RAYMOND JAMES

Monthly Market Review

Markets Abruptly "Avenge" Risk Asset Rally

May 2019

Risk Assets Falter as Flight To Safety Supports Sovereign Bonds

Monthly Highlights

- Trade War Escalates; U.S. Raises Tariffs on $200 billion from 10% to 25% and Threatens Additional Tariffs on $325 Billion of Imported Chinese Goods.
- USMCA Uncertainty; U.S. Imposes 5% Tariff on All Imported Mexican Goods Starting June 10.
- The Probability of One or Two Fed Rate Cuts in 2019 Rose to 91% and 60%, Respectively.
- U.S. Unemployment Rate (3.6%) Declines to the Lowest Level Since 1969.
- The Pace of Home Price Gains (+2.7% YoY) Slows to the Lowest Level Since August 2012.
- Theresa May Resigns as Brexit Process Continues.
- China Manufacturing PMI (49.4) Declines to the Lowest Level Since February 2016.
- Euro Zone Economic Sentiment Declines for the 10th Straight Month to a Two-Year Low.
- U.S. 10 YR Treasury Yield Falls to Lowest Level in Two Years. 10 YR German Bund Hits Record Low.
- U.S. Treasury Yield Curve (10 Year-3 Month) Inverts to the Lowest Level (-18 bps) Since 2007.
- S&P 500 Posts First Monthly Decline in 2019 and the Second Worst May in Over 50 Years.
- U.S. Dollar Rises for the Fourth Straight Month.
- Oil Posts Worst Monthly Decline in Six Months.

Economy | 'Endgame' for U.S. Economy Remains Stable Despite Current Choppiness.

- The advanced reading of the **1Q19 GDP** (+3.1% Quarter-over-Quarter (QoQ)) was revised lower from the seasonally strong preliminary first quarter reading (+3.2% vs. +1.1%, the average of the previous 10 1Q readings, per the U.S. Bureau of Economic Analysis). While personal consumption was revised modestly higher (to +1.2% QoQ from +1.1% QoQ), it remained weak from a historical perspective.
- **The Fed** continues to signal that it will remain on the sideline with respect to future rate hikes and cuts citing "transitory" inflation figures. However, the implied probability in the futures market for a 2019 Fed rate cut rose dramatically (91%) as a result of muted inflation and slowing global economic growth.
- **May ISM Manufacturing** (52.1) remained in expansionary territory (a level above 50) for the 32nd consecutive month but declined for the second consecutive month to the lowest level since October 2016. The decline was driven by weakness in the production and inventories subsectors while employment and new orders improved.
- **The U.S. added 263k jobs** in April, marking the 103rd consecutive month of job gains (the longest streak on record). **Wage growth** (+3.3% year-over-year (YoY)) remained near cyclical highs and the unemployment rate (3.6%) fell to the lowest level since 1969.
- **Jobless claims** rose modestly (to +215k) from the lowest level since 1969 in April (+196k) but continues to remain near historically healthy levels.
- **Headline inflation** (+1.9% YoY) rose for the second consecutive month to the highest level in five months due to rising transportation costs. **Core CPI** (+2.0% YoY) rose for the first time in six months.
- **Consumer confidence** (129.2) rose for the second consecutive month to the highest level since November 2018. The "present situation" subsector rose to the highest level since 2001.
- **Core retail sales** (ex. food, autos and gas, -0.1% Month over Month (MoM)) declined for the third time in five months and is rising on a YoY basis (+2.9% YoY) below the 10-year historical average (+3.3% YoY).
- **Housing data** was mixed as housing starts (+5.7% MoM) and building permits (+0.2% MoM) were positive while new home sales (-6.9% MoM) and existing home sales (-0.4% MoM) declined. The pace of home price gains (S&P Case Shiller Home Price Index: +2.7% YoY) slowed to the lowest level since August 2012.
- **China's Manufacturing PMI** declined for the second consecutive month and declined to the lowest level (49.4) since February 2016.
- **Euro Zone Manufacturing PMI** (47.5) rose modestly but remained near the lowest level in six years. Euro zone economic sentiment (103.9) declined for the 10th straight month to the lowest level in two years.

Fixed Income | Investors Continue to 'Marvel' Over Bonds in Flight to Safety Dynamic.

- The **Bloomberg Barclays U.S. Aggregate Index** (+1.8% MoM) rallied for the third straight month and posted its best monthly gain in five months. Fixed income prices were supported by a decline in sovereign bond yields, as trade uncertainty, concerns surrounding global growth and increased risk asset volatility led to increased flows into sovereign bonds.
- **U.S. Investment-Grade bonds** (+1.5% MoM) rallied for the sixth consecutive month as the decline in yields offset spreads widening to the highest level in four months. The rally in investment grade was led by the Utilities (+2.3%) and Industrials (+1.4%) sectors.
- **Municipals** (+0.4% MoM) rallied for the seventh consecutive month. All three municipal sectors (high yield +1.6%, revenue +1.4% and general obligation +1.4%) were in positive territory in May.
- **International sovereign bonds** (G7 ex U.S. +1.4%) posted their best monthly gain in five months as the decline in global sovereign yields (10-Year German Bund falling to record low) supported the asset class.
- **TIPS** (+1.1% MoM) rallied for the seventh consecutive month but underperformed nominal Treasuries (+2.4% MoM) by the widest margin in five months.
- **Emerging Market bonds** (+0.6% USD MoM) rallied for the sixth consecutive month. Despite an escalation in trade rhetoric between the U.S. and China, EM bonds rallied on falling global sovereign yields and rising expectations for future Fed rate cuts.
- **High-yield bonds** (-1.2% MoM) were the lone fixed income sector in negative territory and declined for the first time in five months. Increased risk asset volatility, rising trade uncertainty and concerns surrounding global growth led high yield spreads to widen to the highest level (433 bps) in four months.

Equities | A Not So 'Super' Month for Global Equities, Especially for EM and Cyclicals.

- **Global equities** (MSCI AC World -5.8% USD MoM) posted their first monthly decline year-to-date. Global equities declined on the escalation in trade rhetoric between the U.S., China and Mexico and the implications for an already slowing global economy.
- **EM equities** (MSCI EM -7.2% USD MoM) declined for the first time in five months and underperformed the developed markets (MSCI EAFE USD -4.7% MoM) for the second consecutive month.
- Within EM, **Asia** (MSCI Asia ex JP -8.5% USD MoM) underperformed **LATAM** (MSCI LATAM -2.0% USD MoM) for the first time in four months.
- **U.S Large-Cap** equities (S&P 500 -6.4% MoM) posted their first monthly decline in 2019 and second worst May over the last 50 years. Despite a better than forecast 1Q19 earnings season, U.S. equities declined due to the tit-for-tat trade conflict between the U.S. andChina and slowing global economic growth.
- 10 of 11 **S&P 500 sectors** were negative in May with only Real Estate (+1.2%) in positive territory.
- **U.S. Small Cap** equities (Russell 2000 -7.8% MoM) declined for the first time in five months and lagged large cap for the third consecutive month.
- **European** equities (MSCI Europe ex UK -5.0% USD MoM) declined for the first time in five months but outperformed global equities for the second straight month. While European equities declined due to a further slowdown in economic momentum, Europe outperformed global equities on a relative basis due to a delay in U.S. auto tariffs and Euro weakness.
- **Japan equities** (MSCI Japan -4.0% USD MoM) declined for the first time in three months but outperformed global equities by the widest margin since September 2018 on the delay of U.S. auto tariffs.

Commodities | Oil and Industrial Metals Get Stuck in the 'Web' of Trade War Fears.

- The **Bloomberg Barclays Commodity Index** (-3.6% MoM) declined for the third consecutive month as broad commodities were pressured by the escalation in trade uncertainty between the U.S. and China, slowing global economic momentum and continued strength in the U.S. dollar.
- The **U.S. Dollar Index** (+0.3% MoM) rallied for the fourth consecutive month and remains near the highest level in two years. The dollar continues to be supported by the strength of the U.S. economy relative to its global counterparts.
- The **Bloomberg Energy Index** (-12.2% MoM) declined for the first time in five months. Despite continued geopolitical risks and the elimination of Iranian export waivers, crude oil (-16.3% MoM) declined after posting its best start to a year since 1999 (+40.7% through 4/30) as concerns over future oil demand rose amidst slowing trade and economic momentum.
- The **Bloomberg Industrial Metals Index** (-6.1% USD MoM) declined for the second consecutive month and posted the worst monthly decline since May 2016. Industrial Metals declined due to the rising trade uncertainty and strength in the dollar.
- The **Bloomberg Precious Metals Index** (+0.5% MoM) rallied for the first time in four months. Gold (+2.0% MoM) led the rally as increased risk asset volatility, rising expectations for Fed rate cuts and slowing economic momentum supported the metal.
- The **Bloomberg Softs Index** (+0.7% MoM) rallied for the first time in four months led by strength in soybean (+2.8% MoM) prices.
- The **Bloomberg Grains Index** (+12.2% MoM) rose for the first time in four months and posted the best monthly gain since June 2015.

Figure 1: Rising Expectations for 2019 Rate Cuts

The expectations for one or two 2019 rate cuts rose to 91% and 60% respectively in May.

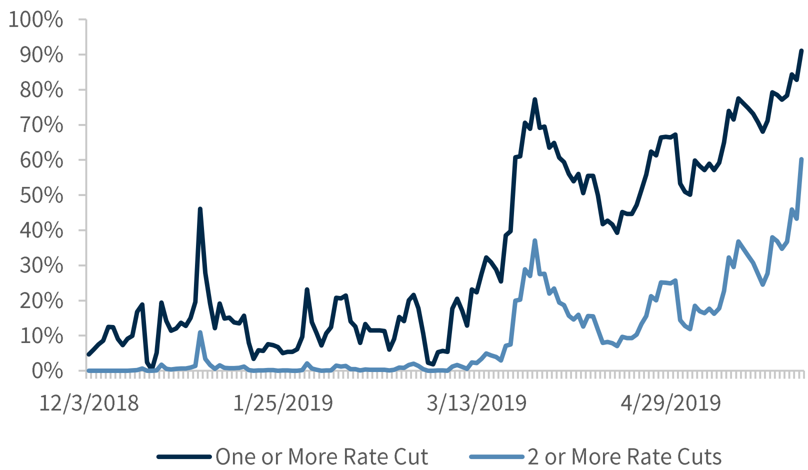


Figure 2: Defensive Sectors Relatively Outperform

Amidst the risk asset volatility, defensive sectors outperformed in May on a relative basis.

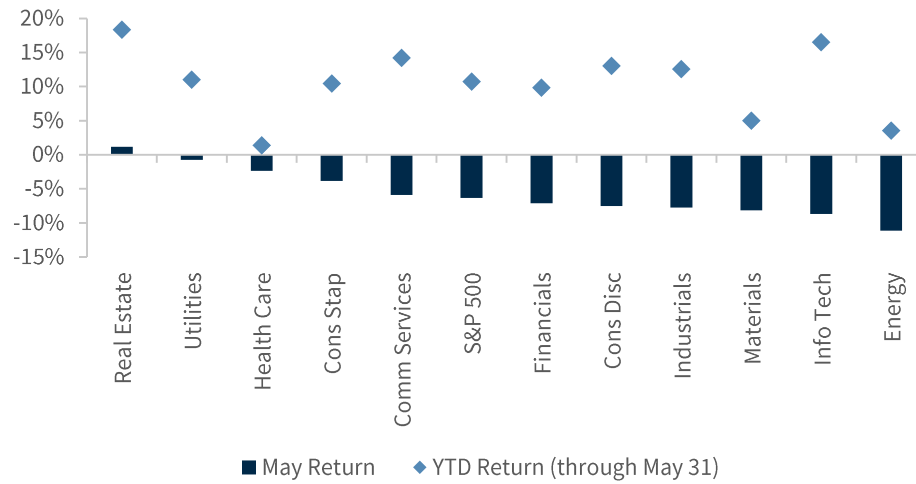
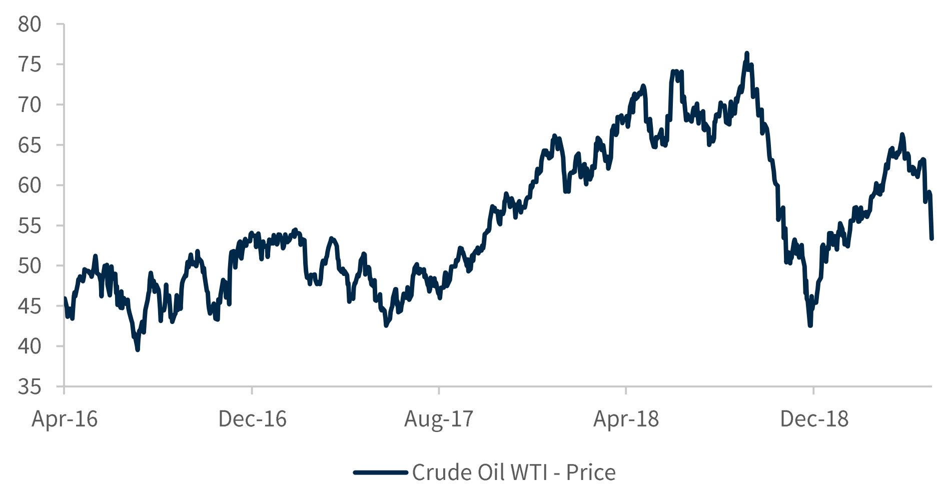


Figure 3: Treasury Yields Hit Multi-Year Low

The 10-year Treasury Yield declined to the lowest level since September 2017 due to rising expectations for Fed rate cuts, slowing global economic momentum and heightened trade uncertainty.

Figure 4: Crude Oil Whipsaw Continues

After posting the best start to a year since 1999 (+40.7% through April 30) crude oil posted its worst monthly decline in six months.



Fixed Income -Treasuries Lead Strong Fixed Income Performance

	May	YTD	1 Year	3 Year	5 Year	10 Year
Treasuries	**2.4%**	4.2%	6.3%	1.8%	2.3%	2.9%
International Bonds	**1.8%**	2.2%	1.0%	0.7%	0.0%	1.5%
U.S. Aggregate	**1.8%**	4.8%	6.4%	2.5%	2.7%	3.8%
U.S. Investment Grade	**1.4%**	7.2%	7.4%	3.9%	3.6%	6.1%
Municipals	**1.4%**	4.7%	6.4%	3.0%	3.6%	4.6%
TIPS	**1.1%**	4.1%	3.9%	2.1%	1.3%	2.8%
EM Bonds	**0.6%**	6.5%	7.3%	5.1%	4.2%	7.6%
High Yield	**-1.2%**	7.5%	5.5%	7.0%	4.4%	9.3%

Equities - Large Cap Outperforms Small Cap

	May	YTD	1 Year	3 Year	5 Year	10 Year
Russell 1000 Growth	**-6.3%**	13.7%	5.4%	15.3%	12.3%	15.6%
S&P 500	**-6.4%**	10.7%	3.8%	11.7%	9.7%	13.9%
Russell 1000	**-6.4%**	11.0%	3.5%	11.7%	9.5%	14.0%
Russell 2000 Value	**-6.4%**	11.0%	3.5%	11.7%	9.5%	14.0%
Russell 1000 Value	**-6.4%**	8.5%	1.4%	8.0%	6.5%	12.3%
DJ Industrial Average	**-6.7%**	6.4%	1.6%	11.7%	8.2%	11.3%
Russell 2000 Growth	**-7.4%**	11.8%	-6.9%	11.7%	8.3%	13.9%
Russell 2000	**-7.8%**	9.3%	-9.0%	9.8%	6.7%	12.8%

Commodities & FX - Commodities Decline, Led by Crude Oil Pullback

	May	YTD	1 Year	3 Year	5 Year	10 Year
Gold	**2.0%**	2.3%	0.5%	2.6%	1.0%	3.0%
BBG Precious Metals	**0.5%**	-1.1%	-5.2%	-1.1%	-2.1%	1.0%
U.S. Dollar Index	**0.3%**	1.6%	4.0%	0.7%	4.0%	2.1%
BBG Commodity Index	**-3.6%**	1.3%	-14.3%	-3.1%	-10.3%	-4.6%
BBG Industrial Metals	**-6.1%**	1.6%	-18.8%	6.5%	-3.7%	-0.6%
Copper	**-9.1%**	0.3%	-13.9%	8.0%	-3.3%	1.9%
BBG Energy Index	**-12.2%**	5.4%	-17.2%	-2.2%	-19.2%	-12.5%
Crude Oil (WTI)	**-16.3%**	17.8%	-20.2%	2.9%	-12.2%	-2.1%

International Equities (in USD) - Europe and Japan Outperform on a Relative Basis

	May	YTD	1 Year	3 Year	5 Year	10 Year
MSCI LATAM	**-2.0%**	6.3%	8.6%	13.0%	-0.8%	1.8%
MSCI Japan	**-4.0%**	4.0%	-9.6%	6.2%	5.1%	5.9%
MSCI EAFE	**-4.7%**	8.0%	-5.3%	6.3%	1.8%	6.7%
MSCI Europe ex UK	**-5.0%**	9.6%	-3.4%	6.6%	1.2%	6.9%
MSCI AC World	**-5.8%**	9.4%	-0.8%	9.7%	5.8%	10.0%
MSCI UK	**-6.0%**	7.6%	-7.5%	4.0%	-1.1%	6.2%
MSCI EM	**-7.2%**	4.2%	-8.3%	10.3%	2.2%	5.4%
MSCI Asia ex JP	**-8.5%**	3.9%	-10.8%	10.4%	4.3%	7.4%

S&P 500 Sectors - Cyclical Sectors Lag in May

	May	YTD	1 Year	3 Year	5 Year	10 Year
Real Estate	**1.2%**	18.3%	19.9%	8.5%	9.4%	16.4%
Utilities	**-0.8%**	11.0%	18.4%	9.6%	10.2%	12.4%
Health Care	**-2.4%**	1.3%	7.7%	8.8%	9.7%	15.1%
Consumer Staples	**-3.8%**	10.4%	15.6%	4.8%	7.3%	12.3%
Communication Services	**-5.9%**	14.2%	11.6%	2.2%	4.2%	9.5%
Financials	**-7.2%**	9.8%	-2.3%	12.7%	9.7%	12.1%
Consumer Discretionary	**-7.6%**	13.0%	5.9%	13.4%	12.7%	18.9%
Industrials	**-7.8%**	12.5%	-1.0%	10.0%	7.7%	14.5%
Materials	**-8.2%**	5.0%	-7.3%	6.1%	3.5%	9.6%
Information Technology	**-8.7%**	16.5%	4.4%	21.4%	17.0%	18.0%
Energy	**-11.1%**	3.5%	-20.0%	-1.7%	-6.3%	3.6%

Key Asset Class Levels

	May	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	2,752	2,507	2,705	2,097	1,924	919
DJIA	24,815	23,327	24,416	17,787	16,717	8,500
MSCI AC World	492	456	509	403	422	247
S&P 500 Dividend Yield	2.17	2.32	2.04	2.25	2.11	2.49
1-3M T-Bills (Cash, in %)	2.33	2.39	1.84	0.27	0.03	0.13
2YR Treasury Yield (in %)	1.94	2.50	2.41	0.88	0.37	0.92
10YR Treasury Yield (in %)	2.14	2.69	2.82	1.83	2.46	3.47
30Yr Treasury Yield (in %)	2.58	3.02	2.99	2.63	3.31	4.34
EURUSD	1.11	1.14	1.17	1.11	1.36	1.42
Crude Oil - WTI ($/bbl)	53	45	67	49	103	66
Gold ($/oz)	1310	1281	1305	1215	1246	980

Data as of May 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 U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'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 U.S. 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 U.S. 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. U.S. Treasury securities are guaranteed by the U.S. 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. A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond. The German government uses bunds to finance its spending, and bonds with long-term durations are the most widely issued securities. Bunds are auctioned only with original maturities of 10 and 30 years.

Sources for Charts: Bloomberg, FactSet

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