Economic & Market Overview

Equities post mixed results:
U.S. equity markets continued the positive trends of the first half of the year. Improving consumer confidence and labor market indicators continued to support U.S. economic growth. The second quarter earnings season is also going well. According to Factset, the number of companies beating estimates and the size of the outperformance exceeded the 5-year average. In sharp contrast, foreign stocks posted negative returns during the month. Lack of progress on a trade deal with China especially hurt emerging markets. Increasing risk from the UK leaving the European Union without a deal hurt European stocks. Refer to Chart 1 for trailing returns across equity markets.

What worked in July?
Even as the overall domestic equity market posted healthy gains during the month, the sectors had mixed results. Seven out of the eleven sectors posted positive results. Communication Services, Technology, and Consumer Staples sectors led the gains for the month. Conversely, Energy which was among the best performing sectors last month was the biggest laggard in July, followed by Health Care, and Materials. Growth stocks were in favor in July, and investors showed preference for large-cap over small-cap stocks. Refer to Chart 2 for best and worst performing equity sectors for the month.

Fed cuts interest rate, first cut since 2008:
July ended with the Federal Reserve (“Fed”) lowering interest rates as expected, trimming the short end by 25 basis points. The Fed had not cut rates since 2008, the depths of the recession. This time the Fed acted amid concerns about the impact of trade wars and slowing global growth on the U.S. economy. Other than the rate cut, the month was quite uneventful for the U.S. bond market. Credit spreads remained more or less the same during the month. Bond yields had been trending lower over the last two months, but they hardly moved during July. Yields on 10-year Treasuries started and ended the month at a low of 2.0%. This compares favorably to bond markets in Europe and Japan, where yields sunk deeper into negative territory. Credit-sensitive sectors outperformed most other sectors during the month. Refer to Chart 1 for trailing returns across fixed income sectors.

Bond markets continue pushing the Fed for rate cuts:
Whether and how much the Fed would lower the Federal Funds rate has been one of the largest factors driving both the equity and bond markets. Weak economies outside the U.S. and a cloudy

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DID YOU KNOW?

The world has $13 trillion of negative yielding bonds
The value of bonds trading with negative yields surged to a record high of over $13 trillion in July. Investors who hold these bonds until maturity are guaranteed to lose money. Why would anyone buy them? The answer is that Japanese and European investors don’t have a choice. Growth in these regions is so slow that their central banks pushed government bond yields below zero. How has this worked? Not too well since both regions still have low growth.

Source: Bloomberg Barclays Global Aggregate Negative Yield Debt Index
outlook for trade due to tariffs have been the key concerns. Bond markets priced in Fed Funds rate cuts in March, well before the Fed Board changed its view in mid-June. The Fed’s 0.25% cut at the July meeting met most investors’ expectations but the outlook disappointed. Chairman Powell’s comment that this was just a “mid-cycle adjustment” missed expectations that this would be the first of several rate cuts. But short-term Treasury rates continue to be well below the Fed Funds rate. This signals that bond markets are still pricing in two more rate cuts by year-end. Fixed income rates could be volatile through year-end as the Fed Funds rate debate continues.

Consumers drive the economy:
Much of the debate around whether and how much to cut rates has been based on concerns outside the United States. Europe continues to weaken and U.S. business investment has fallen due to tariff uncertainty. But consumers account for almost 70% of the economy. So how are they doing? The short answer is quite well. Second quarter GDP grew at a relatively low annual rate of 2.1%. But consumption grew more than 4%. Roughly 2.3 million more people are working today than a year ago. Average employee compensation is up 2.7%. Home prices are climbing, financial markets have risen, and consumers are saving more. Several cyclical areas of the economy have slowed. Examples include new car sales, housing starts, and business investment. But the core of the U.S. economy is healthy with no recession signs in sight.
The price of equity securities may rise or fall because of changes in the broad market or changes in a company’s financial condition, sometimes rapidly or unpredictably.

Bonds may cause the value of your investment to go up or down in response to changes in interest rates or defaults (or even the potential for future defaults) by bond issuers.

Futures contract is a legal agreement to buy or sell a particular commodity or asset at a predetermined price at a specified time in the future. Futures contracts are standardized for quality and quantity to facilitate trading on a futures exchange. The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date.

Housing performance return is the year-over-year gain in the median existing-home price for all housing types, reported by the National Association of Realtors® every month.

Value Investing - The investor’s judgment that a particular security is undervalued in relation to the company’s fundamental economic value may prove incorrect.

Growth Investing - These stocks normally carry higher price/earnings ratio than many other stocks. If earnings expectations are not met, market price of growth stocks will often decline more than others stocks.

International investing involves a greater degree of risk and increased volatility. In emerging countries, these risks may be more significant.

S&P 500® Index tracks the common stock performance of 500 large-capitalization companies publicly traded in the United States.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index and is widely recognized as representative of small-cap stocks.

Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

MSCI® EAFE® Index is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets. It includes stocks from 21 developed markets, but excludes U.S. and Canada.

MSCI® Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays 1-3 Month U.S. Treasury Bill is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment-grade, and have $300 million or more of outstanding face value.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index is a component of the Bloomberg Barclays U.S. Corporate High-Yield Bond Index, which covers fixed-rate, non-investment grade corporate debt of issuers in non-emerging market countries. It is not market capitalization-weighted–each issuer is capped at 2% of the index.

Bloomberg Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

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