MONTHLY MARKET UPDATE

August 2019

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Broad Economic News | It would be an understatement to say that this past month has been volatile for markets. While writing the prior commentary in July, I found myself having to mention much of the news that was occurring in the early days of August. Each time a new update was addressed, the information was often stale by the following day. This highlights the fluid nature of modern markets and has greatly contributed to volatility this month. Half of the trading days in August, as measured by the Russell 3000 Index, resulted in swings of over 1% which illustrate recent domestic market volatility. Due to the implications in areas of trade, fed policy and Brexit; the news and subsequent updates bear additional coverage.

This past month, the S&P 500 decreased modestly by 1.58%, however, year-to-date returns remain strong at 18.34%. Mid- and small-cap stocks also retreated this month with losses of 2.85% and 4.94% respectively. International and emerging markets retracted as well with individual losses of 3.07% and 4.85%.

Job Growth fell short of street estimates with payrolls rising 130,000 versus the expected 150,000. Unemployment remains around record lows at 3.7% and labor force participation ticked up to 63.2% from 63.0%.

Fed Policy | The Federal Reserve *("The Fed")* will be meeting next week to decide on a path forward for monetary policy. The last meeting led to a quarter-point decrease in rates which was the first cut in over ten years. Signs are pointing to an additional quarter-point cut this month, despite cries from the White House for a more aggressive move. It is unlikely that the fed will cut more than a quarter-point, if there is a cut at all.

As mentioned in our July commentary, the Fed has a dual mandate to stabilize prices and achieve maximum employment in the U.S. economy. Although inflation is currently stable, the Fed does see an opportunity to maximize employment and prolong the current expansion. With global uncertainties mounting and continuous changes in U.S. trade policy developing, the Fed views accommodative monetary policy as the best way to hedge current risks.

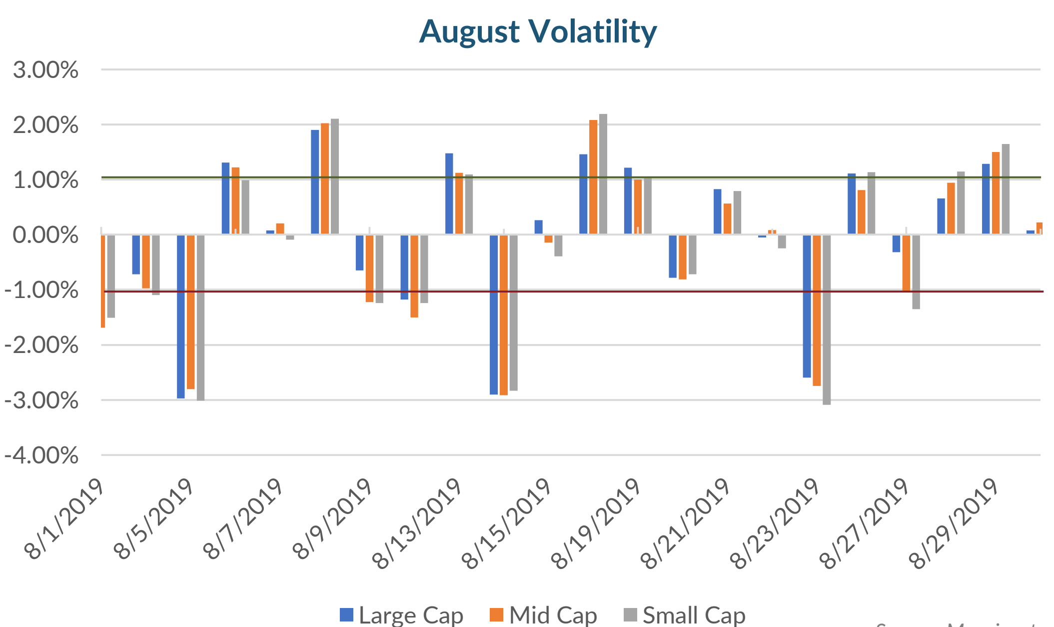
Not everyone is convinced that additional easing is required, however. Federal Reserve Bank of Boston President, Eric Rosengren, stated, *"If the consumer continues to spend, and global conditions do not deteriorate further, the economy is likely to continue to grow around 2%, with continued gradual increases in wages and prices, in my view, no immediate policy action would be required."* Despite this view, expect further accommodation if global and trade uncertainties continue.

Tariffs and Trade | August proved to be one of the toughest months thus far in the United States-China trade saga. Entering the month, President Donald Trump threatened to implement an additional 10% tariff on the remaining $300 billion of goods imported from China. Investors had grown somewhat accustomed to these developments and markets began to price in additional escalation.

However, something changed this month as China responded by allowing the value of the yuan to fall below a seven-to-one dollar ratio. Historically, the Chinese central bank has worked to keep the yuan's value above this level.

Lowering the value of their currency allows China to offset some of the effects of U.S. tariffs, as exports will be inevitably cheaper in foreign markets. This does not sound bad if you are an American consumer, however, this move shocked markets as worries grew of a potential currency war between the U.S. and China. A currency war would lead to an increase in the prices on imported goods as well as a decrease in the value of personal assets. This could inevitably lead to a spike in inflation, an increase in interest rates and a stall in global economic growth.

Throughout the month, the value of the yuan remained below the seven-to-one dollar ratio. Additionally, fresh tariffs were implemented at the end of August/beginning of September. Despite the abrupt escalation, talks between the two countries are now set to resume in October. Although an immediate deal is unlikely, it is promising that the two countries are once again coming to the table.



Source: Morningstar

Brexit | Less than two months ago Boris Johnson won the election for Conservative Party leadership in the United Kingdom and took over as Prime Minister of the UK. His promise to the UK was to lead them out of the European Union by October 31st, with or without a deal.

The past few weeks have been pivotal in the progression towards a no-deal Brexit. In late August, Boris Johnson made the decision to suspend Parliament in the period leading up to the Brexit deadline. Following this highly controversial move, opposition leaders rallied to prevent a no-deal Brexit by attempting to further delay the October deadline. Last week, Johnson was defeated by a vote of 328 to 321. The deciding factor of the vote came from the members of Johnson's own party who voted against him. After the loss, the Prime Minister reacted by *"removing the whip"* from 21 Conservative members. Removing the whip is in reference to a member of parliament being removed from their party and forced to sit as an independent in the body.

It remains to be seen which way this will go, but lines have been drawn in the sand. Prime Minister Boris Johnson is going to do everything he can to avoid a Brexit delay as he has recently stated, *"I'd rather be dead in a ditch than ask for an extension on Brexit."* If a no-deal Brexit occurs, it will have far-reaching economic implications.

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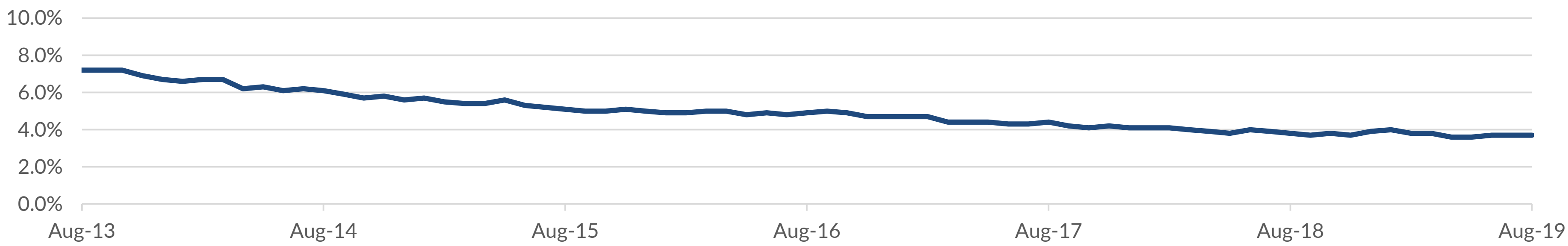
Unemployment Rate



Equities

	August Return
S&P 500 TR USD	-1.58%
Russell 1000 TR USD	-1.83%
Russell 2000 TR USD	-4.94%
MSCI ACWI GR USD	-2.33%
MSCI EAFE GR USD	-2.58%
MSCI EM GR USD	-4.85%

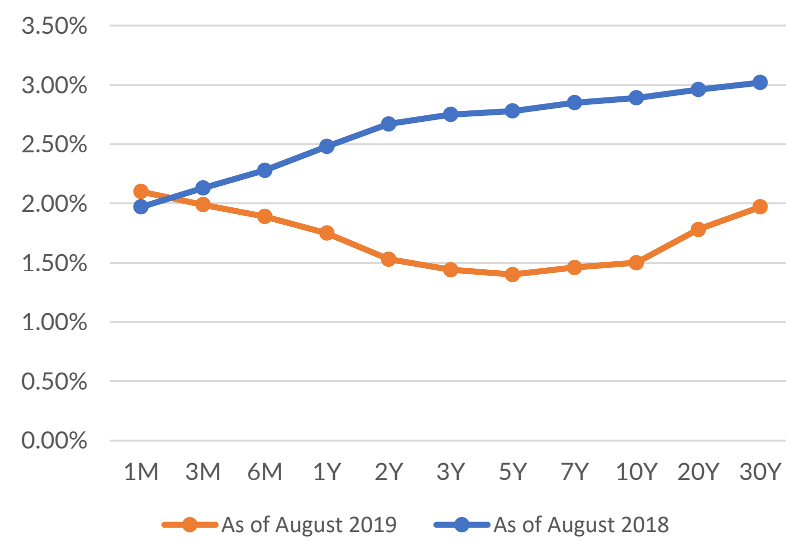
Equity Style Box

	Value	Core	Growth
Large	-2.64%	-1.44%	-0.48%
Mid	-3.53%	-2.85%	-1.82%
Small	-5.58%	-4.94%	-4.32%

Fixed Income

	August Return
ICE BofAML US 3M Treasury Bill	0.21%
Bloomberg Barclays US Govt/Credit 1-3 Yr	0.81%
Bloomberg Barclays US Govt Interm	1.80%
Bloomberg Barclays US Govt/Credit Interm	1.77%
Bloomberg Barclays US Govt/Credit	3.26%
Bloomberg Barclays US Agg Interm	1.49%
Bloomberg Barclays US Agg Bond	2.03%
Bloomberg Barclays Global Agg Bond	2.03%
Bloomberg Barclays US Treasury	3.40%
Bloomberg Barclays US Treasury US TIPS	2.38%
Bloomberg Barclays US Corporate IG	3.14%
Bloomberg Barclays High Yield Corporate	0.40%
Bloomberg Barclays Municipal	1.58%
Bloomberg Barclays Municipal 7 Yr 6-8	1.05%

Yield Curve



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

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