MONTHLY MARKET UPDATE

July 2019

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Broad Economic News | Months like July make my job of writing the market commentary much easier. There were notable developments during the month: Trade tensions with China intensified; The United States Federal Reserve lowered interest rates, but fell short of giving the markets what they hoped for; and the chances of a UK hard exit from the European Union increased. Despite these developments, US equity markets remained relatively stable in July. The S&P 500 increased modestly by 1.44% for the month and year-to-date returns of 20.24% represent one of the best starts to a year. Mid- and small-cap stocks also grinded higher this month with returns of 1.43% and 0.58% respectively. On the other hand, international and emerging markets retracted slightly with -1.18% and -1.14% returns each.

The July Jobs Report continued to reflect a strong labor market in the United States. The economy added 164,000 jobs this month and wage growth increased 0.30% month-over-month. Unemployment remained at 3.7% after June's slight increase from a historic low of 3.6%. However, this coupled with the fact that labor force participation increased to 63% is a positive sign.

Fed Policy | Entering July there was abundant speculation around what Fed Chairman Jerome Powell and the Federal Reserve would do with interest rates. Predictions varied from a 50-basis point (0.50%) decrease to no move at all. In the end, the federal funds rate was decreased by 25-basis points, the first rate decrease in over ten years.

The Federal Reserve has a dual mandate to stabilize prices and achieve maximum employment in the U.S. economy. Prices in the U.S. are stable, which has allowed the Fed to focus on maximizing employment as was evident when Powell stated, *"The best thing we can do for those people is to sustain the expansion, keep it going, and that's one of the overarching goals of this move and of all our policy moves."* Dissenters have said that a rate cut in an economy with a strong labor market and a healthy consumer is simply taking away ammunition to fight off a future recession. Proponents of the cut believe that the trade conflict has muddied the water and the only way to extend the current expansion is to be more accommodative with monetary policy.

It remains to be seen what the Fed will do next, but it is evident that right now they are trying extend the 10-year economic expansion and bull market.

Brexit | On July 23rd former UK Prime Minister Teresa May was officially removed from her role after her replacement, Boris Johnson, won the election for Conservative Party leadership. Theresa May was ushered out after she failed to get a Brexit deal through Parliament for the third time.

Boris Johnson has historically been a proponent of Brexit and is expected to make a push to leave the EU in the near term. Recently he stated that the U.K. needs to leave the EU by the October 31st deadline, with or without a deal. A no-deal Brexit would force a withdrawal without any kind of transition period. This would mean that businesses, governments and residents would have to adapt immediately to life outside of the EU. Uncertainty of this magnitude would be expected to cause a disruption to work, life and trade that could affect global markets.

Tariffs, Trade and Monday's Equity Market Volatility | The United States' trade conflict with China has been unpredictable thus far and an increase in clarity does not seem to be on the horizon.

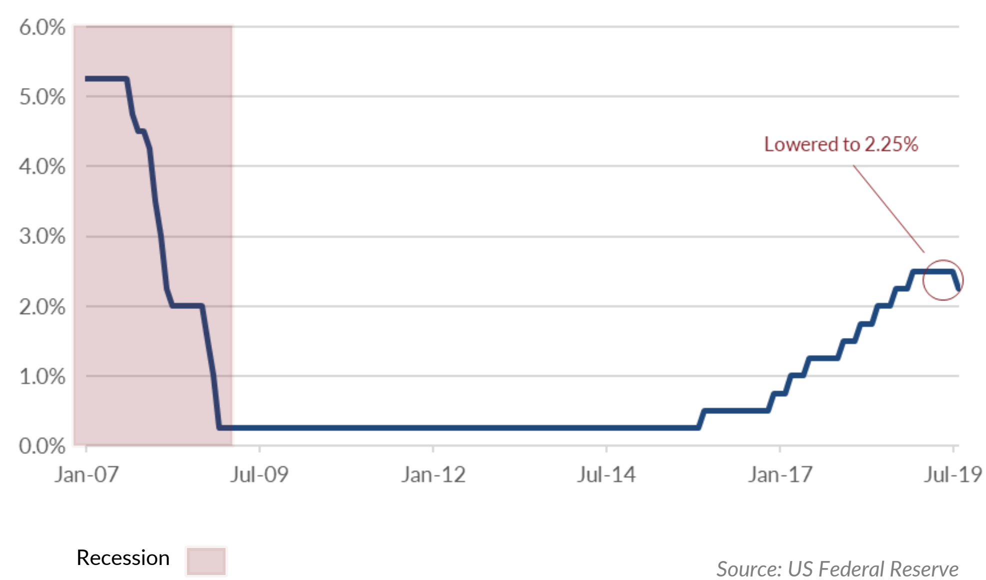
During the final week of July, President Trump announced an additional 10% tariff on the remaining $300 billion of goods imported from China. On Monday, China responded by devaluing the yuan below a seven-to-one dollar ratio only to reverse its stance overnight (early Tuesday AM EST), setting the reference point above that key level. This was a clear warning to President Trump that China would consider weaponizing currency in the broader trade fight.

U.S markets retreated upon China's announcement, with the S&P 500 closing down 2.89%. Losses were scheduled to follow through into Tuesday's market until China's overnight announcement. Regardless, this adds a new dimension to the conflict and will likely result in a headwind for the near future. The US responded to Monday's announcement by labeling China a currency manipulator; however, it is unclear whether the US will respond further given China's reversal. Currency wars tend to be a zero-sum game with neither side coming out unscathed.

We do not expect a quick resolution and, as a result, we expect elevated volatility throughout the remainder of this year. Continued escalation has the potential to do lasting economic damage and increase the likelihood of a global recession in the next 12 months.

We are monitoring these developments and will make portfolio adjustments as warranted.

Fed Monetary Policy: Federal Funds Rate



Source: US Federal Reserve

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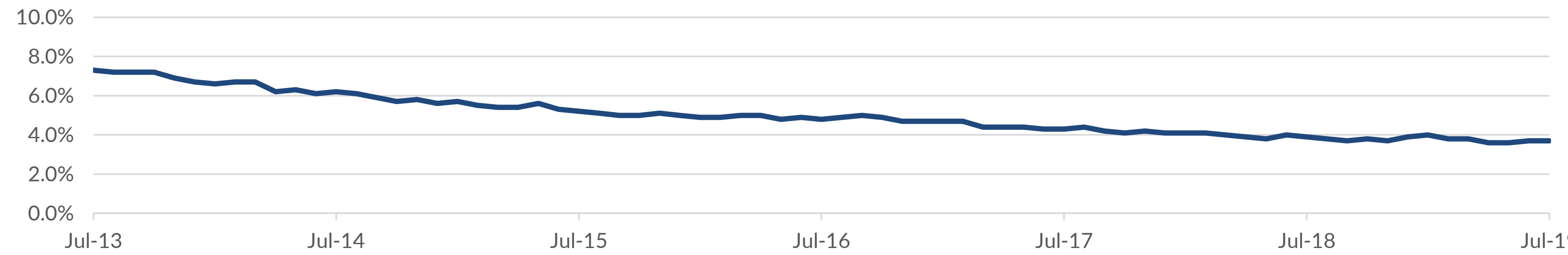
Unemployment Rate



Equities

	July Return
S&P 500 TR USD	1.44%
Russell 1000 TR USD	1.55%
Russell 2000 TR USD	0.58%
MSCI ACWI GR USD	0.33%
MSCI EAFE GR USD	-1.26%
MSCI EM GR USD	-1.14%

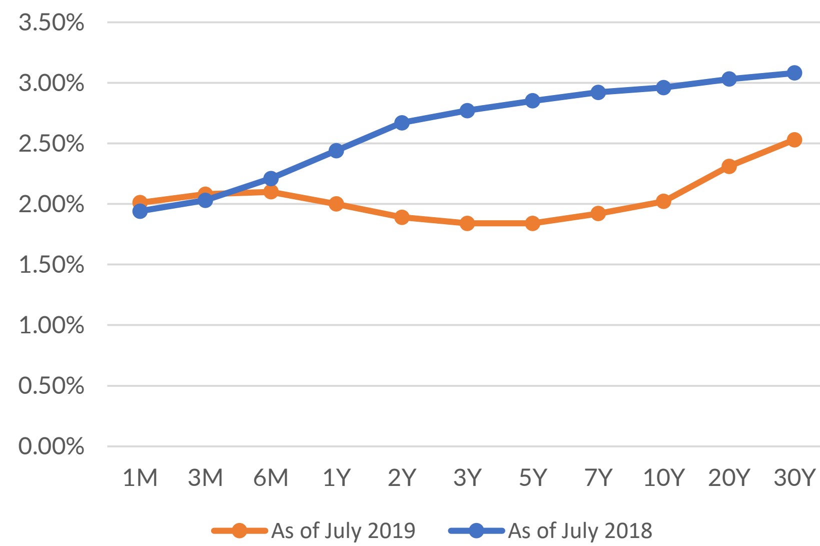
Equity Style Box

	Value	Core	Growth
Large	0.83%	1.60%	2.24%
Mid	0.83%	1.43%	2.33%
Small	0.16%	0.58%	0.98%

Fixed Income

	July Return
ICE BofAML US 3M Treasury Bill	0.18%
Bloomberg Barclays US Govt/Credit 1-3 Yr	-0.06%
Bloomberg Barclays US Govt Interm	-0.17%
Bloomberg Barclays US Govt/Credit Interm	-0.03%
Bloomberg Barclays US Govt/Credit	0.15%
Bloomberg Barclays US Agg Interm	0.12%
Bloomberg Barclays US Agg Bond	0.22%
Bloomberg Barclays Global Agg Bond	-0.28%
Bloomberg Barclays US Treasury	-0.12%
Bloomberg Barclays US Treasury US TIPS	0.36%
Bloomberg Barclays US Corporate IG	0.56%
Bloomberg Barclays High Yield Corporate	0.56%
Bloomberg Barclays Municipal	0.81%
Bloomberg Barclays Municipal 7 Yr 6-8	0.89%

Yield Curve



Data Source: Morningstar, Federal Reserve; LAMCO Advisory Services, Inc.

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