SUMMIT FINANCIAL

Investment Update for the week of August 5th, 2019

- **Global Markets: Stocks had their worst week so far this year on trade war and rate cut disappointments**
  - **U.S. Equities:** The S&P 500 Index fell just over 3% during the week, in response to a 25 bps Fed rate cut and new U.S. tariffs on Chinese imports. While Fed rate cuts are generally viewed favorably by markets, investors seemed disappointed by the language in the Fed press conference. The language suggested this wasn't the start of a rate-cut cycle, more a mid-cycle policy adjustment. Within the S&P 500, the consumer discretionary (-4.6%) and IT (-4.3%) sectors fared the worst, although they remain among the best performers so far this year. Tech suffered over reignited slower growth and trade dispute concerns, while the consumer discretionary sector started to price in margin hits to retailers selling goods from China. Defensive sectors, including utilities (0.3%) and healthcare (-1.1%) were among the top relative performers. The real estate sector (+2.1%) also realized a sizable gain for the week attributable to falling rates. Small- and mid-cap performance was roughly in-line with large-cap benchmarks.
  - **International Equities:** Most international markets also fell over the week, with emerging market equities performing the worst. The developed, international - MSCI EAFE Index, declined 2.6% over similar concerns to U.S. markets. European stocks also caught part of the brunt of the escalation in trade tensions between the U.S. and China. Somewhat ironically, soon after escalating the trade discussion with China, President Trump highlighted an agreement with the E.U. which allows more U.S. beef exports to the region. Losses across global equity markets are set to continue into this week.
  - **Credit Markets:** Bond yields mostly fell over the week, with trade concerns overpowering strong U.S. jobs data. This comes despite the Fed's comments of a one-time rate cut - for now. Treasuries outperformed municipals over the week and the after-tax spread between the two asset classes widened slightly to 0.41%. U.S. Treasuries have outperformed municipals in every recession since 1980. As a result, it's expected that this spread will continue to widen in the event concerns about U.S. economic growth continue. With that said, the spread between the asset classes remains historically narrow and the municipal market should continue to be supported by limited new supply and heightened demand. The corporate investment grade market had a healthy level of issuance while the high yield market had subdued trading in the midst of earnings season.
- **Economic Data/News: A strong jobs number wasn't enough to overcome disappointing trade negotiation developments**
  - **U.S.:** While a 25bps rate cut was largely expected by markets, the conference after the announcement left many confused. In addition to the rate cut, the Fed announced it would reinvest coupons from its bond holdings, which should remove some of the upward pressure on longer-term rates. Both should be regarded as positives for risk assets, although Powell's comment suggesting that further easing wasn't currently in the cards, caused the S&P to fall about 1% that day. Despite news about the Fed's actions and tariffs taking over negative headlines, Friday's job report was mostly positive. The U.S. economy had payroll gains of 164,000 in July and wages had a healthy gain of 3.2%.
  - **International:** The biggest roil to international markets over the week was the announcement of additional U.S. tariffs on Chinese goods. More specifically, the U.S. will impose a new 10%

tariff on all remaining Chinese imports that don't currently face duties. In all, this amounts to about $300 billion of goods. The tariffs were apparently a response to President Trump's claims that China was stalling negotiations and not coming through on its prior promise to buy more U.S. agricultural goods. The new round of tariffs could hit consumer goods particularly hard, posing a challenge to U.S. retail businesses. Tensions continued to escalate early Monday morning as China devalued the yuan – a response seen as retaliation to the U.S.'s latest move. In the U.K., the pound continued to fall over concerns that a no-deal Brexit is increasingly probable. The currency is now at about 1 GBP per 1.21 USD. In Japan, the BoJ voted to keep short and long-term rates at right around 0% and continue its asset purchases. Japanese regulators are also currently contemplating whether to delay the next increase to the VAT from 8% to 10%. The last change from 5% to 8% in 2014 had a meaningful impact on consumer confidence.

- **Odds and Ends: CapitalOne gets hacked, Pinterest nails earnings, and chipmakers tumble**
    - In what's seemingly regular news, **CapitalOne** was the latest financial firm to be hacked. The hack was allegedly carried about by a former Amazon employee, Paige Thompson, who is accused of getting away with 106 million records. Ms. Thompson is currently under investigation by the FBI.
    - **Pinterest's** stock shot up nearly 20% last Friday, after an impressive quarterly earnings announcement. In particular, Pinterest's month active users surged to over 300 million for the first time ever. The company also reported $261 million in revenue, an increase of more than 60% relative to a year ago. The jump in revenues reflected both increased usage and a broader advertising base. Pinterest's stock has risen just over 30% since IPO'ing in April.
    - Semiconductor stocks took another blow early this morning, largely in response to the escalating trade war. Chip sales have fallen sharply this summer and many are reporting weaker further guidance, as demand is expected to weaken and China remains an integral part of many of their supply chains.
- **Resource of the week:** Scott Kupor, an early employee and managing partner at Andreesen Horowitz, sits down with Bloomberg's Barry Rhitholtz to discuss the past and future state of the venture capital industry. For reference, Andreesen Horwitz is one of the leading VC firms with over $10 billion in current assets. The discussion serves as good update on how the industry has evolved and how for entrepreneurs to best succeed in navigating the funding environment.
    - Link: https://www.bloomberg.com/news/audio/2019-07-11/scott-kupor-discusses-technology-startups-podcast

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update, Alliance Bernstein: This Week in MuniLand, Markets Insider