Strategic Investment Group®

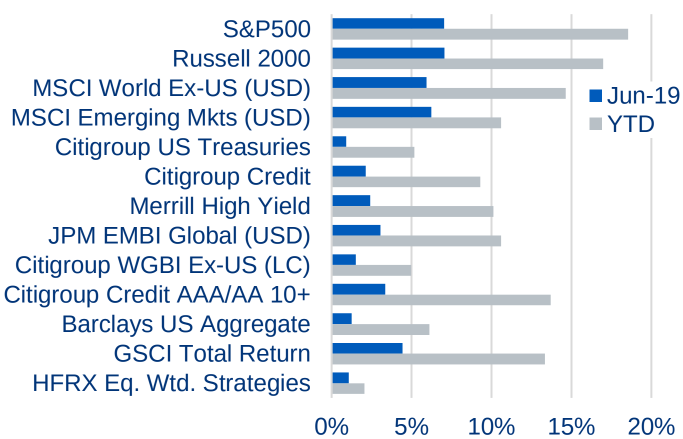
Global Market Review

Macro Summary

Global equity markets rebounded strongly in June following May's heavy losses. A yield curve drifting further into inversion, signs of a slowing U.S. job market, and persistent trade and geopolitical tensions did little to quell a risk appetite whetted by the prospect of dovish moves by central banks. Rates in both the U.S. and Europe found new lows, while emerging market debt surged as investors searched for yield. Oil prices recovered as Middle East tensions flared and supply concerns persisted, while gold sparkled with falling yields.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



U.S. Stocks Up despite Growing Concerns

After a 7.0% gain in June, the S&P 500 Index finished its best first half in two decades despite an inverted yield curve, persistent geopolitical and trade uncertainty, and concerns over waning global growth prospects. After a brief but sharp fall in May, U.S. equities came roaring back to recoup their losses and are now up 18.5% for the year to date. Paradoxically, weak U.S. economic data on wages and jobs growth sent investors pouring into stocks as signs of sluggishness galvanized their hopes for Fed rate cuts.

Gains were spread evenly across market segments. Value, growth, large and small cap stocks all posted returns hovering around 7%. Energy (9.1%) and materials (11.7%) led sector performance, riding surging oil prices and the prospect of lower rates. Financials finished middle of the pack despite all 18 of major U.S. banks passing the Fed's first round of stress tests. Utilities and consumer staples lagged, gaining 3.0% and 4.9% respectively, as investors' risk appetite in June steered them away from defensive sectors.

Non-U.S. Markets Heat Up

Non-U.S. markets joined in the global rally as the rhetoric around global trade improved and investors looked toward the G20 summit with increasing optimism. The MSCI World ex-US Index of developed markets gained 5.9% and the MSCI Emerging Markets rose 6.2% in June.

Amidst a sweltering start to summer, European equities earned 7.2%. Trade-sensitive sectors including industrials, materials, and consumer discretionary led the rally as trade talks between China and the U.S. took on a more positive note. Italian equities were a particular bright spot, soaring 9.5% after the European Commission held off on launching a disciplinary process against the country's rising debt levels. The rally was less pronounced across the pond, with UK markets underperforming their European peers, gaining 4.7% as the Bank of England cut its forecast for second quarter economic growth to zero. Politics remained an overhang on equity markets, while the overall PMI fell to 48.4 from May's 49.4 amidst weaker-than-expected manufacturing and export output.

Emerging Markets fared even better than their developed counterparts. Chinese equities enjoyed a respite as the U.S. suspended further tariffs on Chinese imports while trade talks

1001 Nineteenth Street North
16th Floor
Arlington, VA 22209 USA

+1 703.243.4433 TEL
+1 703.243.2266 FAX

strategicgroup.com

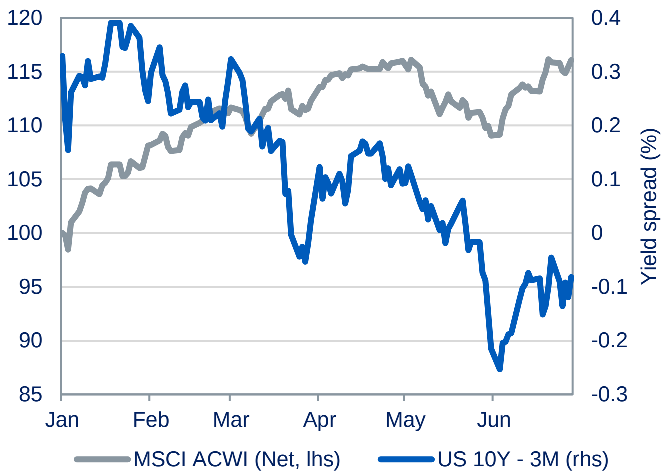
between the world's two largest economies resumed. The MSCI China Index climbed 7.8% on the news. Elsewhere, Russia was the best performing emerging market, gaining 8.7%. Analyst forecasts for dividend yields on Russian equities over the next year hit new highs, bolstered by rising oil prices and better-than-expected payouts by state-owned enterprises.

Yields Fall Further on Dovish Expectations

Yields continued to fall in June as investors found even more reason to expect dovish policy moves by the Fed in the coming months. There has been a striking shift in sentiment over the past year. Markets have gone from expecting that the Fed would raise rates at a faster pace than FOMC pronouncements suggested to the opposite view today. Markets now are anticipating more cuts than the Fed has indicated as likely.

Global Equities Continue to Rise, Despite Inverted Curve

Source: Bloomberg.



The 10-year U.S. Treasury yield briefly dropped below 2% as the yield curve fell deeper into inversion territory. What many have been heralding as the harbinger of a recession seems to have had little impact on investors' risk appetite. Global equities have enjoyed double-digit returns for the first half of the year (Exhibit above).

U.S. yields did not take their early summer dip alone. Yields on the 10-year German bund reached a new record low in negative territory after the ECB's Mario Draghi confirmed in more explicit terms that the central bank stands ready to launch a new round of stimulus if the need arises. With a weaker dollar and the prospect of lower to negative yielding sovereign debt in developed markets, emerging market debt surged in June. The JPM Emerging Market Bond Index rose over 3% in dollar terms, which itself fell nearly 2%. The EMBI has now gained 10.6% for the year, in line with emerging market equities.

Corporate credit also fared well in June's risk-on environment. U.S. high yield bonds advanced another 2.1%, and are now up over 10% for the year through June.

Macro Rebounds amid Moves in Rates

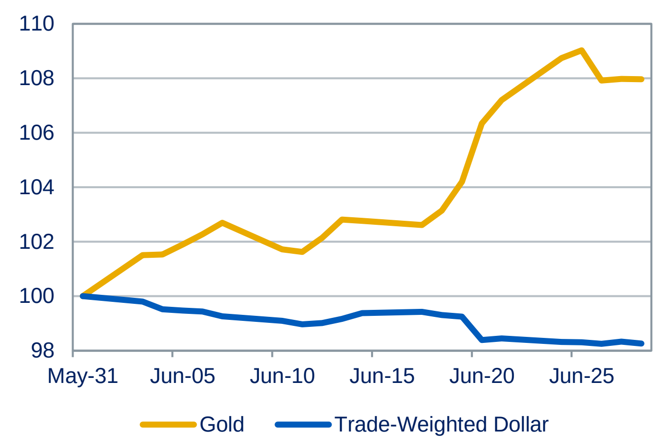
Hedge funds fared well in the June rebound, led by global macro strategies, which gained 2.6%. Macro funds were well-positioned ahead of the drop in yields across developed markets, while also capturing upside in the equity markets. Merger arb strategies lagged, falling 0.3%, reflecting the recent softening in the M&A market. Long/short equity funds gained 1.4% in the equity rally, and continue to lead hedge fund strategies for the year to date. The HFRX Equal Weighted Index returned 1.2% in June.

Oil, Gold Drive Commodities

Oil bounced back in June after plummeting in May as tensions flared between the U.S. and Iran. Crude prices snapped a mid-month slide in the aftermath of oil tanker attacks in the Gulf of Oman. Additionally, U.S. crude stockpiles fell more than expected, and OPEC and its allies are poised to extend oil production cuts into the second half of the year. Gold rose 8% in June to set a six-year-high as investors fled dollar-denominated assets and sought alternatives to low yields across developed markets (Exhibit below). Both gold and oil markets carried the GSCI 4.4% higher in June.

Gold Rises, Dollar Falls As Yields Tumble

Source: Bloomberg.



Performance of Major Market Indices through 6-30-2019

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	7.0%	4.3%	18.5%	10.4%	14.2%	10.7%
Russell 2000	7.1%	2.1%	17.0%	-3.3%	12.3%	7.1%
MSCI World Ex-US (USD)	5.9%	3.8%	14.6%	1.3%	9.0%	2.0%
MSCI Emerging Mkts (USD)	6.2%	0.6%	10.6%	1.2%	10.7%	2.5%
Citigroup US Treasuries	0.9%	3.0%	5.2%	7.2%	1.3%	2.5%
Citigroup Credit	2.1%	4.2%	9.3%	10.4%	3.8%	4.0%
Merrill High Yield	2.4%	2.5%	10.1%	7.6%	7.5%	4.7%
JPM EMBI Global (USD)	3.0%	3.8%	10.6%	11.3%	4.6%	4.5%
Citigroup WGBI Ex-US (LC)	1.5%	2.5%	5.0%	5.5%	1.3%	3.5%
Citigroup Credit AAA/AA 10+	3.3%	6.5%	13.7%	15.9%	4.8%	6.7%
Barclays US Aggregate	1.3%	3.1%	6.1%	7.9%	2.3%	2.9%
GSCI Total Return	4.4%	-1.4%	13.3%	-11.5%	1.6%	-13.3%
HFRX Eq. Wtd. Strategies	1.1%	1.1%	2.1%	-2.3%	1.6%	0.2%