SUMMIT FINANCIAL

Investment Update for the week of July 29, 2019

- **Global Markets: U.S. Equity markets breach new highs while international markets lag**
  - **U.S. Equities:** U.S. stocks recovered losses from last week with the S&P 500 increasing 1.7% and breaking a new high. Small- and mid-caps also performed well, slightly outpacing the S&P for the week. Within U.S. markets, IT and communications were again key areas of strength with the NASDAQ increasing 2.3%. These were also amongst the best performing sectors of the S&P - aided by a surge in Alphabet's stock late in the week following a blow-out earnings report and the announcement of a $25 billion stock buyback. The energy (-0.5%) and utilities (-0.6%) sectors lagged and were the only S&P 500 sector components to end the week in negative territory. These two sectors, in addition to healthcare, are also the worst performing sectors within the S&P 500 so far in 2019.
  - **Developed, International Equities:** Developed, international markets lagged last week, with the MSCI EAFE Index declining 20bps in U.S. Dollar terms. Notably, the index was slightly positive in Euro terms, but the Euro fell against the USD after the ECB signaled its renewed willingness to cut short-term rates. Similarly, in Japan, the MSCI Japan Index was positive in local-terms but negative in USD-terms. Both Europe and Japan appear to be trending towards more accommodative monetary policy, following in the anticipated footsteps of the U.S. Fed's upcoming decision. This has helped support equities in both regions, despite largely disappointing economic data and heightened uncertainty.
  - **Emerging Market Equities:** EM equities were also in negative territory last week. This brought year-to-date performance of the MSCI EM Index to just above 10%, meaningfully behind other developed market benchmarks. In the good news camp, U.S./China trade talks are set to resume this week, although many have low expectations for what will come out of the exercise. More specifically, both sides have yet to thoroughly address key issues including enforceability, market access, joint venture requirements, among other items.
  - **Credit Markets:** Treasury yields rose modestly over the week, with the 10-year at roughly 2.1%. The municipal market continued to perform favorably, based on excess demand paired with limited supply. Puerto Rico bonds also reacted favorably to the resignation of scandal-consumed Governor Ricardo Rosselló. The high yield market realized a heavy level of issuance, stemming from a variety of larger deals coming to market. High yield continues to be one of the best performing sections of the bond market so far this year, benefitting from both the fall in rates and declining credit spreads relative to the end of 2018.
- **Economic Data/News: Earnings beats and central bank accommodation overshadowed mixed economic data releases**
  - **U.S.:** Q2 earnings season is in full swing, with nearly 150 S&P 500 companies expected to report this week. So far, overall earnings remain roughly flat versus a year ago, but more companies have beaten expectations helping lift sentiment. Outside of earnings, U.S. existing home sales fell more than expected last month despite the decline in borrowing rates. IHS Markit's Manufacturing survey also moved down to 50, the border between expansion and contraction. On the other hand, second quarter GDP rose at an annualized pace of 2.1%, just above expectations. Mixed data domestically suggests that the anticipated 25bps Fed rate cut should come to fruition in just a few days.

- **Developed, International:** Further accommodative policy from the ECB is expected as Mario Draghi noted that the European economy appears to be getting "worse and worse." The European economic landscape is also vulnerable to the hit from a hard-Brexit following the election of Boris Johnson as U.K. Prime Minister. The British pound also suffered over a similar sentiment, as neither the E.U. nor Britain appear close to reaching a deal before the October 31st deadline. The BoJ is more split on additional near-term monetary action, although they acknowledged a commitment to keep rates ultra-low for longer.

- **Odds and Ends: Pfizer makes a deal with Mylan, Takeaway.com gobbles competitor Just Eat, and Alphabet's blowout quarter**
    - **Pfizer** announced earlier today that it had agreed to merge its off-patent drug business with generic competitor, **Mylan**, in efforts of building a global seller of generic drugs. The generic drug business has become increasingly competitive and both companies have realized slower sales in this area. The new combined company will be renamed and rebranded and is expected to have around $20 billion in annual revenue.
    - In what's seen as a winner-take-all industry, Dutch food-delivery company, **Takeaway.com**, has agreed to buy its U.K. based counterpart, **Just Eat**, in an all share deal. The combined business will have a fortified footing in Europe, with leading positions in the U.K., Germany, and the Netherlands. The deal was driven by activist hedge-fund investor Cat Rock, which owns shares in both companies and has been pushing for a merger to fortify each company's competitive position against threats Uber Eats and the likes.
    - Google's parent company, **Alphabet**, had a blowout earnings release last week sending the stock up more than 10%. Shoving aside current regulatory concerns, the company reported revenue of nearly $39 billion, up about 20% from a year prior. Google's core search business continues to drive earnings, while peripheral endeavors have often disappointed. The company remains confident in its future, as demonstrated by the authorization of a $25 billion stock buyback, its largest ever.
- **Resource of the week:** This week's *Capital Allocators'* podcast, features Alternative Investment Management ('AIM') CEO, Jon Harris. Their conversation spans AIM's people first approach to third-party manager evaluation across the hedge fund and private equity world. I found some interesting insights in their manager research process and the potential role of alternatives in a family-office style portfolio.
    - https://capitalallocatorspodcast.com/2019/07/28/jonharris/

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update