

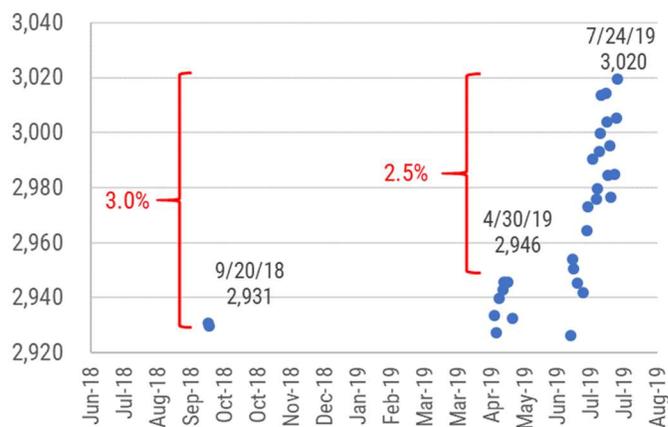


## Grinding Higher

### WEEKLY REVIEW

Equity markets continued to grind higher this week, driven in opinion, by better than expected second quarter earnings. However, as we pointed out over the last couple of weeks, the bar was rather low leading into earnings season, especially given the vast array of geopolitical headwinds facing investors. In fact, **Bloomberg noted on Wednesday that while Q219 results have been better than anticipated, companies are not raising forward guidance and second-half, and full-year 2019 estimates are rapidly deteriorating.** Still, on Wednesday, the S&P touched yet another all-time high of 3,020, providing some investors additional cause to chase equity prices with the hope of quelling their FOMO (fear of missing out). But we remain more cautious than ever, as economic data over the last week proved sketchy, and risks to the current bull market/economic expansion are not going away. To this point, as we illustrate in Exhibit 1, **Wednesday's high of 3,020 was only 2.5% higher than the previous "peak" of 2,946 set on April 30, 2019 and 3.0% greater than the September 20, 2018 peak of 2,931.** So, despite all the hoopla about the S&P 3,000, the market has not really pushed significantly higher over the last 10 months. But what has moved markedly higher was stock and bond volatility, yet another hallmark of late-cycle market dynamics.

Exhibit 1: Higher Highs



Source: NEPCG and Factset

What else are we following this week?

- 2Q19 GDP [surprises to the upside](#), printing at 2.1% vs. the consensus expectation of 1.8%, raising controversy if/when the Fed should cut short term borrowing rates.
- Economists are looking for only a 0.25% cut from the Fed next week [according to Reuters](#). Based on a poll, over 95% of 111 economists surveyed expect a 0.25% rate cut. Economists believe only a 0.50% cut through 2021, while the market is pricing in about 0.75% of cuts.
- [North Korea launched two projectiles](#) off its east coast on Thursday, according to the Wall Street Journal, traveling about 270 miles, suggesting these were short-range missiles -- comparable to the last test-firing on May 9<sup>th</sup>. Again, despite an additional meeting between Kim Jong Un and President Trump in late-June, no formal talks have yet to commence.
- [Iran fired a Shahab-3 medium-range missile](#) from the southern coast of Iran and landed east of Tehran, flying about 1,100 kilometers, or about 680 miles, and stayed inside Iran for the entire flight.
- Boris Johnson, the newly minted UK Prime Minister, [named his new team late Wednesday](#), selecting several pro-Brexit MPs (member of Parliament) for top jobs and has advisers with a goal of executing a formal Brexit with 100 days.
- [Global economic data remains sketchy](#); Germany on the verge of recession, as manufacturing hits seven-year low.
- **Market Recap:** U.S. equity markets were mixed, but mostly higher for the week. The S&P was higher by 0.3% over the last 5 trading days (Thurs-Thurs). Bonds were also mixed for the week, with high-yield and munis higher by 0.5% and

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0.2%, respectively, as corporates and governments lagged. Defensive equities (REITs/Healthcare/Utilities) lagged while Cyclical (Tech) led. Oil was higher by about 1.2% for the week, while Gold was down about 0.7%. The US\$ index was up by about 0.8% and the 10Yr Treasury ended the week at 2.08%, up 3bps from week-ago levels of 2.05%.

**We'd love to hear your thoughts.**

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