SUMMIT FINANCIAL

# Investment Update for the week of June 24th, 2019

- **Global Markets: Accommodative central banks and G-20 Summit hopes helped push global equity markets higher and the S&P 500 back to all-time highs.**
  - **U.S. Equities:** Last week's Fed meeting reaffirmed investor's expectations for a continued dovish stance and potential cuts this year. Investors were most focused on removal of the word 'patient' from the Fed's statement, suggesting they remained poised to act to sustain economic growth. This was a boost to both equity and credit markets, as stocks rallied and rates fell. On the equity side, the S&P 500 finished the week up 2.2%, with the largest gains in the energy, tech, and healthcare sectors. The energy sector's rise was in response to a jump in the price of oil, following increasingly higher tensions in the Middle East. More defensive, lower beta sectors generally realized smaller gains, in addition to the financials sector, which often faces compressed net interest margins (NIMs) when rates fall. All in all, the S&P set a new high on Thursday at 2,954.18 and remains up nearly 19% so far in 2019.
  - **Developed, International Equities:** The MSCI EAFE Index had similar gains, increasing 2.2% last week. This brought the index's YTD gain to an impressive 13.8%, although it still lagged to the results of most U.S. benchmarks. In Europe, equity markets also responded positively to anticipation of additional central bank stimulus. Draghi and the ECB indicated that they remained poised to act if growth continues to stall. This pushed the Euro and most European sovereign debt yields lower, with France's 10-Year debt hitting 0%, the lowest level ever. Japanese markets underperformed last week, with the MSCI Japan increasing only 10bps. The BoJ announced that it will keep monetary policy unchanged late last week, in contrast to other major central banks which indicated a further willingness to cut rates.
  - **Emerging Market Equities:** EM equity was the best performer last week, as the MSCI EM Index increased 3.8%. EM equities were led by China, as the MSCI China rose 5.0%. Unsurprisingly, Chinese equities were bolstered by hopes of a de-escalation of trade tensions during this week's G-20 discussion between Presidents Trump and Xi. While the meeting is viewed as a positive development, the verdict is still out on whether the U.S./China trade conflict is anywhere close to resolution.
  - **Credit Markets:** In-line with expectations, the Fed indicated it's ready to act amongst slower domestic growth. This allowed U.S. Treasury 10-Year yields to temporarily drop below the symbolic 2.0% level. Inflation has been a big driver of the Fed's policy decisions. Despite near record low unemployment levels and equity markets at all-time highs, U.S. inflation remains below the 2.0% target level. The fall in rates paired minimal credit stress was supportive for more areas of the fixed income market. High yield marked the largest gains, helped by the rally in oil, as energy-oriented bonds represent a sizeable portion of that market. Muni performance was also positive, and the narrative is unchanged, valuations are rich relative to most other areas of credit markets but supply remains constrained.
- **Economic Data/News: Economic data continues to point to slower global growth while investors look to central banks to sustain the expansion.**
  - **U.S.:** The Fed and the trade dispute with China once again dominated headlines. News surrounding both items was incrementally positive - the Fed remains accommodative and President Trump mentioned that him and President Xi would have an 'extended meeting' at the G-20 Conference in Osaka, Japan later this week. We'll see what comes of the Osaka Summit, in what seems like a roller coaster of headlines and tweets each week. The WSJ published an article last week discussing the fall in rates and highlighting how un-consensus it

was. Of 69 economists it surveyed earlier this year, not a single one expected 10Y Treasury yields to fall much below 2.5%. Yet, here we are again with the 10Y Treasury hovering around 2.0%.

- **Developed, International:** Eurozone PMI data rose slightly in June to 52.1. As a reminder, a number above 50 represents expansion while a number below 50 represents contraction. While still representing expansion, recent Eurozone PMI and economic data hasn't been overly impressive, suggesting that further easing is in the cards. Japan's economy is also in a mixed state. While industrial production continues to increase, Japanese exports have been hit particularly hard by the trade dispute. Exports declined about 8% in May YoY, the sixth consecutive month of declines.
- **Emerging Markets:** Stepping outside of China for a minute, Turkey continues to face its own set of challenges. Most recently, Moody's downgraded its sovereign debt amongst geopolitical tensions. They are also vulnerable to further U.S. sanctions over their purchase of Russian military equipment.

- **Odds and Ends: Eat more chicken…**
  - Anyone who's driven past the recently opened Morris Plains location knows that people tend to go crazy for **Chick-fil-A**. So much so, that Chick-fil-A is now the third largest restaurant chain in the U.S. by sales, only topped by McDonalds and Starbucks. This achievement has also been reached with a smaller number of stores and being closed Sundays. For context, Business Insider reported that the average Chick-fil-A did $4.6 million in annual sales in 2018 compared to $2.8 million by the average McDonalds. This has some experts saying that other fast food chains should be worried, as the east coast remains underpenetrated by the chain, leaving plenty room for natural expansion.
  - Outside of the fast food industry, **Facebook** unveiled its own crypto currency last week, Libra. Libra will be a secure blockchain based payments system that's backed by hard assets to help achieve stability. This gives further insight into Facebook's ambition to bring payments and financial transactions to its more than 2.4 billion monthly active users.
- **Podcast of the week:** He might not be as household a name as Buffett, but Chuck Akre has been quietly beating markets over the past three decades. Chuck ran the FBR Focus Fund in the early 2000s, which was regularly in the top 5% of its asset class. Chuck has turned to focus on his own firm, Akre Capital, which has about $10 billion in assets and invests in business models that fit his three-legged stool approach. This includes businesses with strong management teams with proven track records, significant long-term competitive advantages, and long-term reinvestment opportunities. For a broader discussion about Chuck's career and investment philosophy, the most recent Invest Like the Best podcast is worth a listen.
  - **Link**: http://investorfieldguide.com/akre/

**Sources**: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update, AB: This Week in Muni-land, Edward Jones Weekly Market Update, Business Insider