LAKEVIEW CAPITAL PARTNERS
INSTITUTIONAL

Q2 2019 Market Commentary

During the second quarter, we saw market volatility with the deceleration of global growth especially in the U.S. due to the continued trade tensions/tariffs as well as the belief the Fed went too far in 2018. In May, markets sold off due the tariff war with China as well as potential tariffs against Mexico. Then we saw the Fed come to the rescue by taking a more dovish stance and indicating several rate cuts for 2019; markets rallied in June on this news. Global growth is slowing but not to the point of a recession, oil prices are stable and Central Banks are all accommodating. Economic growth for the U.S. in 1Q was 3.1% as consumer confidence remains high and unemployment is in the mid-3% range. Global equities were positive, up +3.61% driven by the US return of +4.3%. Developed International equity markets were up +3.68% while emerging equities were also up, +0.61%.

- The U.S. economy grew at 3.1% during the 1Q 2019. The unemployment rate of 3.7%, while inflation pressures remained modest. CPI was 1.8% as of May year over year.
- The Fed held the Federal Funds rate at 2.25% - 2.5% during its June meeting, indicating the possibility of rate cuts in 2019 as they monitor the economic number. The market has priced in a rate cut at the July meeting.
- The Fed continued to shrink their balance sheet by up to $35 billion per month during 2Q, indicting it could stop by year end.

- U.S. equities ended the quarter up +4.3%, as measured by the S&P 500 Index.
  - The Information Financials, Materials, Technology, and discretionary sectors led for the quarter, +8.0%, +6.31%, +6.06%, and +5.28% respectively.
  - The worst performing sectors were Energy, Health Care and Real Estate, -2.83%, +1.38% and +2.46% respectively.
  - Brent crude oil prices ended the quarter flat, from $67.93/barrel to $67.52/barrel.
  - Growth stocks outperformed value during the quarter, with the Russell 1000 Growth posting a gain of +4.64%, versus the Russell 1000 Value's gain of +3.84%; handily outperforming Value over the latest year +11.56% versus +8.46%.
  - Small cap stocks underperformed large and mid-cap stocks during the quarter, with the Russell 2000 up +2.10%, the Russell 1000 up +4.25%, and the Russell Mid Cap up +4.13%.

- Interest rates were down during the second quarter, with the 10-year U.S. Treasury yield ending the second quarter at 2.0%, down from 2.41% at the end of the first quarter.

- The Bloomberg Barclays Aggregate Index was up 3.08% with treasuries and mortgage back securities both underperforming investment grade credit. High yield corporates underperformed investment grade, with the Bloomberg Barclays U.S. Corporate High Yield Index up +2.5% versus the U.S. Corporate Index up +4.48% for the quarter.

- Economic data in the U.S. was indicative of continued growth:
  - Outside the U.S., we have seen a slight increase in growth even with the Eurozone slight increase from the 4Q 18 0.2% to 0.4% in 1Q 19 in the euro zone. China economic growth rate decreased from 4Q18 from 1.5% to 1.4% in 1Q 19, the weakest since 2016.
  - The U.S. dollar has been in a trading range during the second quarter 2019 against the euro and British pound sterling based on news on whether the Fed will cut rates and Brexit
  - Unemployment in the US is 3.7% as labor conditions remain tight.
  - The ISM manufacturing number declined for the quarter to 51.7 in June, down from 55.3 in March.
  - The FHFA U.S. House Price Index showed housing prices were up 5.2% year-over-year in April 2019.
  - Inflation remained steady in the through the second qtr. with the CPI figure at 1.8% year-over-year as of May 2019.

International equities were weaker than the U.S. for the quarter, with emerging markets underperforming developed markets. Equity markets were positive during the second quarter considering the following decelerating economic growth, trade wars, Brexit and other political uncertainty.

- Developed markets underperformed the U.S.
  - MSCI EAFE USD +3.68% with Greece, Switzerland and Australia all up 16.2%, +8.41% and +7.30% respectively
  - MSCI Europe USD +4.48%, with Greece up 16.2%, Switzerland up +8.41% and Germany up +7.12%
- Emerging market equities underperformed developed markets, with the MSCI EM USD up +0.61% for the quarter.
  - EM Leaders included Russia, Emerging Europe and Argentina up +16.85%, +12.35 and +31.7% respectively.
  - EM Laggards included China, South Korea, and Peru, all down -4.02%, -0.95%, and -1.90%.
- In non-U.S. equity markets, growth continues to outperform value over the quarter as well as the year.
  - MSCI ACWI ex USA Growth USD +4.35%, versus the MSCI ACWI ex USA Value USD +1.57% for the quarter.

Major risks focus on geopolitical uncertainty and global monetary policy.

- Geopolitical risks surrounding tariffs continue between the U.S. and China, market indicating a resolution.
- Tensions between Iran and the U.S., effecting oil prices, with enforcing sanctions as well as attacks on tankers.
- Risk of populism in Europe continues. Brexit negotiations extended until October 31st, markets pricing in soft exit.
- Global economic slowdown, potential earnings recession and an inverted US yield curve all indicating a future recession.

Returns are total return, computed from Morningstar Direct and include the S&P 500, Barclays Capital Aggregate Bond Indexes, Barclays Capital High Yield Index, various MSCI and Russell Indexes. Economic data is taken from The Federal Reserve, Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Housing Finance Agency and BMO.