MONTHLY MARKET UPDATE

August 2019

OPAL WEALTH ADVISORS

The dog days of August were anything but sleepy, dominated by three "T's"—trade, tariffs, treasuries. Brexit, trade, Hong Kong and the economy moved markets in an up/down fashion throughout the month. U.S.-China trade war 'tariffied' markets, driving volatility and raising questions as to if and when the disruption risks pushing global economies into recession. From the start of the month to the end, we saw ten rallies of 1% or more separated by nine declines of 1% or more. As bad as the month felt, equity markets ended down only slightly while bond yields fell sharply. U.S. (-1.8%), developed international (-2.6%), emerging markets (-4.9%), and commodities (-6%) ended in negative territory on the month but global stocks remain up 8.8% YTD. A strong rally in long bonds pushed the 2yr/10yr slope closed into negative territory for the first time in over ten years.

Market Anecdotes

- Market behavior over repeated cycles of tough trade talk followed by can't we just be friends (ie 'trade war') has become clear. USD up, spreads up, VIX up, curve flattener, and equities down on a bad day. USD down, spreads down, curve steepener, and equities up on a good day.
- An early August equity market washout saw the S&P 500 give back 40% of its gains in six trading days. Monday 8/5 saw S&P 500, Nikkei 225, STOXX 600, and CSI 300 finish with only 63 stocks collectively up for the day—less than 4% of over 1,600 stocks.
- The early August trade tit for tat saw 40% of the S&P 500 YTD gains disappear in six trading days.
- August saw Brexit go from imminently 'hard' to spectacularly squashed. PM Johnson moved to suspend Parliament in a tactic that backfired as Parliament mandated an EU exit without an agreement requires Parliamentary approval and they shot down snap elections the PM sought.
- A relief valve presented itself in the Hong Kong protests as CEO Carrie Lam agreed to withdraw the extradition bill at the root of all the protests.
- The run on treasuries pushed yields to all-time lows and the yield curve slope into (and deeper into) inversion. The 30yr UST fell below the S&P 500 dividend yield for the first time since March 2009.
- The 3m/10yr inversion entered its fourth month and notched new lows (-0.50%), sitting solidly in compelling territory as it speaks to Fed policy. The 2yr/10yr became inverted briefly in August for the first time in over 10 years sparking questions around the future economic outlook.
- A 30yr TIPS auction settled at 0.501%, down significantly from the last auction's 1.091% (Feb) and the lowest since 2012. YTD through 8/20, long-term treasuries were up over 20% for the first time since daily data became available in 1987.
- August left the U.S. as the highest yielding developed market government bond issuer (save Singapore) and Germany saw their entire yield curve moved into negative territory.
- July's FOMC minutes portrayed a divided Fed not quite ready to commit themselves to further rate cuts despite expectations priced into the financial markets. They viewed the July cut as a mid-cycle 'adjustment' rather than the beginning of a rate cut cycle.
- Fed funds futures are currently pricing in an 88% probability for a 25bps rate cut at the upcoming September 18th FOMC meeting.
- The current third quarter Atlanta Fed GDPNow forecast is 1.9%.
- The August backdrop of a strong USD, falling commodity prices, volatile trade talk, and an Argentinian (-41%) move backward toward Peronism made for a rough month across emerging markets.

- The annual Jackson Hole central bank symposium served to soothe markets. Powell's speech was viewed with an easing bias but other narratives worked to calibrate the market's policy rate expectations.
- An August $200b downward revision in corporate profits and a -500,000 revision in jobs data (year through March) from the BLS served to bolster Fed doves and seems more consistent with trends in household surveys' showing weaker readings in employment.

Economic Release Highlights

- The August employment report missed expectations (130,000 v 163,000) but held steady at 3.7% unemployment. Private payrolls only managed 96,000 which is 40,000 short of the low estimate while tight labor markets contributed to a healthy .4% wage growth (3.2% YoY).
- July's JOLTS report was mixed from a Fed perspective with lower job openings (7.217mm) offset with a sharply higher quit rate (3.592mm).
- Headline and core PCE inflation of 1.4% and 1.6% respectively came in very tame while income growth of 0.1% remained very subdued.
- August headline and core CPI came in at 1.7% and 2.4% respectively. YoY and MoM (0.3% v 0.2%) core readings both beat expectations and are at expansion highs.
- PCE consumer spending jumped 0.6% MoM with strength across both durable and non-durable categories.
- August ISM Manufacturing index missed expectations (49.1 vs 51.3), a fifth consecutive monthly decline and end to a 35 month >50 streak—the longest >50 streak since February 2008.
- August ISM non-manufacturing index registered its best reading since May and easily surpassed expectations (56.4 vs 54.0) highlighted by strong breadth and a jump in new orders.
- U.S. August flash PMI (50.9, 50.9, 49.9) saw the manufacturing reading fall into contractionary territory which hasn't happened since the GFC. However, the report internals and regional Fed surveys both remain stronger than '12 and '15 mid cycle pullbacks.
- Global August flash PMIs were largely unchanged with Japan (51.7, 53.4, 49.5) and EZ (51.8, 53.4, 47.0) holding onto expansionary service sector and sub-50 manufacturing readings.
- August consumer confidence reading weathered stock market volatility and trade wars very well, beating consensus (135.1 v 130). An example of consumer resilience, the current conditions component jumped 6 points to 177.2, a 19-year high.
- UofM consumer sentiment registered a disappointing 89.8, well below expectations (92.3) and the lowest reading since October 2016.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	26403	(2.53)	5.60	15.14	4.07	15.39
NASDAQ	7963	(3.61)	5.51	20.89	(0.46)	16.36
S&P 500	2926	(2.65)	5.48	18.34	2.95	12.62
Russell 1000 Growth		(1.85)	7.01	23.28	4.44	16.95
Russell 1000 Value		(3.93)	3.65	13.75	0.56	8.00
Russell 2000		(5.59)	1.00	11.85	(12.46)	7.71
Russell 3000		(3.05)	5.06	18.02	1.40	12.15
MSCI EAFE		(2.72)	1.46	10.14	(3.44)	6.37
MSCI Emg Mkts		(5.39)	0.35	4.21	(4.15)	5.95
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.66	(0.06)	(0.05)	(0.06)	0.17	0.36
High Yield	5.60	0.00	(0.12)	(0.30)	0.19	(0.48)
Municipal	2.14	(0.03)	(0.05)	(0.12)	(0.08)	(0.01)

Commodities	8/31/19	6/30/19	3/31/19	12/31/18
Oil (WTI)	55.07	58.20	60.19	45.15
Gold	1528.40	1409.00	1295.40	1279.00

Currencies	8/31/19	6/30/19	3/31/19	12/31/18
USD/Euro ($/€)	1.10	1.14	1.12	1.15
USD/GBP ($/£)	1.22	1.27	1.30	1.28
Yen/USD (¥/$)	106.30	107.84	110.68	109.70

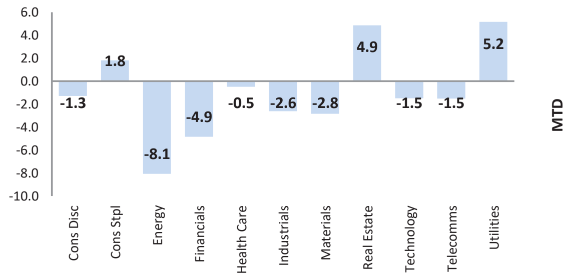
Treasury Rates	8/31/19	6/30/19	3/31/19	12/31/18
3 Month	1.99	2.12	2.40	2.45
2 Year	1.50	1.75	2.27	2.48
5 Year	1.39	1.76	2.23	2.51
10 Year	1.50	2.00	2.41	2.69
30 Year	1.96	2.52	2.81	3.02

Style Returns

	V	B	G
L	-2.94	-1.83	-0.77
M	-3.53	-2.85	-1.82
S	-5.58	-4.94	-4.32

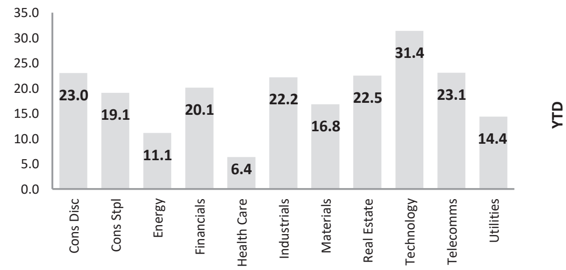
MTD

S&P 500 Sector Returns



	V	B	G
L	13.75	18.48	23.28
M	14.81	19.57	26.68
S	7.31	11.85	16.30

YTD



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