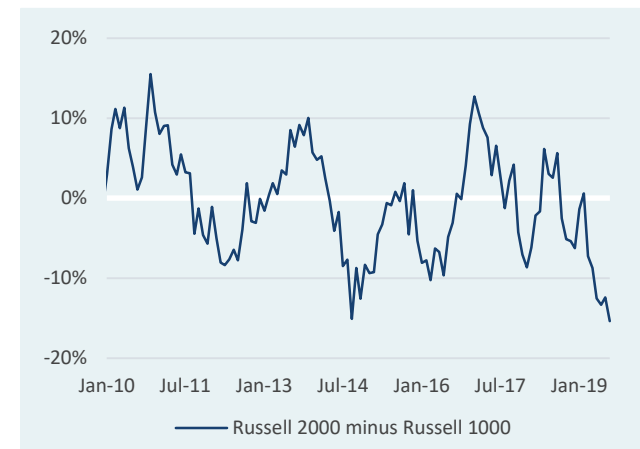
Source: Russell, Bloomberg, as of 8/31/19

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 8/31/19

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE

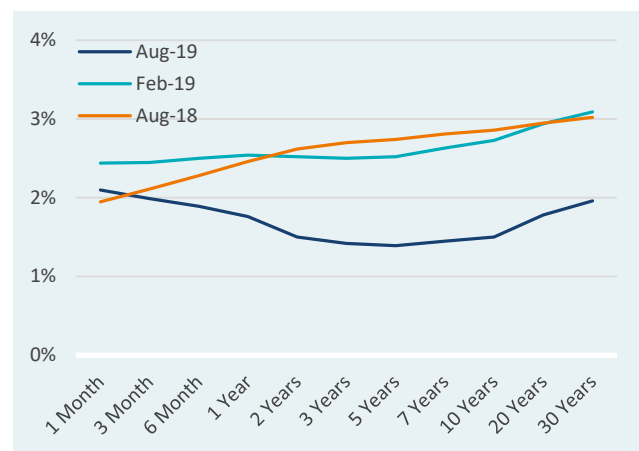


Source: FTSE, as of 8/31/19

Fixed income

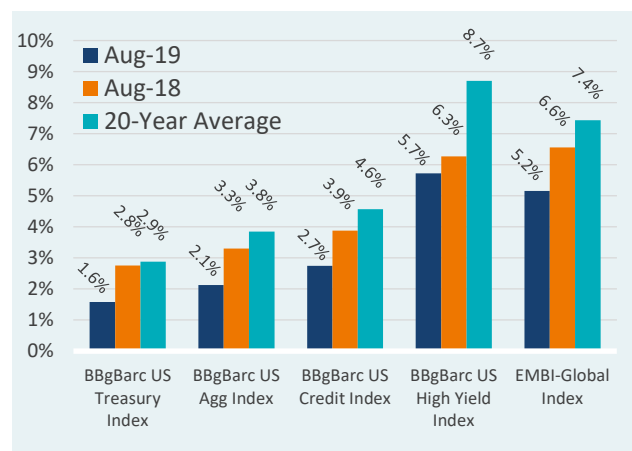
- At the Jackson Hole Economic Policy Symposium, Fed Chairman Powell reiterated that the Fed would “act as appropriate to sustain the expansion”, and that the “economy is close to both goals” of full employment and price stability. In August, unemployment remained near 50-year lows.
- Expectations for future inflation grinded lower, partly due to falling oil prices. Five- and ten-year breakeven inflation rates fell from 1.5% to 1.4% and from 1.7% to 1.5% over the period.
- Germany issued the world’s first 30-year zero coupon bond and failed to meet its 2-billion-euro auction target, selling roughly €824 billion in 30-year debt. Germany’s debt agency later admitted that the sale may have been “too large”. The 30-year German government bond yield ended the month at -0.18%.
- The JPM EMBI Global Diversified Index gained 0.7% in August while the JPM GBI-EM Index fell 2.6%. Emerging market currency depreciation presented headwinds for unhedged U.S. investors in emerging market debt.

U.S. TREASURY YIELD CURVE



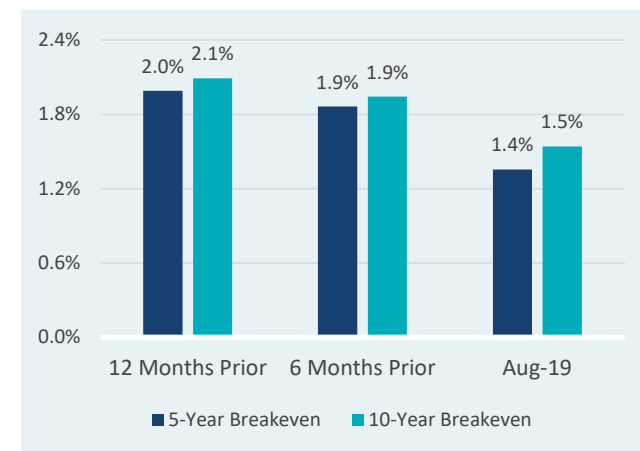
Source: Bloomberg, as of 8/31/19

NOMINAL YIELDS



Source: Morningstar, as of 8/31/19

BREAKEVEN INFLATION RATES

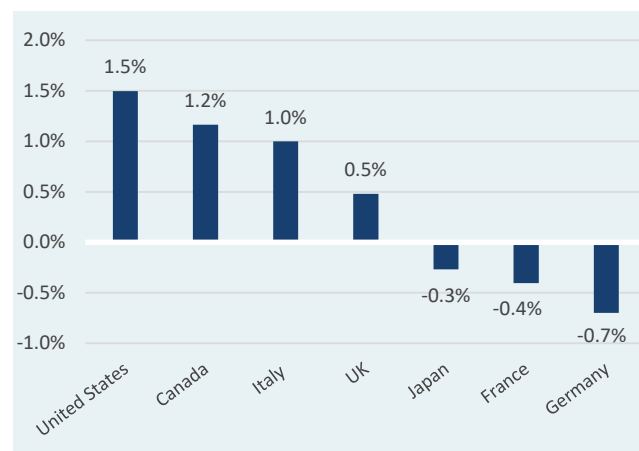


Source: Bloomberg, as of 8/31/19

Global markets

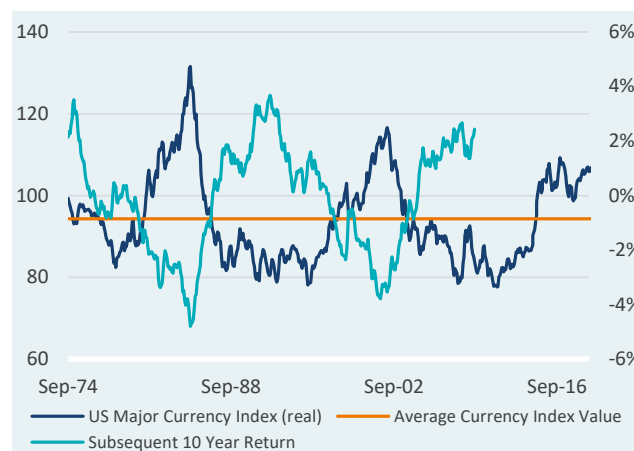
- China applied new tariffs on about \$75 billion in U.S. imports. The Trump administration responded, stating that the currently-in-place tariffs of 25% on \$250b in Chinese imports would be hiked to 30% on October 1st, and that tariff rates on another \$300b in Chinese imports would start at 15%, not 10%, on September 1st.
- At the beginning of September, risk assets rallied on reports that high-level trade negotiations between the U.S. and Chinese trade delegations would resume in Washington, D.C., at the beginning of October.
- Italian 10-year bond yields fell 0.55% to 0.99%, a new record low, driven in part by the successful formation of a new coalition government between Five Star Movement and the Democratic Party. The new government excludes Lega Nord, a party which has taken a more defiant stance against the fiscal spending limits imposed on Italy by the European Union.
- The U.S. dollar appreciated materially versus trade-weighted pairs. The Bloomberg Dollar Spot Index added 0.6%, bringing its year-to-date return to 1.7%.

GLOBAL SOVEREIGN 10-YEAR YIELDS



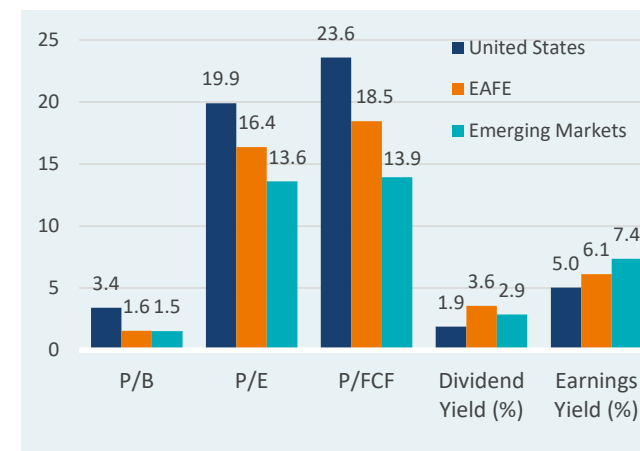
Source: Bloomberg, as of 8/31/19

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 8/31/19

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 8/31/19

Commodities

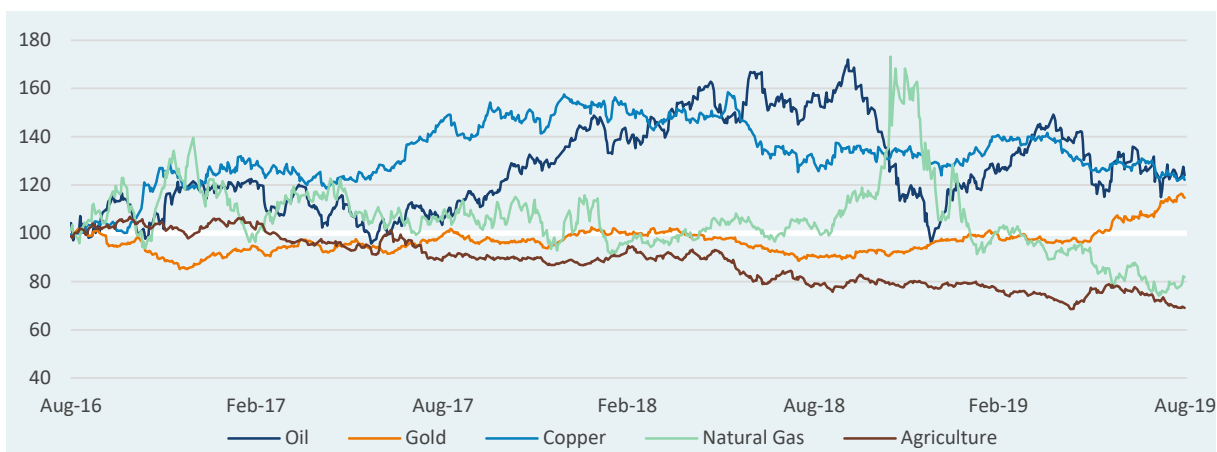
- The Bloomberg Commodity Index fell -2.3% over the month. The Precious Metals (+7.6%) and Industrial Metals (+0.5%) sectors outperformed the overall index and were the only positive movers. Livestock (-8.9%) and Softs (-7.5%) underperformed.
- The Precious Metals sector was up 7.6%, driven by rising silver (+11.1%) and gold (+6.6%) prices. Heightened geopolitical uncertainty likely boosted demand for precious metals as investors continued to seek safe havens.
- The Grains (-5.8%) sector underperformed, driven in part by falling corn prices. U.S.-Chinese trade developments incentivized farmers to plant more corn and fewer soybeans. Higher-than-expected planting, weak export sales, and lower demand for ethanol all contributed to the move lower in corn prices.
- China levied additional tariffs on several U.S. foodstuffs. Chinese tariff rates on U.S. soybean imports were hiked from 25% to 30%, and a 5% tariff on U.S. crude oil imports was introduced for the first time.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(2.3)	(3.0)	1.9	(5.9)	(0.9)	(8.6)	(4.3)
Bloomberg Agriculture	(5.1)	(9.9)	(8.9)	(10.6)	(9.6)	(9.9)	(4.2)
Bloomberg Energy	(5.7)	(5.6)	4.5	(18.4)	0.2	(17.8)	(11.7)
Bloomberg Grains	(5.8)	(11.1)	(9.3)	(11.3)	(7.1)	(10.0)	(4.5)
Bloomberg Industrial Metals	0.5	1.9	6.7	(0.5)	7.5	(3.1)	(2.1)
Bloomberg Livestock	(8.9)	(6.3)	(12.7)	(5.1)	(1.4)	(6.9)	(2.0)
Bloomberg Petroleum	(7.1)	(6.5)	16.5	(19.6)	6.1	(15.9)	(6.5)
Bloomberg Precious Metals	7.6	10.1	18.0	25.7	2.8	1.5	3.5
Bloomberg Softs	(7.5)	(12.3)	(12.2)	(13.3)	(17.8)	(13.3)	(6.5)

Source: Morningstar, as of 8/31/19

COMMODITY PERFORMANCE



Source: Bloomberg, as of 8/31/19

Appendix

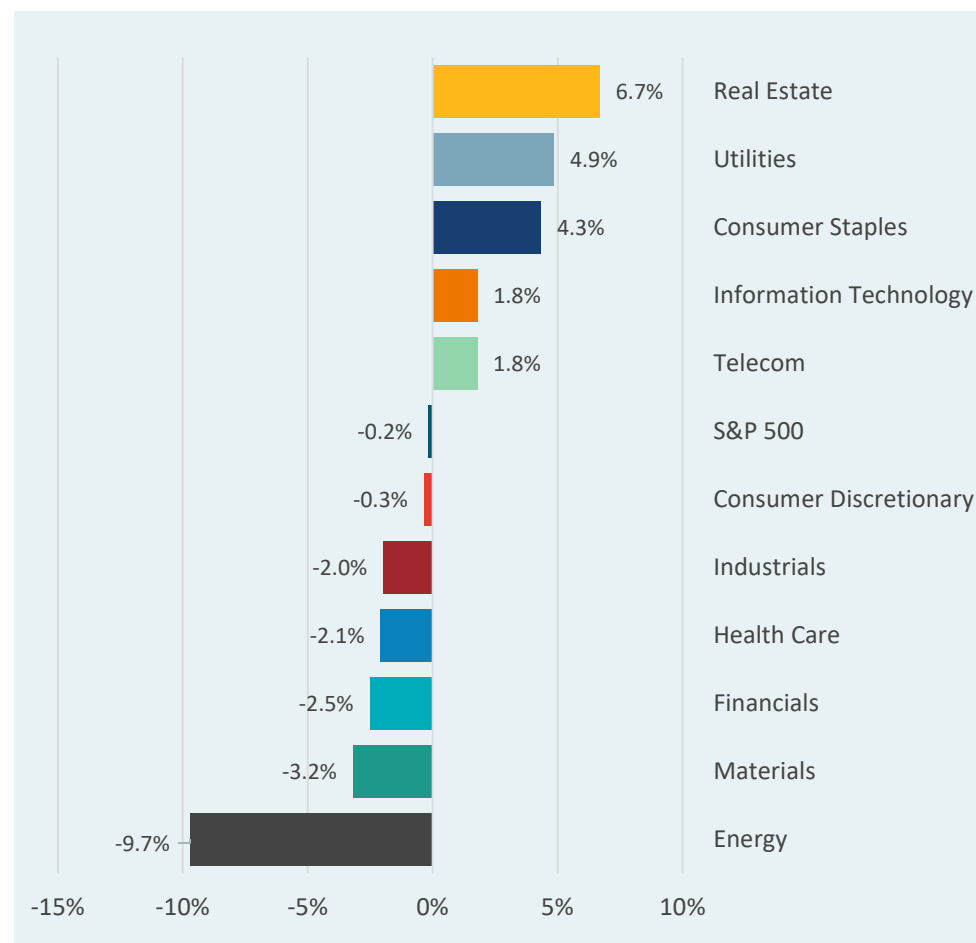
Periodic table of returns

	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	
BEST ↑	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	23.3	13.1	15.4
	Large Cap Equity	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	18.5	9.9	13.5
	Small Cap Growth	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	16.3	8.8	13.1
	Large Cap Value	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	13.8	8.1	11.6
	Small Cap Equity	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	11.8	6.6	11.5
	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	11.4	6.4	10.0
	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	9.7	4.6	9.3
	US Bonds	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	9.1	4.1	6.4
	Small Cap Value	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	7.3	3.3	5.0
	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	5.7	2.0	4.1
	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	3.9	1.9	3.9
	Real Estate	-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	3.3	0.9	2.9
	Commodities	-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	1.9	0.4	0.5
	WORST ↓	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	1.5	-8.6
<div><div></div> Large Cap Equity</div>											<div><div></div> Small Cap Growth</div>														
<div><div></div> Large Cap Value</div>											<div><div></div> International Equity</div>											<div><div></div> Real Estate</div>			
<div><div></div> Large Cap Growth</div>											<div><div></div> Emerging Markets Equity</div>											<div><div></div> Hedge Funds of Funds</div>			
<div><div></div> Small Cap Equity</div>											<div><div></div> US Bonds</div>											<div><div></div> 60% MSCI ACWI/40% BBgBarc Global Bond</div>			
<div><div></div> Small Cap Value</div>											<div><div></div> Cash</div>														

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.

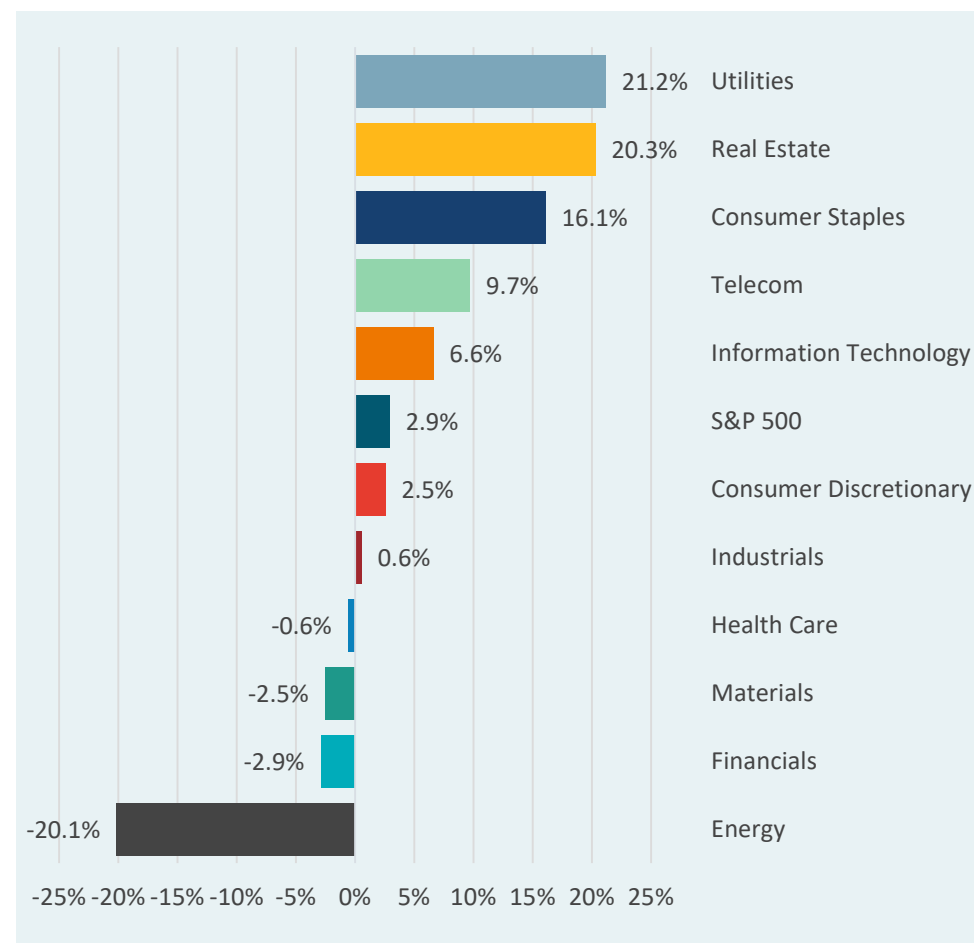
S&P 500 sector returns

QTD



Source: Morningstar, as of 8/31/19

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/19

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	(1.6)	(0.2)	18.3	2.9	12.7	10.1	13.4
S&P 500 Equal Weighted	(3.1)	(2.3)	16.5	0.4	10.0	8.2	13.7
DJ Industrial Average	(1.3)	(0.2)	15.1	4.1	15.5	11.8	13.6
Russell Top 200	(1.4)	0.1	18.1	3.2	13.6	10.6	13.5
Russell 1000	(1.8)	(0.3)	18.5	2.5	12.6	9.9	13.5
Russell 2000	(4.9)	(4.4)	11.8	(12.9)	7.9	6.4	11.6
Russell 3000	(2.0)	(0.6)	18.0	1.3	12.2	9.6	13.3
Russell Mid Cap	(2.8)	(1.5)	19.6	0.5	10.1	7.9	13.5
Style Index							
Russell 1000 Growth	(0.8)	1.5	23.3	4.3	17.0	13.1	15.4
Russell 1000 Value	(2.9)	(2.1)	13.8	0.6	8.1	6.6	11.5
Russell 2000 Growth	(4.3)	(3.4)	16.3	(11.0)	10.6	8.1	13.1
Russell 2000 Value	(5.6)	(5.4)	7.3	(14.9)	5.1	4.6	10.0

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	(2.4)	(2.1)	13.8	(0.3)	9.2	5.5	8.6
MSCI ACWI ex US	(3.1)	(4.3)	8.8	(3.3)	5.9	1.4	4.7
MSCI EAFE	(2.6)	(3.8)	9.7	(3.3)	5.9	1.9	5.0
MSCI EM	(4.9)	(6.0)	3.9	(4.4)	5.8	0.4	4.1
MSCI EAFE Small Cap	(2.5)	(3.2)	9.0	(9.2)	6.0	4.3	7.7
Style Index							
MSCI EAFE Growth	(1.2)	(1.6)	16.6	0.8	7.9	4.5	6.8
MSCI EAFE Value	(4.1)	(6.3)	2.7	(7.4)	3.8	(0.8)	3.1
Regional Index							
MSCI UK	(4.7)	(6.4)	5.7	(5.1)	3.6	(1.4)	4.6
MSCI Japan	(1.0)	(0.9)	6.8	(5.6)	5.4	4.6	4.9
MSCI Euro	(2.5)	(4.6)	10.8	(3.9)	6.4	1.3	3.4
MSCI EM Asia	(3.8)	(5.3)	3.9	(7.3)	6.1	2.5	5.9
MSCI EM Latin American	(8.1)	(8.0)	3.6	8.9	5.6	(4.1)	0.4

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	2.4	2.7	9.1	7.5	2.9	2.2	3.8
BBgBarc US Treasury Bills	0.2	0.4	1.7	2.4	1.5	1.0	0.6
BBgBarc US Agg Bond	2.6	2.8	9.1	10.2	3.1	3.3	3.9
Duration							
BBgBarc US Treasury 1-3 Yr	0.8	0.7	3.2	4.4	1.6	1.3	1.2
BBgBarc US Treasury Long	10.5	10.7	22.8	24.2	4.4	6.9	7.4
BBgBarc US Treasury	3.4	3.3	8.6	10.4	2.5	3.0	3.2
Issuer							
BBgBarc US MBS	0.9	1.3	5.5	7.1	2.4	2.8	3.2
BBgBarc US Corp. High Yield	0.4	1.0	11.0	6.6	6.2	4.9	8.5
BBgBarc US Agency Interm	1.2	1.2	4.3	5.8	2.0	2.0	2.1
BBgBarc US Credit	3.1	3.7	13.4	13.0	4.5	4.4	5.6

OTHER

Index							
Bloomberg Commodity	(2.3)	(3.0)	1.9	(5.9)	(0.9)	(8.6)	(4.3)
Wilshire US REIT	3.3	5.0	23.8	12.0	5.5	8.3	13.5
CS Leveraged Loans	(0.3)	0.5	5.9	3.4	4.8	3.9	5.7
Alerian MLP	(5.4)	(5.8)	11.0	(8.9)	(2.4)	(8.5)	7.5
Regional Index							
JPM EMBI Global Div	0.7	2.0	13.5	13.8	4.9	5.5	7.4
JPM GBI-EM Global Div	(2.6)	(1.7)	6.8	11.9	3.4	(0.7)	2.7
Hedge Funds							
HFRI Composite	0.1	0.5	7.8	1.1	4.3	2.9	4.4
HFRI FOF Composite	(0.7)	(0.5)	5.7	0.3	3.4	2.0	2.9
Currency (Spot)							
Euro	(1.1)	(3.3)	(3.7)	(5.3)	(0.4)	(3.5)	(2.6)
Pound	(0.5)	(4.3)	(4.4)	(6.3)	(2.4)	(6.0)	(2.9)
Yen	2.3	1.5	3.4	4.5	(0.9)	(0.4)	(1.3)

Source: Morningstar, HFR, as of 8/31/19

Notices & disclosures

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. available on the SEC’s website at www.adviserinfo.sec.gov.

Verus – also known as Verus Advisory™.