RAYMOND JAMES

Monthly Market Review

It's (Still) a Party in the USA!

July 2019

US Assets Outperform in July Amidst Resilience of US Economy and Fed Insurance Rate Cut

Monthly Highlights

- 2Q19 GDP Slows to 2.1%; Personal Consumption Posts Second Best Quarter in Five Years.
- Trump to Sign Two-Year Budget Deal, Avoiding Debt Default, Sequestration Cuts & Shutdown.
- The Federal Reserve Cut Interest Rates (by 25 bps) for the First Time in 11 Years.
- Trade War Talks to Resume in September; Forced Technology Transfer, Intellectual Property Rights, & Agriculture Remain Points of Contention.
- Consumer Confidence Rises to the Highest Level Since November 2018.
- Boris Johnson Named British Prime Minister; Signals Potential Brexit with No Deal.
- China Manufacturing PMI (49.7) Remains in Contraction Territory for the Third Straight Month.
- 10-Year Treasury Yield Declines Intra-Month to the Lowest Level Since November 2016.
- US Investment Grade Spreads Decline to the Narrowest Level Since October 2018.
- S&P 500 Continues its Best Start to a Year (+20.2%) Since 1997.
- US Dollar Posts its Best Monthly Gain (+2.5% MoM) Since November 2016.
- Gold Rises Above $1,400/oz for the First Time Since 2013.

Economy | Fed Cuts Rates in Hopes of 'Letting the Good Times Roll'.

- The advanced reading of **2Q19 GDP** (+2.1% Quarter-over-Quarter (QoQ)) slowed from the robust pace in the first quarter (+3.1% QoQ) but remained steady. Strength in personal consumption (+4.3%), which posted its second best quarterly gain since 4Q14, offset weakness in private investment (-5.5%).
- As expected by the market, **the Fed** announced a 25 basis point "mid-cycle" interest rate cut, the first cut since 2008. Chair Powell emphasized the "insurance" nature of the cut, providing an upbeat economic assessment while acknowledging slowing global growth, muted inflation, and trade policy tensions.
- **July ISM Manufacturing** (51.2) remained in expansionary territory (a level above 50) but declined for the fourth consecutive month to the lowest level since August 2016. The decline was driven by weakness in production, which fell for the third time in four months, as well as contraction in the new export and backlog of orders subsectors.
- **The US added 224k jobs** in June, marking the 105th consecutive month of job gains and continuing the longest streak on record. **Wage growth** (+3.1% year-over-year (YoY)) was unchanged from the May reading and the unemployment rate (3.7%) rose slightly (+0.1%) but remains near historical lows.
- **Jobless claims** continue to reflect labor market strength as the indicator declined intra-month to (+212k) nearly the lowest level since 1969.
- **Headline inflation** (+1.7% YoY) slowed for the second consecutive month due to falling fuel prices. **Core CPI** (+2.1% YoY) has remained near the Fed's target +2.0% level for the sixth consecutive month.
- **Consumer confidence** (135.7) rose to the highest level since November 2018 and to the third highest level in 20 years. The "present situation" subsector rose to nearly the highest level since 2001.
- **Core retail sales** (ex. food, autos, and gas, +0.7% month-over-month (MoM)) rose for the second straight month. On a YoY basis, retail sales are rising above the 10-year historical average (+4.6% vs. +3.5% YoY).
- **Housing data** was negative as housing starts (-0.9% MoM), building permits (-5.2%), and existing home sales (-1.7%) all declined while new home sales (+7.0%) posted its largest increase since January. The pace of home price gains (S&P Case Shiller Home Price Index +2.4% YoY) continues to slow.
- **China's Manufacturing PMI** rose for the first time since March, but remained in contraction territory (a level below 50) for the third consecutive month (49.7).
- **Euro Zone Manufacturing PMI** (46.4) remained in contraction territory for the sixth straight month. Euro zone economic sentiment (102.7) declined to the lowest level since March 2016.

Fixed Income | Sovereign Yields 'Dance' Lower to Dovish Global Central Banks.

- The **Bloomberg Barclays US Aggregate Index** (+0.2% MoM) rallied for the fifth straight month, the longest streak of consecutive monthly gains in three years. Fixed income rallied as the accommodative shift from global central banks pushed sovereign yields lower and the continued rally in risk assets boosted credit related sectors.
- **Emerging market bonds** (+1.0% USD MoM) rallied for the eighth consecutive month. Despite the continued uncertainty surrounding US/China trade, EM bonds rallied on falling global sovereign yields and the first Fed rate cut in 11 years.
- **Municipals** (+0.8% MoM) rallied for the ninth consecutive month, the longest streak since August 2016. All three municipal sectors (general obligation +0.8%, revenue +0.8% and high yield +0.6%) were in positive territory in July.
- **US investment-grade bonds** (+0.6% MoM) rallied for the eighth consecutive month as spreads narrowed to the lowest level (108 bps) since October 2018. The rally in investment grade was led by the Utilities (+1.2%) and Industrials (+0.6%) sectors.
- **High-yield bonds** (+0.6% MoM) rallied for the sixth time in the last seven months. The continued rally in risk assets, historically low default rates, and still solid domestic US economic fundamentals led to a modest narrowing in high yield spreads (-6 bps to +371 bps) in July.
- **TIPS** (+0.2% MoM) rallied for the ninth consecutive month and outperformed nominal Treasuries (-0.1% MoM) for the second consecutive month.
- **International sovereign bonds** (G7 ex US -0.7%) declined for the first time in three months primarily due to a strengthening dollar.

Equities | Global Equities (Led by US) 'Celebrate' Accommodative Fed Stance.

- **Global equities** (MSCI All Country World Index +0.3% USD MoM) rallied for the sixth time in the past seven months. Despite continued uncertainty surrounding trade, global equities rallied (in large part due to the US) as a result of the sharp accommodative shift in global central bank policies.
- **U.S Large-Cap** equities (S&P 500 +1.4% MoM) rallied for the sixth time in the past seven months and continued the best start to a year (+20.2% YTD) since 1997. The accommodative shift in global central banks and a solid start to the 2Q19 earnings season boosted US equities.
- 7 of 11 **S&P 500 sectors** were in positive territory led by more cyclical sectors such as Communication Services (+3.4%) and Info Tech (+3.3%).
- **US Small Cap** equities (Russell 2000 +0.6% MoM) rallied for the second consecutive month, but underperformed US large cap equities for the fourth consecutive month.
- **Japanese equities** (MSCI Japan 0.1% USD MoM) were positive for the second consecutive month but underperformed global equities for the second consecutive month.
- **EM equities** (MSCI EM -1.1% USD MoM) posted only its second monthly decline for 2019, but outperformed the developed markets (MSCI EAFE USD -1.3% MoM) on a relative basis for the second consecutive month.
- Within EM, **Asia** (MSCI Asia ex JP -1.7% USD MoM) underperformed **LATAM** (MSCI LATAM +0.1% USD MoM) for the second time in three months.
- **European** equities (MSCI Europe ex UK -2.0% USD MoM) underperformed global equities by the widest margin (-2.3%) since August 2018 due to the deterioration in European economic momentum.

Commodities | Dollar 'Spark' Leads Commodities Lower.

- The **Bloomberg Barclays Commodity Index** (-0.9% MoM) declined for the fourth time in five months as broad commodities were pressured by the continued strength in the dollar, slowing global economic momentum, and continued trade uncertainty between the US and China.
- The **US Dollar Index** (+2.5% MoM) rallied for the fifth time in six months and posted the best monthly gain since November 2016. Despite the first Fed rate cut in 11 years, the Dollar strongly rallied due to the resilience of the US economy amidst slowing global economic momentum and continued political uncertainty (e.g., Brexit) in Europe.
- The **Bloomberg Grains Index** (-5.8% MoM) declined for the first time in three months led by weakness in wheat (-7.6% MoM) prices.
- The **Bloomberg Softs Index** (-5.4% MoM) posted the largest monthly decline since December 2017.
- The **Bloomberg Energy Index** (-0.1% MoM) declined slightly for the second time in three months. Despite the small decline at the headline level, crude oil (+0.2% MoM) narrowly rallied as increased political risks (tanker bombings in the Strait of Hormuz) and a sharp decline in US inventories pushed oil prices higher.
- The **Bloomberg Industrial Metals Index** (+1.2% USD MoM) rallied for the second straight month as increased fiscal stimulus from China boosted future industrial demand expectations.
- The **Bloomberg Precious Metals Index** (+2.2% MoM) rallied for the third consecutive month. Gold (+8.9% MoM) rallied to a six-year high as falling sovereign yields, a Fed rate cut, and slowing global economic momentum supported its price.

Figure 1: Robust Personal Consumption in Q2

Personal Consumption Expenditures rose 4.3%, which is the second best performance since the fourth quarter of 2014.

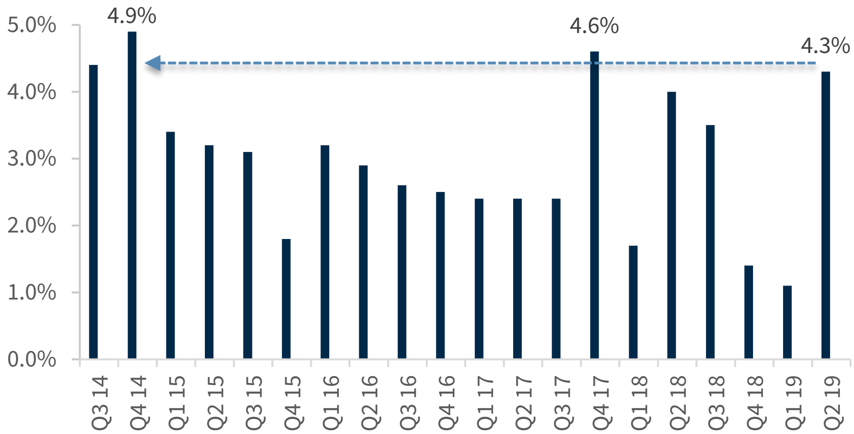


Figure 2: Cyclical Sectors Relatively Outperform

7 of the 11 S&P sectors were in positive territory in July, led by cyclical sectors such as Communication Services (+3.4%) and Information Technology (+3.3%).

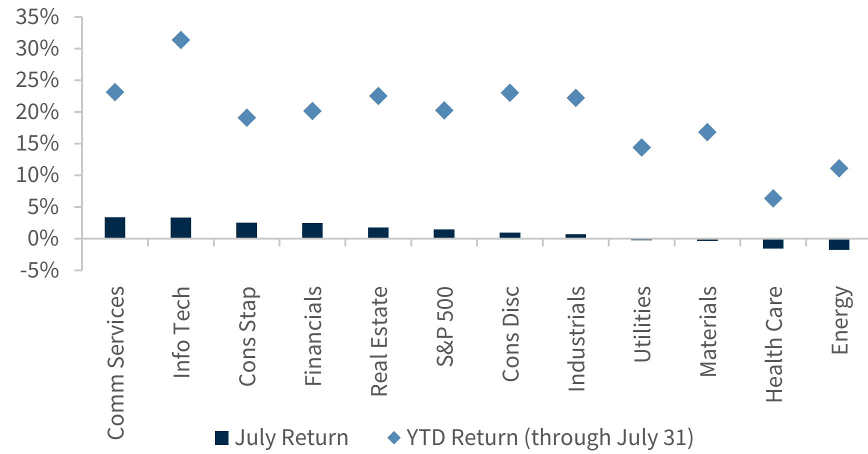


Figure 3: First Fed Rate Cut Since 2008

The Fed announced a “mid-cycle” 25 basis point rate cut in light of muted inflation, slowing global economic growth, and trade policy uncertainties.

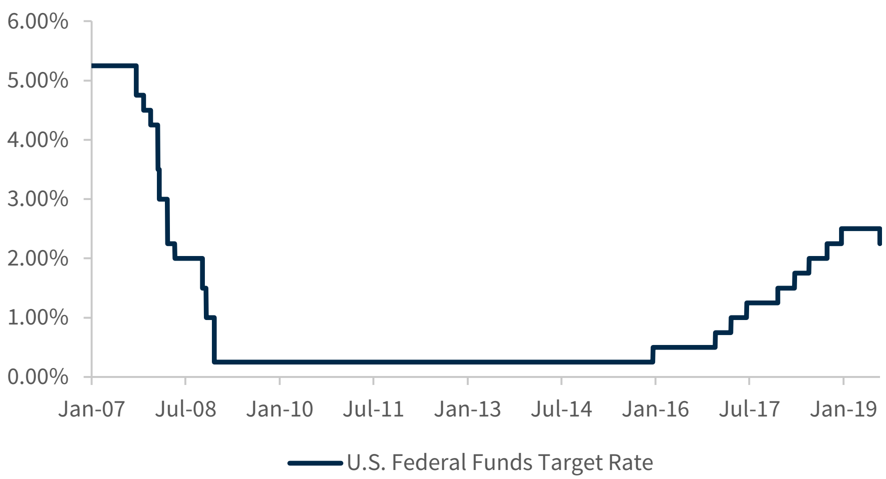
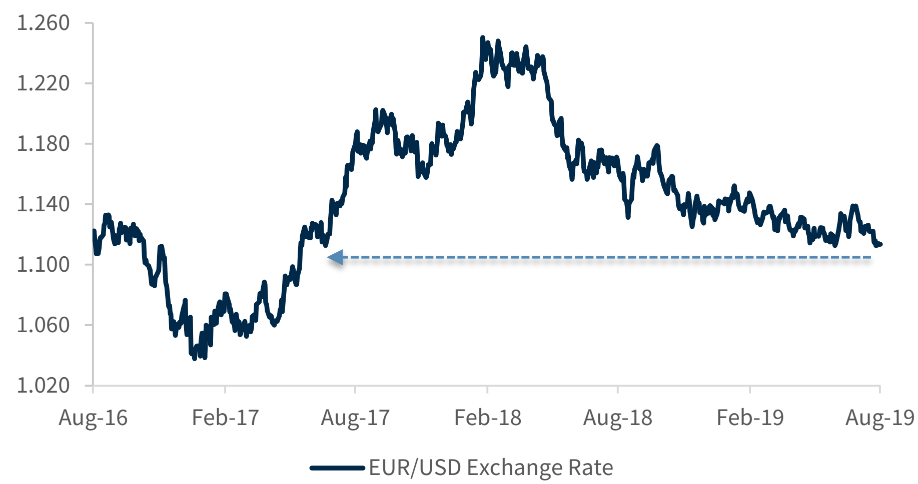


Figure 4: Strong Dollar Pushes EUR/USD Exchange Rate to 2-Year Low

The dollar posted the best monthly gain since November 2016, pushing the EUR/USD exchange rate to a 2-year low.



Fixed Income | Credit Sectors Outperform Sovereigns

	July	YTD	1 Year	3 Year	5 Year	10 Year
EM Bonds	1.0%	10.5%	10.2%	4.9%	4.8%	7.4%
Municipals	0.8%	5.9%	7.3%	2.8%	3.8%	4.6%
High Yield	0.6%	10.6%	6.9%	6.8%	5.1%	8.7%
U.S. Investment Grade	0.6%	10.5%	10.4%	3.6%	4.2%	5.7%
U.S. Aggregate	0.2%	6.3%	8.1%	2.2%	3.0%	3.8%
TIPS	0.2%	5.3%	5.2%	1.9%	1.5%	2.9%
Treasuries	-0.1%	5.1%	7.6%	1.2%	2.5%	3.0%
International Bonds	-0.7%	4.0%	4.7%	-0.5%	0.4%	1.5%

Equities | Large Cap Outperforms Small Cap

	July	YTD	1 Year	3 Year	5 Year	10 Year
Russell 1000 Growth	2.3%	24.2%	10.8%	17.1%	14.3%	15.7%
Russell 1000	1.6%	20.7%	8.0%	13.3%	11.2%	14.1%
S&P 500	1.4%	20.2%	8.0%	13.4%	11.3%	14.0%
DJ Industrial Average	1.0%	15.2%	5.7%	13.4%	10.2%	11.3%
Russell 2000 Growth	1.0%	21.5%	-1.2%	12.7%	10.2%	13.7%
Russell 1000 Value	0.8%	17.2%	5.2%	9.4%	8.0%	12.4%
Russell 2000	0.6%	17.7%	-4.4%	10.4%	8.5%	12.5%
Russell 2000 Value	0.2%	13.6%	-7.7%	8.0%	6.7%	11.2%

Commodities & FX | U.S. Dollar the Stand Out in July

	July	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	2.5%	2.4%	4.3%	1.0%	3.9%	2.3%
BBG Precious Metals	2.2%	8.2%	10.6%	-2.8%	-1.1%	2.4%
Gold	1.7%	12.2%	16.6%	1.9%	2.3%	4.2%
BBG Industrial Metals	1.2%	4.7%	-7.5%	4.2%	-4.0%	-2.2%
Crude Oil (WTI)	0.2%	29.0%	-14.8%	12.1%	-9.8%	-1.7%
BBG Energy Index	-0.1%	9.3%	-12.3%	1.8%	-17.6%	-12.2%
BBG Commodity Index	-0.9%	2.9%	-7.5%	-2.1%	-9.2%	-4.6%
Copper	-1.8%	1.3%	-5.8%	6.3%	-3.8%	0.2%

International Equities (in USD) | Europe the Underperformer in July

	July	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	0.3%	17.0%	3.5%	10.8%	7.1%	9.8%
MSCI Japan	0.1%	8.1%	-4.1%	6.2%	4.7%	5.7%
MSCI LATAM	0.1%	13.0%	9.0%	9.3%	-0.6%	1.8%
MSCI EM	-1.1%	9.5%	-1.8%	8.8%	2.2%	4.9%
MSCI EAFE	-1.3%	13.1%	-2.1%	7.4%	2.9%	6.3%
MSCI Asia ex JP	-1.7%	8.9%	-2.8%	9.4%	4.0%	6.7%
MSCI UK	-1.8%	10.9%	-4.6%	5.4%	-0.4%	5.7%
MSCI Europe ex UK	-2.0%	15.4%	-2.0%	8.5%	3.4%	6.6%

S&P 500 Sectors | Cyclical Sectors Lead the Way in July

	July	YTD	1 Year	3 Year	5 Year	10 Year
Communication Services	3.4%	23.1%	14.8%	1.4%	5.3%	9.7%
Information Technology	3.3%	31.4%	15.7%	24.4%	19.0%	17.9%
Consumer Staples	2.5%	19.1%	14.6%	6.0%	9.6%	12.4%
Financials	2.4%	20.1%	3.5%	16.0%	11.4%	12.4%
Real Estate	1.7%	22.5%	17.6%	6.5%	10.0%	16.2%
Consumer Discretionary	1.0%	23.0%	9.2%	15.4%	14.5%	18.8%
Industrials	0.7%	22.2%	3.6%	11.5%	10.3%	14.6%
Utilities	-0.3%	14.4%	16.5%	8.2%	11.5%	11.7%
Materials	-0.4%	16.8%	-0.1%	8.4%	5.8%	10.0%
Health Care	-1.6%	6.3%	4.3%	8.5%	10.2%	14.7%
Energy	-1.8%	11.1%	-16.0%	0.3%	-5.2%	4.4%

Key Asset Class Levels

	July	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	2,980	2,507	2,816	2,174	1,931	987
DJIA	26,864	23,327	25,415	18,432	16,563	9,172
MSCI AC World	524	456	520	416	423	266
S&P 500 Dividend Yield	2.02	2.31	2.00	2.18	2.13	2.29
1-3M T-Bills (Cash, in %)	2.04	2.39	1.94	0.24	0.01	0.17
2YR Treasury Yield (in %)	1.89	2.50	2.67	0.67	0.54	1.12
10YR Treasury Yield (in %)	2.03	2.69	2.96	1.46	2.56	3.50
30Yr Treasury Yield (in %)	2.53	3.02	3.08	2.18	3.31	4.31
EURUSD	1.11	1.14	1.17	1.12	1.34	1.42
Crude Oil - WTI ($/bbl)	57	45	69	42	98	69
Gold ($/oz)	1426	1281	1234	1358	1283	956

Data as of July 31: Asset classes ranked by monthly performance.

DISCLOSURE

Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default or principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk. Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers. Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments. The S&P/Case-Shiller Home Price Indexes, also known as simply the Case-Shiller Home Price Indexes, are a group of indexes that track changes in home prices throughout the United States. The indexes are based on a constant level of data on properties that have undergone at least two arm's length transactions. The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index’s three largest industries are materials, energy, and banks. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in each country. MSCI Asia ex JP: The MSCI Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries* in Asia. With 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. MSCI LATAM: The MSCI EM Latin America ex Brazil Index includes large and mid cap representation across 4 Emerging Markets (EM) countries* in Latin America. With 55 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies. Bloomberg Barclay Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD. Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD. Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Investors may not make direct investments into any index. Individual investor's results will vary. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the US stock market. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investable US equity market. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. US Treasury securities are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The Bloomberg Softs Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

Sources for Charts: Bloomberg, FactSet

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