Market review and outlook

August was marked by a high level of volatility, despite being a historically quiet month. Risk assets finished the month in negative territory but year-to-date performance remains solid. Escalating trade tensions between the US and China served as the largest headwind to equity markets. In the beginning of the month, Trump announced his intention to impose a 10% tariff on the remaining Chinese imports not yet subjected to tariffs. This spurred a retaliatory announcement from China to increase tariffs on US imports, including agricultural goods, crude oil, and cars. As a result, business and investor sentiment dropped and concerns of an economic downturn heightened.

The S&P 500 Index finished -1.6% for the month but is up 18.3% year-to-date. Sector performance was mixed with most sectors ending negative for the month. Defensive sectors including utilities (+5.2%) and consumer staples (+1.8%) benefited from a risk-off environment. Real estate (+5.0%) was also positive for the month. Energy (-8.1%), financials (-4.9%), materials (-2.8%), and industrials (-2.6%) experienced challenges brought forth by the threat of additional tariffs, lower commodity prices, and a flattening yield curve. From a style perspective, growth outperformed value and leads year-to-date. Large cap stocks outpaced both mid and small cap stocks.

International developed equities, as measured by the MSCI EAFE Index, were down -2.6% in August, but are up 17.0% year-to-date. Weaker economic data and rising political uncertainties within the eurozone reinforced expectations that the European Central Bank will cut interest rates at its September meeting. Brexit negotiations remained murky with no clear resolution and have continued to weigh on the UK economy. The MSCI Emerging Markets Index was down -4.9% for the month but remains in positive territory year-to-date (+4.2%). China, a key driver of index performance, increased its stimulus measures to help counterbalance the negative effects of the trade war. Although a small weight in the index, Argentina faced significant challenges during the month falling more than 50% due to political turmoil over the upcoming presidential election and a looming sovereign debt default.

The Bloomberg Barclays US Aggregate Index was up 2.6% in August and has gained 9.1% year-to-date. The 10-year Treasury yield fell 52 basis points and ended the month at 1.5%. A flight to quality in response to the trade war rhetoric and fears of slower growth, in addition to the relative attractiveness of US Treasury bonds amidst an increasing amount of negative yielding debt globally, led to a surge in demand and subsequent drop in yields. As a result, the 10-year/2-year measure of the yield curve inverted at the end of the month, which has historically been a recession warning. Expectations are now for more aggressive Federal Reserve (Fed) monetary easing with two to three additional rate cuts in 2019. Inflation expectations meaningfully declined. Credit spreads were volatile and ended the month slightly higher.

As we continue moving through the business cycle, we still find several factors supportive of the economy and markets; however, we remain cognizant of the risks. In the short-term, a number of factors are adding to global uncertainty and increasing the likelihood of additional market volatility.

The following factors should provide support to the economy and markets over the near-term:

- **Fed easing:** After an extended pause, the Fed implemented a 25-basis point interest rate cut with a high probability for additional rate cuts to help mitigate the possibility of an economic downturn.
- **Low inflation:** Inflation globally is low and slowing and inflation expectations have fallen recently. Lower inflation in the US provides the Fed greater flexibility to ease monetary policy.

- **US relative economic growth:** US economic growth has moderated but is attractive relative to the rest of the world. US fundamentals have declined from their peak but remain solid and we see continued strength in the labor market.

However, risks facing the economy and markets include:

- **Global policy uncertainty:** The development of tariffs and other restrictive trade policies have led to tensions between the US and its global trading partners. Rising populism and political turmoil have increased the possibility for global geopolitical missteps.
- **Interest rate environment/yield curve:** The 10-year/2-year measure of the yield curve inverted, which has been a reliable recession warning over each of the past seven recessions. In addition, the impact of the growing pool of negative-yielding debt is a concern.

We continue to believe the weight of the evidence leans positive and fundamentals are supportive for risk assets over the near-term. US economic growth, while moderating, is still positive and the Fed is likely to continue to support growth in the absence of inflation. However, we expect continued volatility due to global policy uncertainty and actions of governments and central banks.

Brinker Capital Market Barometer

The weight of the evidence remains moderately positive, in line with our neutral to slight overweight overall risk positioning in portfolios.

SHORT-TERM FACTORS (< 6 months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Improvement in new highs
Trend	→		●		S&P 500 Index breakout from recent range
Investor sentiment				●	Sentiment surveys show pessimism; equity fund flows negative
Seasonality		●			Seasonality remains a headwind until mid-October

INTERMEDIATE-TERM FACTORS (6-36 months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	←		●		Fiscal stimulus potentially dwarfed by tariffs in 2020
Monetary policy				●	Expect additional Fed rate cuts; global central banks accommodative
Inflation				●	Global inflation low; US wage growth has increased
Interest rate environment			●		Significant amounts of debt trading at negative rates; curve inversion
Macroeconomic			●		Global growth slowdown but still positive; US/China trade war concerns
Business sentiment			●		Small biz confidence improved; CEO confidence moderately pessimistic
Consumer sentiment				●	Measures have ticked down but remain at elevated levels
Corporate earnings	←		●		US earnings growth slow but positive; weaker ex-US
Credit environment				●	Credit spreads have remained in check despite equity market volatility

LONG-TERM FACTORS (36+ months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle				●	Long recovery but has been muted; increasing fears of US recession
Demographics			●		Mixed (US and emerging markets positive; developed int'l negative)

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