MARKET COMMENTARY

MAY 2019

Insights On The Global Markets and Economy from Our Asset Management Group

SHP FINANCIAL

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May 2019

Key Takeaways

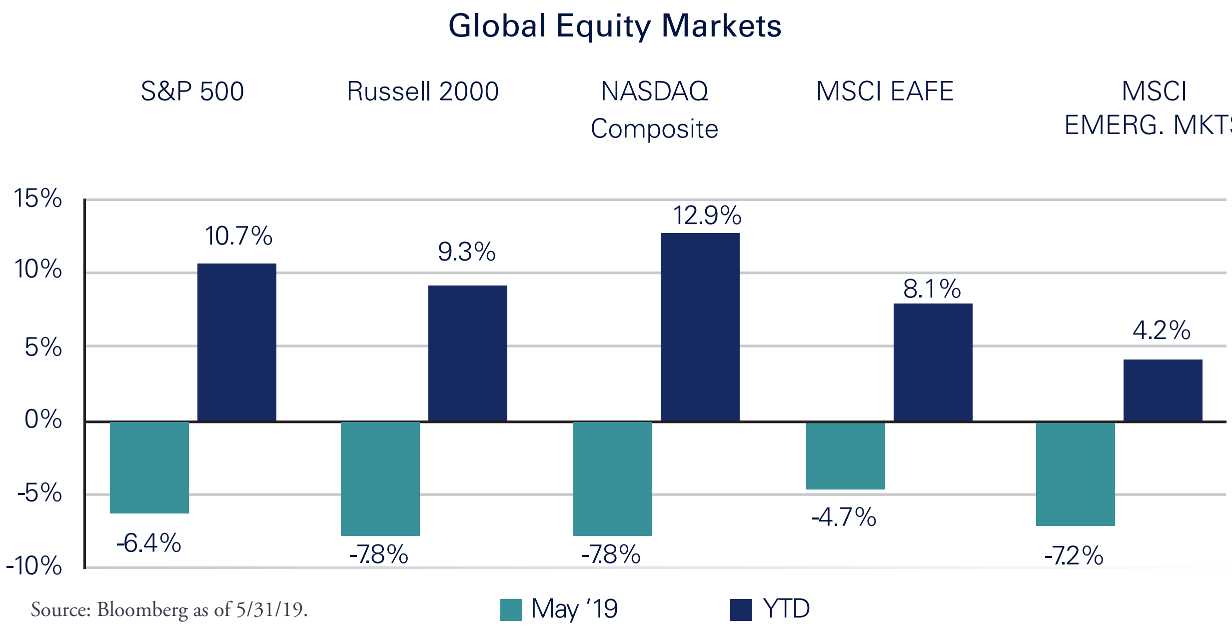
- Global stocks sold off in May, their worst monthly decline since December of 2018 as trade tensions escalated.
- Fear also spread into the bond market as global yields fell, with the U.S. yield curve inverting and the German Bund 10-year yield falling into negative territory, a new all-time low. As yields fell, bonds posted positive returns for the month because bond prices typically have an inverse relationship to yields.
- Gold prices rose due to increased global tensions, while oil and other commodities sold off over concerns of a slowdown in global growth.
- Tariffs alone would not be sufficient enough to derail the U.S. economy. However, they represent yet another risk to investor and business confidence, potentially making the global outlook shaky. A reversal in the market's gains is a reminder for investors to never be lulled into complacency by a historically long-running bull market.

Global Economic Summary

Despite better-than-expected Q1 GDP for many countries, global growth is still likely to slow but not stall this year. The global economy should be supported by strong labor markets and accommodative monetary policy. The second reading of U.S. GDP growth for the first three months of 2019, recorded 3.1%, higher growth than the 2.2% recorded in Q4 2018. The acceleration in growth for Q1 was distorted by front-loading of imports and a build-up of inventories due to the trade war. Nonetheless, a 3.1% growth rate keeps impending recession concerns at bay for investors. The May job market report also remained healthy, as the unemployment rate fell to 3.6%, which confirms the view that the 10-year economic expansion is slowing but not stalling. The U.S.-China trade dispute is the key downside risk. In the eurozone, economic data remains mixed. Manufacturing continues to be the weak spot and remains in non-expansionary territory. On the other hand, consumer confidence and the service sector remain strong. The initial first-quarter estimate for Eurozone GDP also beat expectations, with annuazlied growth of 1.2% the same as last quarter. Finally, the escalation of trade tensions is likely to have economic and policy implications for China. The failure to agree on a trade deal with the U.S. increases the risks to their growth outlook. China's GDP grew at 6.4% for Q1 2019, the same as Q4 2018, and represents a steady decline since the Financial Crisis of 2008.

Global Economic Summary: Global Equity

Global stocks sold off in May, their worst monthly decline since December 2018. As we entered May, the S&P 500 was at an all-time high. However, markets sold off after the announcement that the U.S. would be moving ahead with tariff increases on U.S. imports from China. The S&P 500 fell 6.4% but remains up 10.7% for the year. In the U.S. market, sector returns were widely dispersed as more domestically focused and lower-risk sectors outperformed. Technology stocks, as seen in Nasdaq-100 Index, and energy stocks were particularly weak, while real estate and utilities held up well in the sell-off. Finally, large-cap stocks also outperformed small-cap stocks, as represented by the Russell 2000 Index, as investors searched for stability amidst volatility. In international markets, emerging markets once again lagged developed markets in May as Chinese equities fell sharply, dragged down by trade tensions. MSCI Emerging Market Index fell 7.2% for the month and remains up 4.2% for the year.



Source: Bloomberg as of 5/31/19.

Fixed Income

The bond markets once again sent distress signals. The 10-year Treasury collapsed and caused the 10-year to three-month portion of the yield curve to invert, offering lower yields on the longer bonds, a phenomenon often associated with an economic slowdown. These maturities are followed widely by global markets, and the inversion has further amplified de-risking. While the drop in the 10-year yield is mostly due to de-risking, it also reflects incredibly low to negative rates around the world, which continues to make the U.S. Treasury yields attractive on a relative basis. One such example is Germany's 10-year bond yields, which fell further into negative territory to offer -0.2%. As global yields fell on fear, higher quality bonds posted positive returns in May. Core U.S. bonds, as represented by Bloomberg Barclays U.S. Aggregate Index, ended the month up 1.8% and up 4.8% for the year. High-yield bonds, which closely follow the equity markets, fell as the trade concerns increased market volatility. Bloomberg Barclays U.S. High Yield Index fell 1.2% but maintains a healthy gain of 7.5% for the year.

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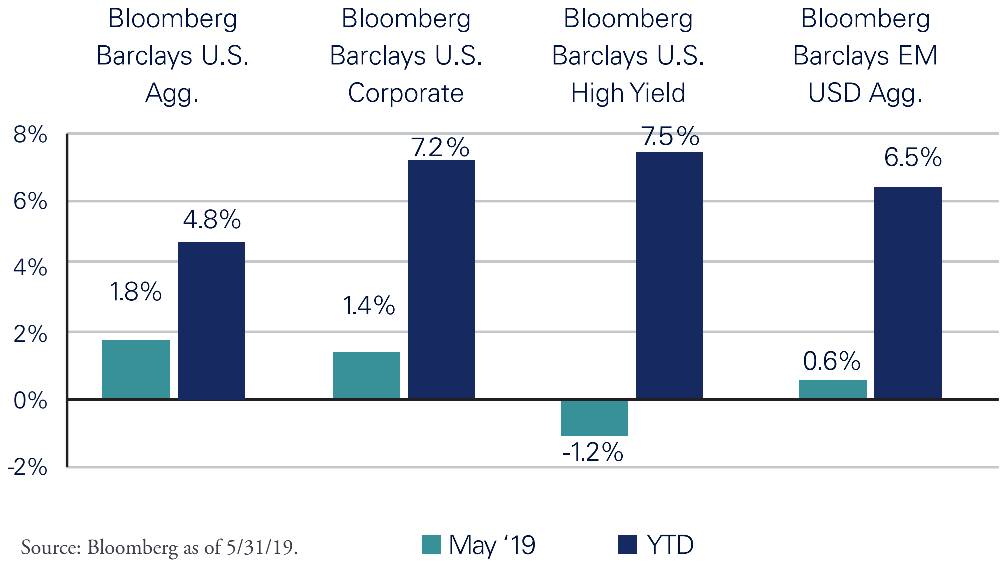
Fixed Income Returns

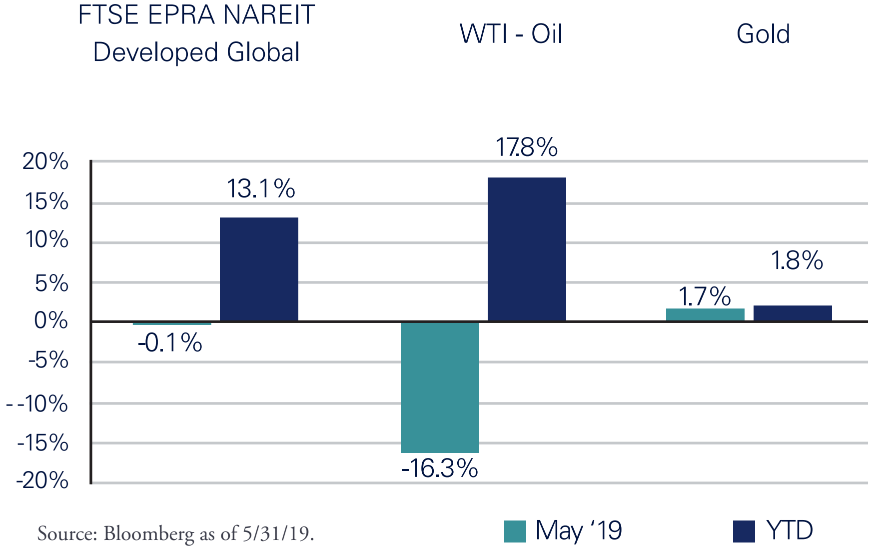


Source: Bloomberg as of 5/31/19.

Real Assets

Oil, as measured by the West Texas Intermediate Index, sold off sharply with increased concerns over global growth slowdown. Oil posted -16.3% for the month but maintains a strong lead of 17.8% for the year. Gold, often considered a hedge during periods of volatility, rose 1.7% for the month and maintains a gain of 1.8% for the year. Finally, global REITs were slightly negative at -0.1% for the month as equity market volatility rose.

Real Asset Returns



Source: Bloomberg as of 5/31/19.

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Definitions

- All indexes are unmanaged, and an individual cannot invest directly in an index. Index returns do not include fees or expenses.
- The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.
- Russell 2000 The Russell 2000 Index is a small-cap stock market index of the bottom 2000 stocks in the Russell 3000 Index. The Russell 2000 is by far the most common benchmark for mutual funds that identify themselves as "small-cap".
- The NASDAQ Composite is a stock market index of common stocks and similar securities (e.g. ADRs, tracking stocks, and limited partnership interests) listed on the NASDAQ stock market. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed indices in US stock markets.
- The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.
- The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.
- The Bloomberg Barclays US 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 securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).
- The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate 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.
- The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency emerging markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.
- The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
- West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.
- The Gold Spot Price is the current market price at which an asset is bought or sold for immediate payment and delivery.
- The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar.
- The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.
- Jobless claims refer to the number of people who are filing or have filed to receive unemployment insurance

benefits, as reported by the U.S. Department of Labor.

- The federal funds rate is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The federal funds rate is generally only applicable to the most creditworthy institutions when they borrow and lend overnight funds to each other.
- The "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
- The U.S. consumer confidence index (CCI) is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.
- VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

Disclosures

This commentary is not intended as investment advice or an investment recommendation. It is solely the opinion of our investment management team at the time of writing. Nothing in the commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. The author has taken reasonable care to help ensure that the information is accurate.

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