

ECONOMY:

MIXED U.S. ECONOMIC DATA IN AUGUST

U.S. economic data was mixed in August, reflecting the complicated macroeconomic environment in the midst of high trade uncertainty.

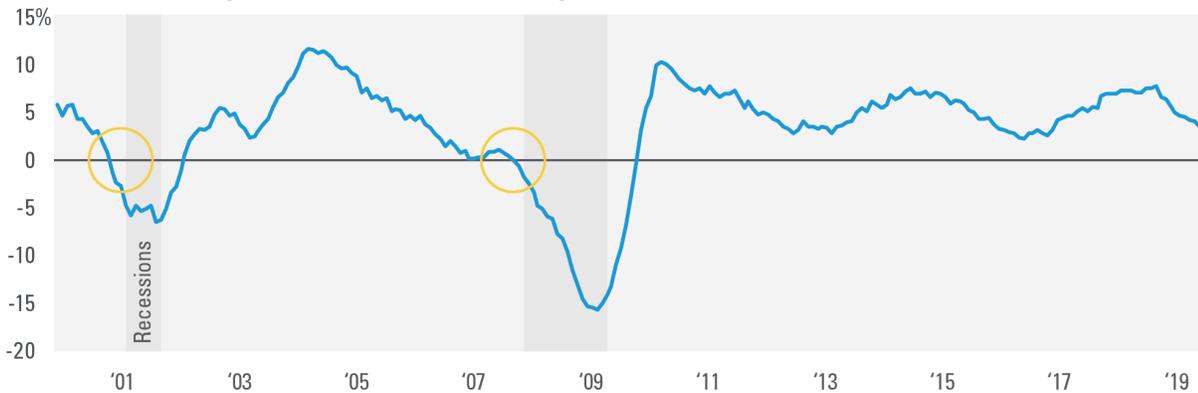
The Conference Board’s Leading Economic Index (LEI) rose 0.5% month over month in July, the biggest gain since September 2018. The LEI rose 1.6% year over year, signaling future economic growth [\[Figure 1\]](#).

Gross domestic product (GDP) growth was revised to 2% for the second quarter, down from the 2.1% initially reported in July. Consumer spending added 3.1 percentage points to overall growth, while trade and inventories were a 1.6 percentage point drag. Business spending was still a slight drag on growth, according to the revised data.

The July jobs report, released in early August, showed nonfarm payrolls rose in line with consensus expectations. The 12-month average pace of payroll gains was slightly above the expansion average, evidence that companies are still hiring at a solid pace.

1 LEADING INDICATORS SLOWING BUT GROWING

● 12-Month Change in the Conference Board’s Leading Economic Index



Source: LPL Research, Conference Board 08/22/19

Past performance is no guarantee of future results.

Market implied rate hike expectations are calculated based on the pricing of various fed funds futures contracts.

Investors did get a taste of Fed commentary during August, though. Minutes from the Fed's July meeting, released August 21, showed the complexity of policymakers' discussions leading up to the July rate cut. The minutes reinforced Fed Chair Jerome Powell's description of the rate cut as a "mid-cycle adjustment."

On August 23, Powell gave a closely watched speech at the annual gathering of central bankers in Jackson Hole, WY. Powell said the economy "continued to perform well overall," but he highlighted increasing risks from a deteriorating global economy and uncertainty around trade, the same risks that induced the Fed to cut rates in July. While he didn't lay out a clear policy path, Powell pledged that the Fed would "act as appropriate to sustain the expansion," potentially laying the groundwork for an additional rate cut when the Fed meets next.

GLOBAL EQUITIES TRADE AND CENTRAL BANKS REMAIN IN FOCUS

The S&P 500 Index slipped 1.8% during August, or 1.6% including dividends, as escalating trade tensions and concerns that the Fed may not cut rates enough led to a 4.8% pullback within the first three trading sessions of the month. The index fell more than 6% below its record high set July 26 before stocks pared losses at the end of the month. The Nasdaq fell 2.5%, while the Dow Jones Industrials held up better with a 1.3% loss. Year to date, the Nasdaq leads the major averages with a 21% gain, ahead of the S&P 500 (18.3%) and Dow Industrials (15.1%).

The calendar had barely turned to August before trade swung stocks around. On August 1, President Trump tweeted that he would impose a 10% tariff on approximately \$300 billion of Chinese imports, to be effective September 1. China then responded by pulling prior commitments for agricultural purchases and weakening its currency. The United States labeled China a currency manipulator and restricted U.S. companies' ability to conduct business with China's telecom giant Huawei. The United States announced mid-month that it would delay some of the tariffs until December, while President Trump struck a more conciliatory tone at the G7 summit in Japan, which helped diffuse tensions in late August, even though China retaliated with its own tariffs.

The bond market continued to send a cautionary signal to the stock market about the potential for a recession as a closely watched part of the yield curve inverted. Specifically, the 10-year Treasury yield dipped below the 2-year Treasury yield, an event that historically has preceded a recession. Based on the resilience of the equity market, we're not convinced this modest inversion is a near-term recession signal, but it could be evidence that Fed policy is too restrictive given trade uncertainty and that yield-starved international bond investors are buying U.S. Treasuries in full force.

Large cap stocks held up better than their small cap counterparts during August, as the small cap Russell 2000 Index fell more than the larger cap Russell 1000. The fact that small cap stocks lagged large caps within all 11 S&P equity sectors suggested a clear preference for higher



quality, generally more defensive larger cap companies. Mid caps have led year to date with a 19.6% return, ahead of the 18.5% and 11.8% advances for large caps and small caps, respectively, based on the Russell indexes.

Growth stocks outperformed value in August for the eighth time in the past nine months. The Russell 1000 Growth Index, powered by technology stocks, lost just 0.8% and outperformed the Russell 1000 Value Index by 2.1 percentage points. Losses in the energy and financials sectors weighed on the value style, while slower economic growth and Fed rate cuts favored growth companies. Growth led value by more than 9 percentage points year to date, based on the Russell 1000 style indexes.

Defensive sectors topped the August leaderboard, as only consumer staples, real estate, and utilities moved higher. Technology remained the year-to-date leader with a 29% return, followed closely by real estate.

International

The U.S.-China trade conflict, a strong U.S. dollar, and geopolitical uncertainty got the best of the international equity markets during August as both the MSCI EAFE Index (developed international) and the MSCI Emerging Markets Index underperformed during the month.

The MSCI EAFE Index lost 2.6% for the month, bringing its year-to-date return to 10.1%. In August, developed international equities were hurt by slowing global growth, partly related to the trade conflict, a stronger U.S. dollar, and that market's value orientation. At the country level, losses in the United Kingdom, Hong Kong, Australia, and Germany contributed most to index losses. Brexit uncertainty weighed on the U.K. market, Germany has been hurt by manufacturing weakness, and protests negatively impacted investor sentiment in Hong Kong. Underperformance was concentrated in the financials, materials, and technology sectors.

Emerging markets lost 4.8% for the month but held onto a 4.2% year-to-date return. Underperformance was driven primarily by losses in Brazil, China, South Africa, and South Korea, all directly or indirectly related to the U.S.-China trade conflict. Weakness was concentrated in the financials and natural resource sectors.



Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

FIXED INCOME

10-YEAR YIELD DROPS IN AUGUST

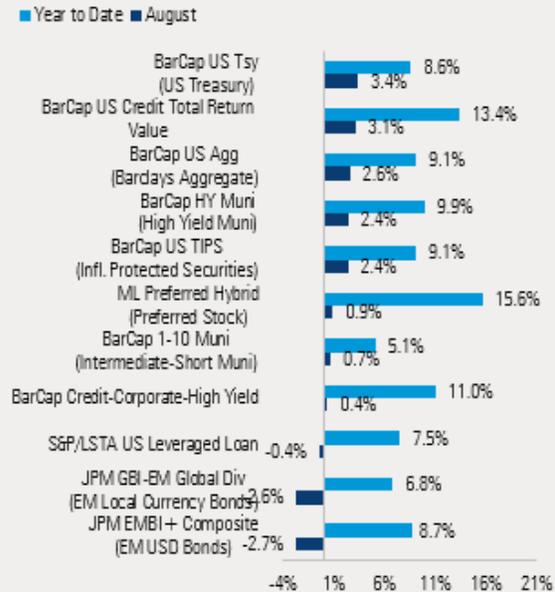
The bottom fell out of U.S. Treasury yields in August as a combination of global economic uncertainty and stock market volatility pushed investors into U.S. debt.

The 10-year Treasury yield fell 52 basis points (0.52%) in August, its biggest monthly slide since January 2015, to close at 1.5%. The 10-year yield's highest monthly close was 1.89% on August 1, a day after the Fed announced its first interest rate cut of the cycle.

The yield curve continued to flatten in August, and another closely watched part of the curve inverted (long-term yields falling below short-term yields). The spread between the 2-year and 10-year yields closed negative on August 27 for the first time in this economic cycle, after falling negative intraday during a few trading sessions during the month. The spread between the 3-month and 10-year yields closed at -49 basis points (-0.49%) and has stayed inverted since the end of May.

Eight of 11 fixed income asset classes we track rose in August, as shown in the Fixed Income Performance Table. Safe-haven debt outperformed, as Treasuries led all classes with a 3.4% gain. The Bloomberg Barclays U.S. Aggregate Index rose for a sixth straight month, its longest monthly winning streak since July 2016.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	7/31/2019	8/31/2019	Change in Yield
3 Month	2.08	1.99	-0.09
2 Year	1.89	1.50	-0.39
5 Year	1.84	1.39	-0.45
10 Year	2.02	1.50	-0.52
30 Year	2.53	1.96	-0.57

AAA MUNICIPAL YIELDS

Security	7/31/2019	8/31/2019	Change
2 Year	1.20	1.07	-0.13
5 Year	1.34	1.12	-0.22
10 Year	1.73	1.46	-0.27
20 Year	2.26	1.95	-0.31
30 Year	2.40	2.08	-0.32

Source: FactSet 06/30/19

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

U.S. Treasuries may be considered “safe haven” investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

ALTERNATIVE INVESTMENTS

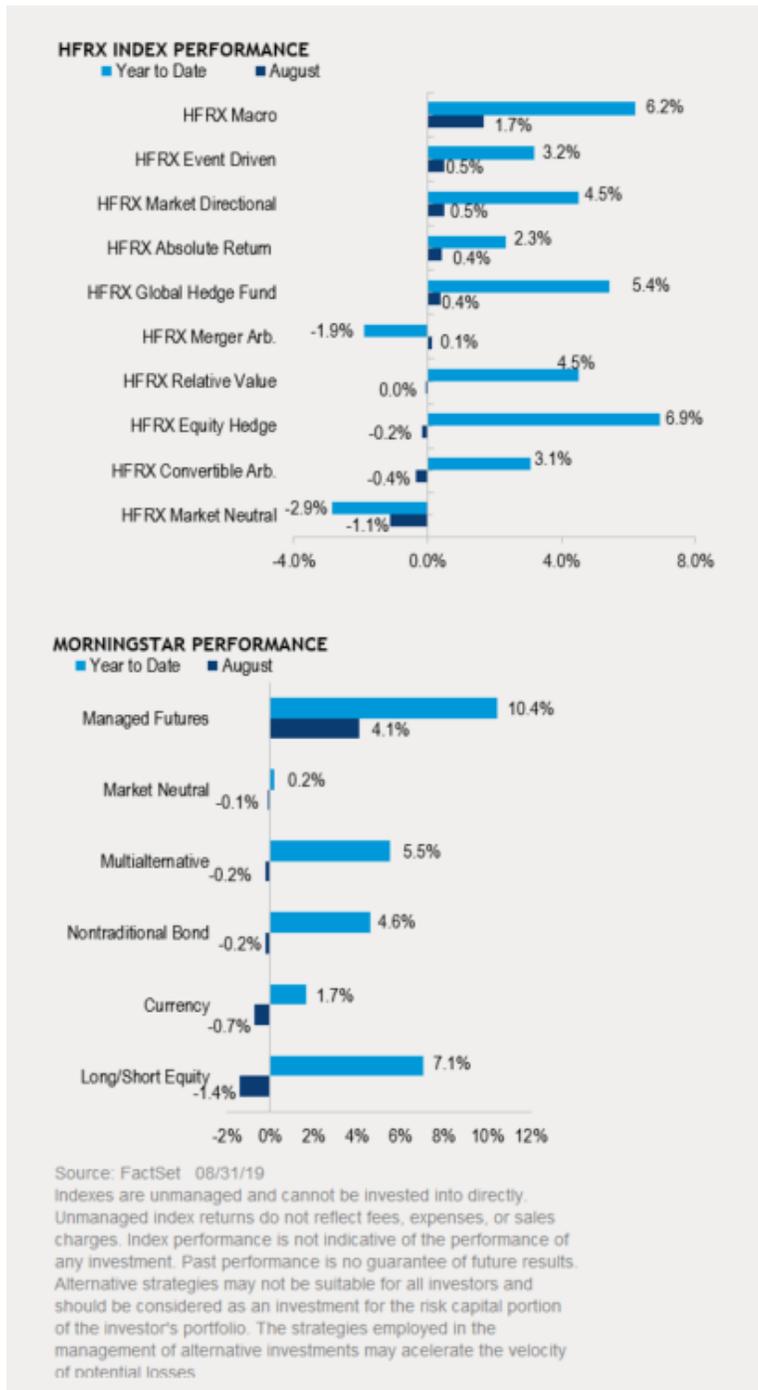
GAINS IN MANAGED FUTURES CONTINUE

Trend-following strategies continued to perform well, as the HFRX: Systematic Diversified Index gained 2.8% during August, bringing year-to-date gains to 10.7%. Long fixed income positioning once again provided the majority of positive returns, as bonds across the globe and maturity levels moved higher. Currency positioning also was beneficial in providing attractive returns and an additional source of diversification, as long positions in the U.S. dollar against the euro, pound, and peso were profitable.

Volatility within equity markets has led to lower levels of equity positioning, with shorter-term strategies actually moving net short many equity indexes. Discretionary macro strategies also performed well, with the HFRX Macro/CTA Index returning 1.7% during the month and 6.2% on the year. Ongoing trade negotiations between the United States and China, as well as several adjustments by central banks around the world have led to an increasingly attractive opportunity set and additional relative value opportunities within currency and rate trading.

The HFRX Equity Hedge Index declined 0.2%, which was in line with the risk-adjusted performance of the S&P 500's 0.7% monthly loss. Short holdings supported the industry's downside protection, as underweight and commonly shorted sectors such as energy and financials were down 8.1% and 4.8%, respectively. Stock selection on the long side of portfolios was difficult, as only defensively oriented sectors increased in value, an area of the market in which long/short managers have limited long exposure.

The HFRX Merger Arbitrage Index gained 0.5%, as low rates, management confidence, and significant private equity capital available for deployment support the mergers and acquisitions landscape. The strategy continues to provide attractive diversification benefits and drawdown protection, while the average deal spread is roughly 6%; in line with the long-term average.



REAL ASSETS

STRONG REAL ESTATE PERFORMANCE

Real estate and infrastructure displayed their defensive characteristics within the liquid real assets category last month by delivering August gains despite global stock market weakness.

Master Limited Partnerships (MLP)

The Alerian MLP Index lost 5.5% in August, lagging behind the broad equities indexes despite lower interest rates. Losses in crude oil and the energy sector overwhelmed the attractive yields and sent the group lower. Partnership-specific challenges also played a role. MLPs have still produced a respectable 10.3% year-to-date return, but the group has trailed the S&P 500 by 8 percentage points so far in 2019.

REITs and Global Infrastructure

The MSCI U.S. REIT index outperformed the S&P 500 in August with its 3.4% return, pushing the domestic real estate investment trust (REIT) index's year-to-date return to a very strong 23.3%.

Self-storage was the best-performing sector during the month, outperforming the broad real estate index by more than 5 percentage points. The hotels/lodging sector continued to struggle, falling 4.7% during the month, as falling interest rates presented a challenge for this sub-sector. Sub-sector performance is based on FTSE NAREIT ALL REITs sub-sector indexes.

International real estate rose just 0.9%, consistent with the underperformance of broad international equities relative to the United States.

The S&P Global Infrastructure Index outperformed domestic equities in August with a modest positive return of 0.4%. Global infrastructure has trailed domestic REITs year to date but has matched the S&P 500.

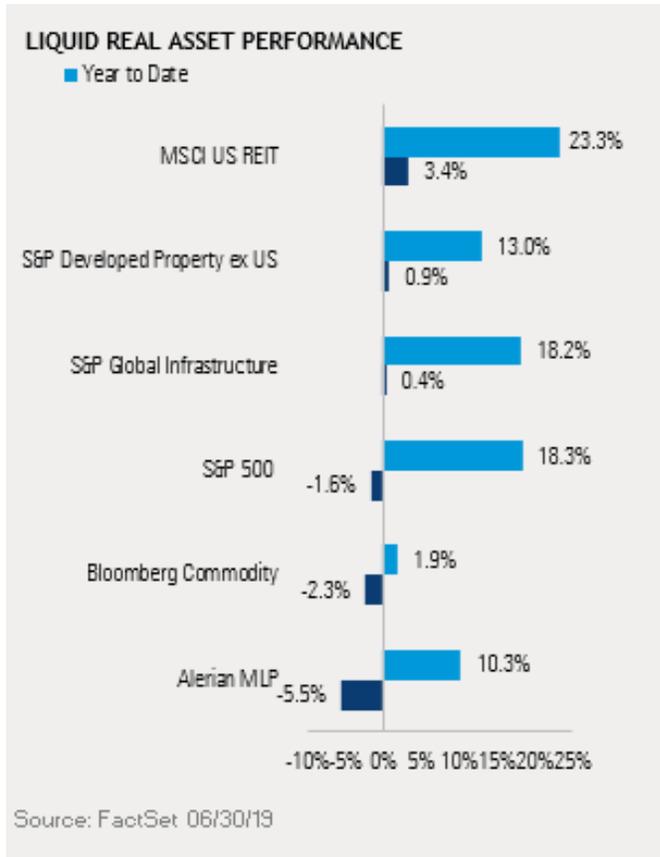
Commodities

The Bloomberg Commodity Index fell 2.3% in August, amid escalating U.S.-China trade tensions and heightened fears over slower global growth. Year to date, commodities' 1.9% gain continues to significantly trail equities. Commodities more levered to economic growth tended to suffer most during the month, as copper and crude oil prices both fell roughly 5%. One notable exception was nickel, which continued its surge thanks to international supply constraints and electric vehicle battery demand. Precious metals predictably benefited from the risk-off market tone, as gold, silver, and platinum all enjoyed nice gains. Unexpectedly high projections for future supply in both the corn and sugar markets dominated the agricultural markets' price action, sending prices decidedly lower. Commodity performance is based on the Bloomberg Commodity Index.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory development.





IMPORTANT DISCLOSURES

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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