

The Month in Review...

Further evidence of a slowing global economic picture and geopolitical forces pushed global markets around in May with equities falling 5%-8% and safe haven yields falling across the curve. A surprise POTUS pivot on the U.S.-Sino trade deal on May 6th kicked off the spike in volatility as consensus prior to that was that a trade deal was imminent. Ultimately, heightened U.S.-Sino trade conflict, renewed U.S.-Iranian tensions, Brexit developments, and mounting evidence of slowing global growth all factored into market moving headlines during the month. Calls for rate cuts grew alongside financial market volatility and declining inflation indications.

Market Anecdotes

- POTUS put the kibosh on a trade deal with China in early May but did signal a six-month deferral on auto tariffs for Japan and Europe in order to focus on U.S.-Sino negotiations.
- U.S., Canada and Mexico reached an agreement to remove the steel tariffs imposed last year.
- The NY Fed posted a study forecasting current tariffs are imposing a cost of \$831/yr on the average U.S. household.
- POTUS announced \$16b of farm bailouts (2018 \$12b) in response to market pressure.
- Bespoke pointed out that China is not a massive production floor for the U.S. U.S. imports of Chinese goods (as % of China's GDP) has fallen from 11% to 3.5% since the mid 2000's.
- As markets expected, PM Theresa May announced her intent to step down in early June, having failed to rally majority support for her negotiated Brexit plan. The process for securing a successor will wrap sometime in July with the October 31st deadline looming.
- U.S. sanctions, troop deployments, and weapons sales to regional Iranian opponents are countering anti-U.S. rhetoric, vessel/infrastructure aggressions, a rocket launch into Baghdad, and the detainment of 4 American citizens by Iran.
- The yield curve inverted again in late May just as it did at the end of Q1. Depth and duration of the inversion will remain in focus with 30 days and 25bps as general weight markers.
- The updated Dalbar study on average investor returns reinforced the notion that sub-par returns are clear for the 'average joe'. The 1998-2017 return of 2.6% pales to a standard 60/40 return of 6.4% and is only outpacing inflation (2.1%) across all major asset categories.

Economic Release Highlights

- May CPI of 1.8%/2.0% (headline/core) was benign and even lost pace, falling short of estimates on the month over month basis.
- May retail sales of 0.5% missed consensus calls for 0.7% but a sharp 0.5% upward revision to April and beats on the three remaining sub-components painted a more encouraging picture.
- May jobs report of 75,000 new jobs fell short of the consensus range but maintained a headline unemployment rate of 3.6%. Broad U-6 unemployment of 7.1% hit its lowest level since the year 2000.
- May JOLTS showed an increase in job openings (7.449mm) and hires couldn't keep up. The quit rate and openings to hires gap of 1.752mm have both been holding steady since late last year.
- Monthly wage inflation of 0.2% was the lowest reading since last September. A 3.1% annual rate and 3.7% 3m annual rate are triggering any tangible inflation concerns.
- May ISM Non-Manufacturing reading of 56.9 topped the consensus range and is at its highest point since February. Employment, new orders, and business activity were all very strong. Sixteen of seventeen industries reported expansionary readings.
- May ISM Manufacturing of 52.1 came in below the consensus range and is now at its lowest level since October 2016. Six of eighteen sectors are in contraction with tariffs cited as the most common concern.
- May U.S. PMI of Manufacturing index was 50.9, 50.5, 50.9 (composite, manufacturing, services). Manufacturing is at a 10-year low and in line with overall softening global PMI trends.
- May EZ PMIs 51.6, 47.7, 52.5 (composite, manufacturing, services) were also sluggish. Manufacturing registered a fourth straight sub-50 reading.
- May industrial production beat expectations on the headline number (+0.4%) and met consensus with the manufacturing sub-component (+0.2%).
- NFIB Small Business Optimism index posted a strong gain for the second month in a row to 105, topping expectations - not showing deterioration from trade tensions.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr	Commodities	5/31/19	3/31/19	12/31/18	9/30/18
Dow Jones	24815	(6.32)	(3.66)	7.54	4.05	14.45	Oil (WTI)	53.49	60.19	45.15	73.16
NASDAQ	7453	(7.79)	(0.77)	12.85	1.23	15.90	Gold	2.59	2.73	3.25	3.01
S&P 500	2752	(6.35)	(0.67)	10.73	3.78	11.72					
Russell 1000 Growth		(6.32)	0.70	13.68	5.39	15.33	Currencies	5/31/19	3/31/19	12/31/18	9/30/18
Russell 1000 Value		(6.43)	(2.49)	8.45	1.45	7.98	USD/Euro (\$/€)	1.12	1.12	1.15	1.16
Russell 2000		(7.78)	(6.64)	9.26	(9.05)	9.75	USD/GBP (\$/£)	1.26	1.30	1.28	1.31
Russell 3000		(6.47)	(1.32)	10.92	2.50	11.55	Yen/USD (¥/\$)	108.66	110.68	109.70	113.48
MSCI EAFE		(4.66)	(1.16)	8.05	(5.26)	6.35					
MSCI Emg Mkts		(7.22)	(4.44)	4.19	(8.34)	10.28	Treasury Rates	5/31/19	3/31/19	12/31/18	9/30/18
Fixed Income	Δ Yield	1 Mo	3 Mo	YTD	1 Yr	3 Yr	2 Year	1.95	2.27	2.48	2.81
US Aggregate	2.71	(0.03)	(0.02)	(0.01)	0.27	0.37	5 Year	1.93	2.23	2.51	2.94
High Yield	5.72	0.16	0.15	(0.18)	0.11	(0.57)	10 Year	2.14	2.41	2.69	3.05
Municipal	2.19	(0.03)	(0.06)	(0.07)	(0.01)	(0.03)	30 Year	2.58	2.81	3.02	3.19

Style Returns

	V	B	G
L	-6.43	-6.37	-6.32
M	-6.42	-6.14	-5.75
S	-8.17	-7.78	-7.42

MTD

	V	B	G
L	8.45	11.05	13.68
M	10.56	13.55	17.81
S	6.67	9.26	11.76

YTD

S&P 500 Sector Returns

