SAGE VIEW

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MARKET COMMENTARY

July 2019

Stocks raced to new highs in July, propelled by an expected cut in interest rates and better-than-expected corporate earnings. Despite a sharp sell-off on the final day of the month, the Dow Jones Industrial Average tacked on one percent, while the Standard & Poor's 500 Index rose 1.31 percent. The NASDAQ Composite lead with a 2.11 percent gain, leading markets for the second consecutive month.

The markets opened the month higher on news from the G-20 (Group of 20) that America and China would resume trade negotiations. However, prices faltered as a strong jobs report caused some to worry the Fed would further postpone cuts to interest rates.

In Fed Chairman Jerome Powell's testimony to Congress during the following week, he spoke of economic uncertainties, which many interpreted as a signal that a rate cut was coming. Investor confidence ran high, pushing the Dow over 27,000 and the S&P 500 past 3,000 for the first time.

With Powell's testimony over, attention quickly turned to earnings season and the business climate in 2019 and beyond. Profits and forward guidance were generally better than most feared. Recent FactSet data shows 44 percent of the companies in the S&P 500 have reported quarterly results, and 77 percent have posted earnings above estimates. Nevertheless, FactSet projects that overall earnings will be 2.6 percent lower once all the results are finalized.

On the last day of the month, the Fed announced plans to cut the federal funds rate by 25 basis points, or a quarter of a percent. Policymakers justified the move by pointing to global economic weakness, below-target inflation, and a desire to sustain America's economic expansion.

Stocks dropped following the Fed's press conference. Although the rate cut was widely anticipated, investors grappled with comments that suggested the Central Bank may not make further cuts. Fed Chair Powell called the July rate cut a "mid-cycle adjustment" and suggested that for further cuts, "wait-and-see" will be their approach.

Most industry sectors moved higher in July, with gains in Communication Services (+4.49 percent), Consumer Discretionary (+3.15 percent), Consumer Staples (+4.15 percent), Financials (+3.15 percent), Industrials (+1.21 percent), Materials (+0.62 percent), Real Estate (+1.14 percent), Technology (+5.77 percent), and Utilities (+1.11 percent). Energy (-2.37 percent) and Health Care (-0.21 percent) saw losses.

Since the Fed began signaling in January that it was likely to ease up on its monetary tightening, markets have raced ahead on expectations that verbal signals would eventually be followed by concrete action. Even though markets anticipated the July 31 cut, investors remain uncertain whether this rate cut would represent a one-time event or the start of an extended easing cycle. Should the Fed decide no further cuts are necessary, it may force investors who adapted their portfolios in anticipation of further cuts, to reevaluate their positions.

In the coming months, the Federal Reserve will likely exert an outsized influence on markets, even as investors' attention remains focused on the ongoing China trade talks and key economic markers.

International equities moved in the opposite direction of U.S. stocks, as the MSCI-EAFE Index slipped 1.16 percent in July. Most European markets retreated on economic weakness, uncertainty over trade, and the growing likelihood that Britain could exit the E.U. without a deal. Germany lost 1.69 percent, and France slipped 0.36 percent. Great Britain, however, picked up 2.05 percent. Pacific Rim stocks were mixed. Hong Kong fell 2.68 percent, on rising domestic tensions. Australia gained 2.93 percent, while Japan dropped 0.94 percent.

This material is provided by SageView Advisory Group and written by FMG Suite, LLC.

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SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q2 2019	2.1%	↑	Q2 GDP came in slightly above expectations, but a decrease from the prior quarter. The deceleration reflected downturns in inventory investment, exports, and nonresidential fixed investment.
Global Real GDP Growth (ann. rate; Source: IMF)	Q4 2018	3.6%	n/a	The IMF's global growth forecast for 2019 is 3.3%, slightly lower than 2018 due to slowing growth in advanced economies and certain emerging markets, particularly China.
Non-Farm Employment Growth	July 2019	164,000	↔	Steady job growth continued in July. Through the first 7 months of the year employers added an average of 165,000 jobs per month, which compares to an average of 223,000 last year.
Unemployment Rate	July 2019	3.7%	↔	The unemployment rate held steady near its 50-year low, and average hourly wages advanced 3.2% from a year prior, contributing to an overall healthy job market.
ISM Manufacturing Index	July 2019	51.2	↓	Manufacturing activity expanded in July, but at a slower pace than the prior month. This represents the fourth straight month of slowing PMI expansion.
ISM Non-Manufacturing Index	July 2019	53.7	↔	Growth in the U.S. services sectors decelerated in July to its weakest level in three years, as trade worries weighed on business orders and the outlook for the overall economy.
Capacity Utilization	June 2019	77.9	↔	Capacity utilization for the industrial sector decreased 0.2 percentage point in June to 77.9 percent, a rate that is 1.9 percentage points below its long-run (1972–2018) average.
Consumer Price Index (CPI, SA)	June 2019	0.1%	↓	Increases in the indexes for shelter, apparel, and used cars and trucks more than offset declines in energy indexes, resulting in an increase to the all items index for June.
Producer Price Index (Final Demand, SA)	June 2019	0.1%	↓	In June, the rise in final demand prices is attributable to a 0.4 percent increase in the index for final demand services. Conversely, prices for final demand goods fell 0.4 percent.
Leading Economic Indicators Index (LEI)	June 2019	-0.3%	↓	The decline in LEI was primary driven by weakness in new orders for manufacturing, housing permits, and unemployment insurance claims. This was the first decline since last December.
10-year Treasury Yield	July 2019	2.02%	↓	The 10-year Treasury yield ended roughly where it started in July. The Fed cut interest rates by 25 bps at the end of the month, which the market had been widely expecting.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	July Close	July	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	26,864	1.12%	16.69%	8.22%	16.11%	12.87%
S&P 500	2,980	1.44%	20.24%	7.99%	13.36%	11.34%
Nasdaq	8,175	2.15%	23.94%	7.74%	17.86%	14.65%
Russell 2000	1,575	0.58%	17.66%	-4.42%	10.36%	8.53%
International Indices						
MSCI EAFE (Developed)	1,897	-1.26%	13.05%	-2.09%	7.40%	2.89%
MSCI EM (Emerging)	1037	-1.14%	9.50%	-1.80%	8.83%	2.22%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	0.22%	6.35%	8.08%	2.17%	3.05%
Bloomberg Barclays US TIPS	---	0.36%	6.53%	5.72%	1.91%	1.82%

Commodities and Real Estate						
Bloomberg Commodity Index	167	-0.67%	4.35%	-5.36%	-0.68%	-8.34%
Crude Oil ($/bbl)		$58.58	$45.41	$68.76	$41.60	$98.17
DJ US Select REIT	11,062	1.60%	18.54%	10.89%	2.80%	7.90%

Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

*The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman 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 debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.*

*The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several sub-indices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.*

*The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable 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, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*

*The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

*The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.*

*The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

*The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The **Russell 3000** Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

*The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.*

*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*