

At-A-Glance

The S&P 500 reached a new all-time high on June 20 at 2,954 – its first new record since April 30.

Historically, the S&P 500 posted its 8th strongest first-half since the end of WWII.

Bonds markets rallied with equities, pushing the average yield on U.S. investment-grade debt to 2.49%, the lowest since 2017.

Oil prices jumped 9% in June, while Gold prices surged 7.97% last month.

The Bloomberg U.S. Dollar Index sank nearly 1.6% in June, its first monthly loss since January.

QUARTERLY VANTAGE POINT

Second Quarter 2019 Recap

Market Indices ¹	June	2Q 2019	Year-to-Date
S&P 500	7.05%	4.30%	18.54%
Russell 3000	7.02%	4.10%	18.71%
Russell 2000	7.07%	2.10%	16.98%
MSCI EAFE	5.93%	3.68%	14.03%
MSCI Emerging Markets	6.24%	0.61%	10.58%
Barclays U.S. Aggregate Bond	1.26%	3.08%	6.11%
Barclays U.S. Municipal Bond	0.37%	2.14%	5.09%
Barclays U.S. Corporate High Yield	2.28%	2.50%	9.94%

¹Morningstar Direct (all performance percentages are total return based, which include reinvested dividend, interest)

The S&P 500 posted stellar gains last month, recording its best June performance since 1955. And while the S&P 500's second quarter gain was muted by May's steep 6.35% loss, the benchmark equity index registered its strongest first half (two-quarter) start to a year since 1997. The Dow Industrials advanced 7.31% last month, its best June performance since 1938. The gains came as investors cautiously balanced concerns that protracted trade tariffs could lead to slower global growth versus optimism that leaders will eventually approve a trade deal. The June rally received a boost from comments from Fed Chairman Jerome Powell, pledging that policymakers will "act as appropriate to sustain the expansion." The comment lifted market expectations for a July interest rate cut to a near certainty.

Equity gains were challenged during the second quarter by rising tensions in the Middle East. This after President Trump moved a naval task force into the region after several tanker ships were attacked and Iran downed a U.S. unmanned surveillance drone near the entrance to the Gulf of Oman. U.S. military reprisal strikes against Iran were authorized, but President Trump called them off ten minutes before they were to begin.

Overall, equity investors were relieved that the central bank reversed their policy outlook for continued rate hikes, now formally forecasting no change in rates this year and one rate hike in 2020. We think stocks have further room to grow, and that the U.S. economy will celebrate the July milestone of becoming the longest continuous expansion in American history at over ten years old. Beyond July however, we forecast increased volatility in the second half, especially if the U.S. and China prolong their trade dispute.

By market capitalization, small cap companies performed best in June, while Russell Mid Cap stocks have outperformed over the first half of the year, up 21.35%. The Russell 1000 Growth and Value Indices were roughly even in June, whereas Growth stocks have widely outperformed over Value for the first half of the year (+21.49% vs. +16.24%).

Bottom Performers – June	Top Performers – June ¹
Real Estate (+1.76%)	Materials (+11.71%)
Utilities (+3.32%)	Energy (+9.27%)
Communication Services (+4.27%)	Technology (+9.13%)
Bottom Performers – Second Quarter	Top Performers – Second Quarter ¹
Energy (-2.83%)	Financials (+8.00%)
Healthcare (+1.38%)	Materials (+6.31%)
Real Estate (+2.46%)	Technology (+6.06%)

¹ Morningstar Direct (all performance percentages are total return based, which include reinvested dividend, interest)

As the preceding sector performance table shows, all 11 sector groups posted June gains, led by Materials, Energy, and Technology. Materials producers' were supported by the strongest monthly gain in oil since January and gold's biggest rally since the Brexit vote. Within Technology, chipmakers had their best monthly gain since 2011.

Internationally, foreign equity markets trailed the U.S., posting uneven returns in June and the second quarter. MSCI measures of emerging markets outperformed developed world markets outside the U.S. and Canada. After China's Shanghai Composite surged over 27% during the first quarter, equity gains slowed markedly in the second quarter, rising just 4.31% and in line with U.S. performance. This provides evidence that deterioration in manufacturing activity (spurred by expanding tariffs) was a common downward catalyst toward both developed and emerging markets.

U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rallied 2.99% in the second quarter, and returned 5.15% in the first half of the year. As prices rallied, Treasury yields fell a third straight quarter, primarily reflecting concerns for slowing growth and a near-certain outlook for a July Fed rate cut. The yield on benchmark 10-year Treasury notes ended the quarter at 2.0%, down over 40 basis points quarter-over-quarter and nearly 70 basis points from the start of the year.

Risk appetites in fixed-income markets intensified as investment-grade bonds of all types (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) outperformed safer-haven government debt in the second quarter and first half periods. Municipal bonds underperformed relative to other investment-grade bonds in all three time periods. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, the leading measurement of non-investment grade corporate bonds, outperformed virtually all major bond categories in the second quarter and the first half.

In commodities, U.S. West Texas crude oil surged 9% in June as investors braced for potential supply disruptions associated with the tanker attacks at the entrance of the Persian Gulf. However, due to increased U.S. shale oil production rates, oil prices are down over 11% since its mid-April \$66/barrel peak. The Bloomberg Commodity Index rose 2.69% last month, extending first-half gains to 5.06%.

With volatility expected to increase the second half of the year, we suggest it is best to be well diversified among assets and stay within long-term risk and return objectives.

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Glossary

The Bloomberg Barclays Capital U.S. Aggregate Bond Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The Bloomberg Barclays US Municipal Bond Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Barclays U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **Cboe Volatility Index**[®] (VIX[®]) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.