SUMMIT FINANCIAL

Investment Update for the week of June 17th, 2019

- **Global Markets: Equity markets sustained modest gains with EM equities leading the way**
    - **U.S. Equities:** Broader market strength stemming from a delay in U.S. sanctioned tariffs on Mexico, faded by the end of the week. Within U.S. markets, the S&P 500 eked out a 50bps gain with small-caps (as measured by the Russell 2000) outperforming large-caps by 10bps. Within the S&P, the consumer discretionary (+2.5%) and communication services (+1.4%) sectors demonstrated notable weekly outperformance. The energy (-0.5%) and industrial (-0.4%) sectors were the most significant laggards. The energy sector has been a notable underperformer YTD, increasing 7.4% compared to the S&P 500's 16.3% gain. This largely followed the recent slide in the price of oil. Notably, domestic gas prices have fallen five consecutive weeks during the start of summer driving months. A time when increased demand tends to push prices higher. Gas prices even slid below $2/gallon in certain parts of the country, although we've yet to have such luck in NJ.
    - **Developed, International Equities:** Broad developed, international markets lagged the U.S. for the week, as the MSCI EAFE Index declined 30bps. YTD developed, international performance (MSCI EAFE: 11.3%) also trails that of the U.S. (S&P 500: 16.3%). The MSCI Europe Index was slightly positive for the week, although threats from trade tensions and rising nationalism still loom over markets. In the U.K., the Brexit saga continues as London mayor, Boris Johnson, won the first round of Conservative Party's polls to replace Theresa May. Johnson is an outspoken supporter of Brexit and reaffirmed his commitment to take the U.K. out of the E.U. by the end of this October. Japanese equity markets posted just over 1% gains, following a revised GDP growth estimate from 2.1% to 2.2%. Despite a strong week, Japanese equities still lag other developed markets so far in 2019, with the MSCI Japan having increased 5.3% YTD.
    - **Emerging Market Equities:** Broad emerging market equities had a strong week as the MSCI EM Index increased just under 1%. China had solid results with the MSCI China adding 1.5%, while the MSCI LatAm increased 30bps. China's equity markets increased, largely in response to hopes of increased stimulus to defend their economy from the effects of U.S. sanctioned tariffs and slowing growth. Mexican equities were off slightly but erased larger losses from earlier in the week. The late reversal was a positive response to Mexico reaching a short-term immigration-related agreement to avoid tariffs.
    - **Credit Markets:** Benign inflation pressures and an increasing likelihood of a Fed rate cut, has been supportive to most credit assets. Treasury yields continue to fall, with 10-Year yields dropping below 2.1% towards the end of the week. Treasuries also continued to benefit from a flight to safety by some investors, as global uncertainty appears to be on the rise. Municipals continued their strong run, benefitting from improved fundamentals from some of the more troubled states and a supportive supply/demand dynamic. On the fundamental side, the National Association of State Budget Officers recently reported that states' "rainy day" fund balances, as a share of general fund expenditures, are on pace to reach the highest average level since the organization began tracking data in 1988. On the supply side, AllianceBernstein reported that inventory during the upcoming summer months is expected to be net negative $48 billion. Last, the demand side shows no signs of slowing. AB reported that YTD mutual fund flows have exceeded $42 billion, a record pace.
- **Economic Data/News: Rising geopolitical tensions claimed headlines over a somewhat quiet week for economic data**
    - **U.S.:** United States – Middle East tensions are on the rise again, following the attack of two oil tankers in the Gulf of Oman. Soon after the attacks, Secretary of State Mike Pompeo reported that Iran was behind them. He also reaffirmed his claim yesterday, saying "there's no doubt" that Iran was behind them. In further signs of rising tensions, Iran said that they would go above their 2015

cap on enriched uranium in 10 days. This puts further strain on the Iran Nuclear Deal that the U.S. withdrew from last year.

  - **Developed, International:** The British Pound has had a tough go recently, largely reflecting Brexit uncertainty. It also has recently been impacted by disappointing April economic data, when car production declined the largest amount on record. The Japanese economy appears to have been hit particularly hard by rising trade uncertainty. Japanese exports fell for the 5th consecutive month in April. In similar fashion to other central banks, the BoJ remains committed to provide additional stimulus in efforts of achieving its 2% inflation target. This is during a time when 10-Year Japanese government bonds are yielding about 0%.
  - **Emerging Markets:** Data released by China last week showed that industrial output rose at 5% relative to a year ago, the slowest pace since 2002. This added to the case for additional stimulus from the PBoC, which is already starting to be priced in by markets. On a more positive note, retail sales rose 8.6% in May, driven by a strong International Workers' Day holiday spending. For now, all eyes are on the G-20 Summit in late June in Japan. President Trump intends to meaningfully increase tariffs in the event President Xi refuses to meet with him. China is also dealing with massive protests in Hong Kong over its oversight of the city. Of a city of approximately 7.4 million people, it's been reported that 2 million people rushed to the streets Sunday in opposition of a law that would extend China's rule of the city.

- **Odds and Ends: Deals, deals, deals….**
  - Deal making continued at a heightened pace last week, led by news from Salesforce.com and United Technologies. First, Salesforce.com announced its biggest acquisition yet of data visualization software platform, Tableau. This deal also boosted the price of comparable, data analysis businesses demonstrating continued, strong demand for this type of software. Outside of tech, industrial conglomerate United Technologies, which operates Otis Elevators, Pratt & Whittney engines, etc., said it would buy defense contractor Raytheon in an all-stock deal. The combined entity would be one of the largest aerospace/defense companies in existence, with about $70 billion in annual revenue.
  - In other news early this week, Pfizer agreed to buy cancer, drug maker Array BioPharma and Sotheby's agreed to be taken private. First on Array, the $10.6 billion acquisition is aligned with Pfizer's efforts to expand its pipeline of cancer therapies. Next, Sotheby's will be taken private at an enterprise value of about $3.7 billion. The company is being purchased by Altice founder, Patrick Drahi. Sotheby's issued a statement that "after more than 30 years as a public company, the time is right for Sotheby's to return to private ownership to continue on a path of growth and success."

- **Podcast of the week:** Barry Ritholtz from Masters in Business, sits down with Betterment founder and CEO, Jon Stein. It's an interesting discussion of Betterment's journey, the current industry landscape, and how robo- and human advisors can co-exist.
    - **Link**: https://www.bloomberg.com/news/audio/2019-06-14/jon-stein-discusses-fintech-and-robo-advisers-podcast

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