COMPASS
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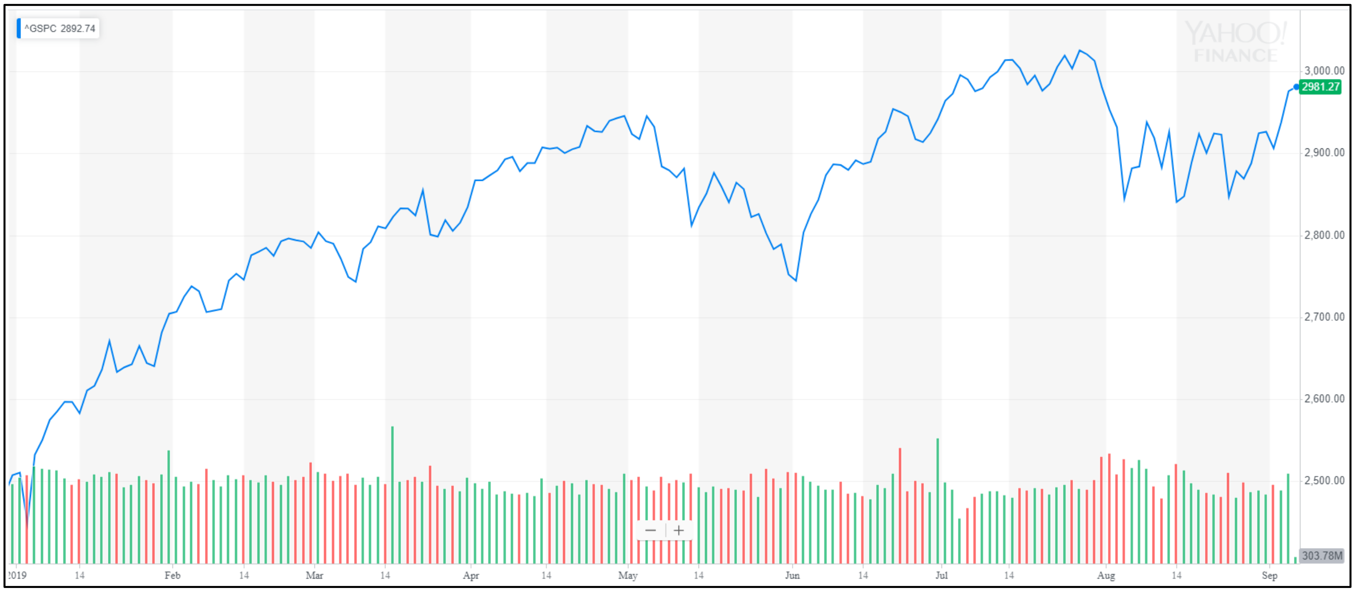
Market & Investment Update

September 6, 2019

Equity markets faced significant volatility in August, mostly impacted by actions or threats of future actions by the US and China in the ongoing trade war. As shown in the chart below, US equity markets declined sharply in early August after President Trump tweeted his intention to impose new 10% tariffs on all remaining Chinese goods imported to the US. A few days later China responded by allowing its currency to depreciate, which led to the US Treasury formally labeling China as a “currency manipulator”. Later in the month, China indicated their intention to impose additional tariffs on US goods, and President Trump responded with new tariffs threats of his own. Against this dramatic international backdrop, US economic activity has been relatively stable. We have witnessed indications of slowdowns in business spending and manufacturing activity, but consumer spending, jobs, wages, and housing have all be relatively positive and stable. To start September, US equity markets have recovered significantly as the US and China have each confirmed their intentions to meet in October to continue trade talks.

S&P 500 Year-to-Date Price Change



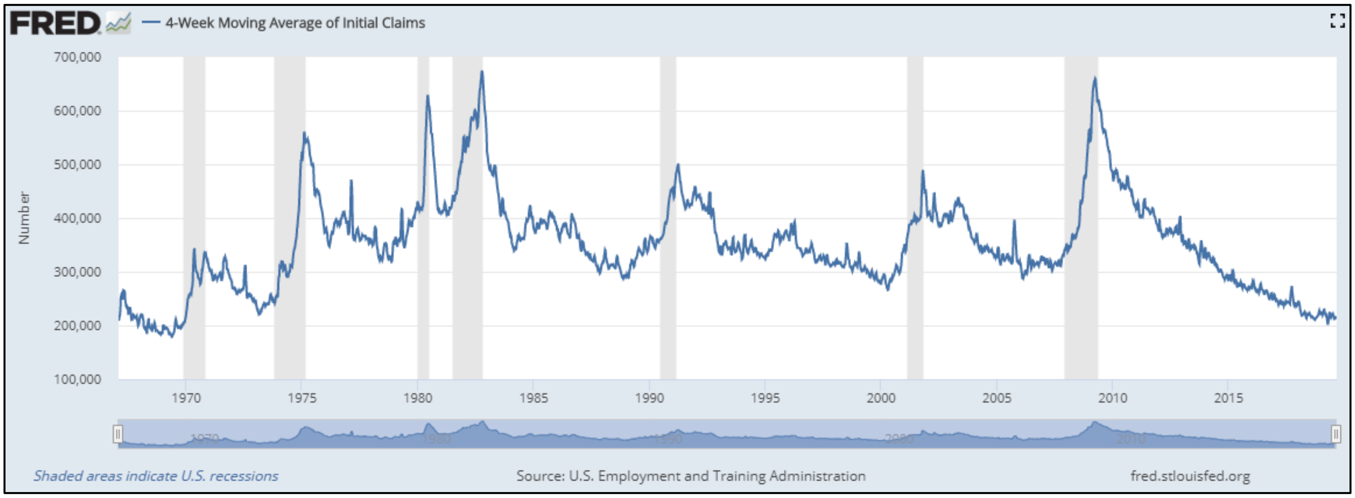
Year-to-Date Returns (as of August 31, 2019)

Category	Representative Index	August 2019	YTD 2019	2018
US Large Cap Equity	S&P 500	-1.6%	18.3%	-4.4%
US Small Cap Equity	Russell 2000	-4.9%	11.9%	-11.0%
Foreign Developed Equity	MSCI EAFE	-2.6%	9.7%	-13.8%
Emerging Market Equity	MSCI Emerging Markets	-4.9%	3.9%	-14.6%
US High Yield Fixed Income	ICE BofAML High Yield	0.4%	11.2%	-2.3%
US Fixed Income	Barclays Aggregate Bond	2.6%	9.1%	0.0%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.2%	1.6%	2.1%

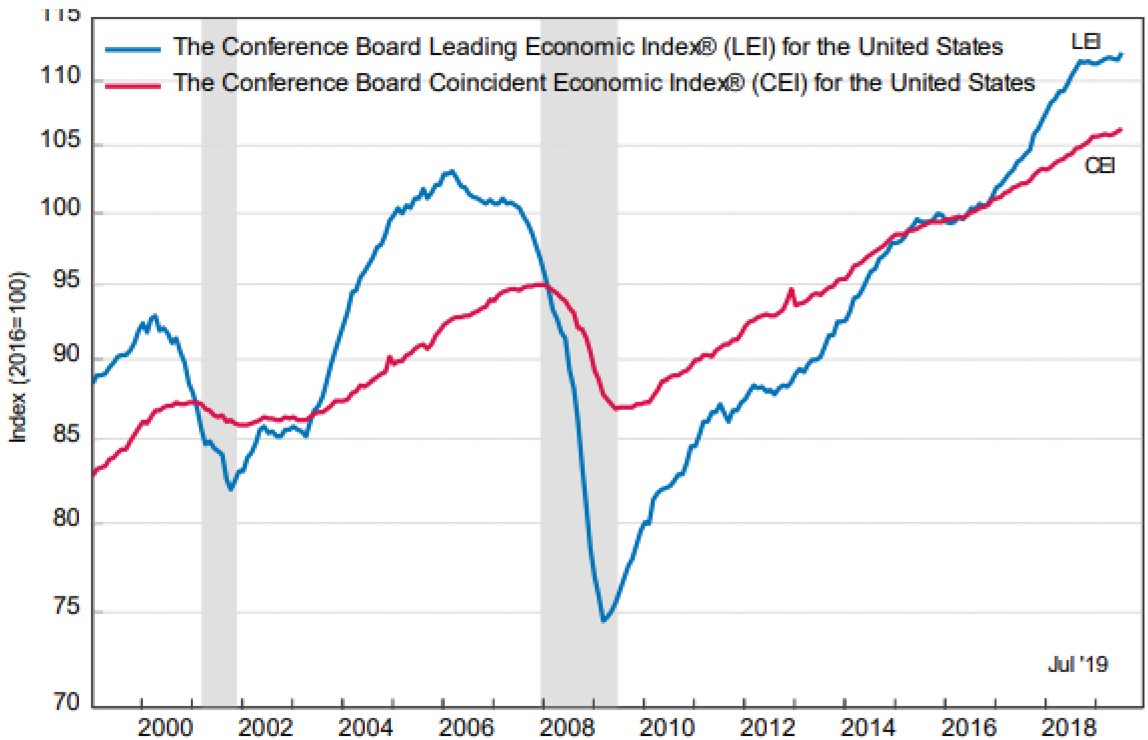
Economy

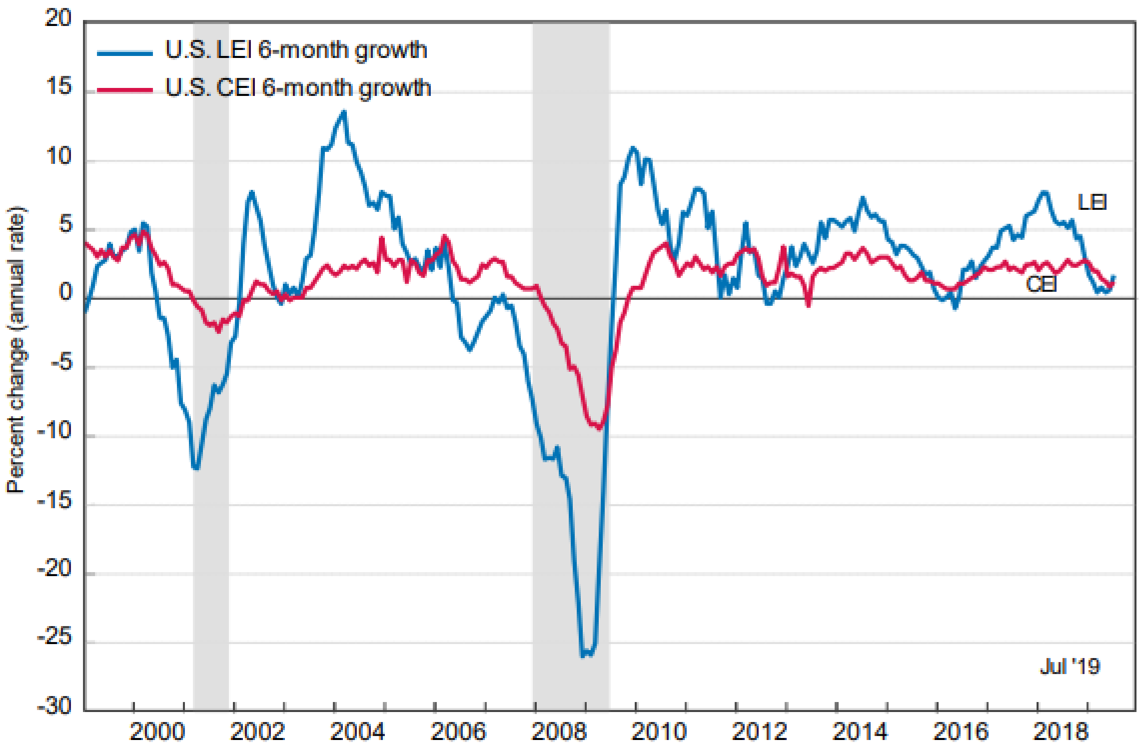
We received August non-farm payrolls on September 6, which showed a gain of 130,000 workers to the US economy (note that this number includes the hiring of 25,000 temporary workers for the 2020 US Census). While this report is certainly a sign that the job market remains heathy, it is noteworthy that the three-month and six-month average monthly gains are now around 150,000, which is down from 230,000 a year ago. The unemployment rate remained unchanged at 3.7% during August, and average hourly earnings increased 0.4% month-over-month resulting in an annual growth rate in wages of 3.2%. And, the labor force participation rate increased to 63.2% from 63.0%, implying that potential workers are feeling more comfortable re-entering the labor force. While we do not yet have the August Consumer Price Index (inflation) change, the annual rise in consumer prices was only 1.8% in July, which would imply that consumers are accruing real wage gains. While it seems likely that the Federal Reserve will reduce their benchmark interest rate at least once more this year, the implied strength in the labor market and wages are likely indicators that future Fed moves in 2019 will be modest and measured.

Monthly Jobs Growth (Left) & Unemployment Rate (Right)



Leading Economic Indicator Composite (First Chart) & Rate of Change (Second Chart)





Source: Conference Board

Federal Reserve Policy

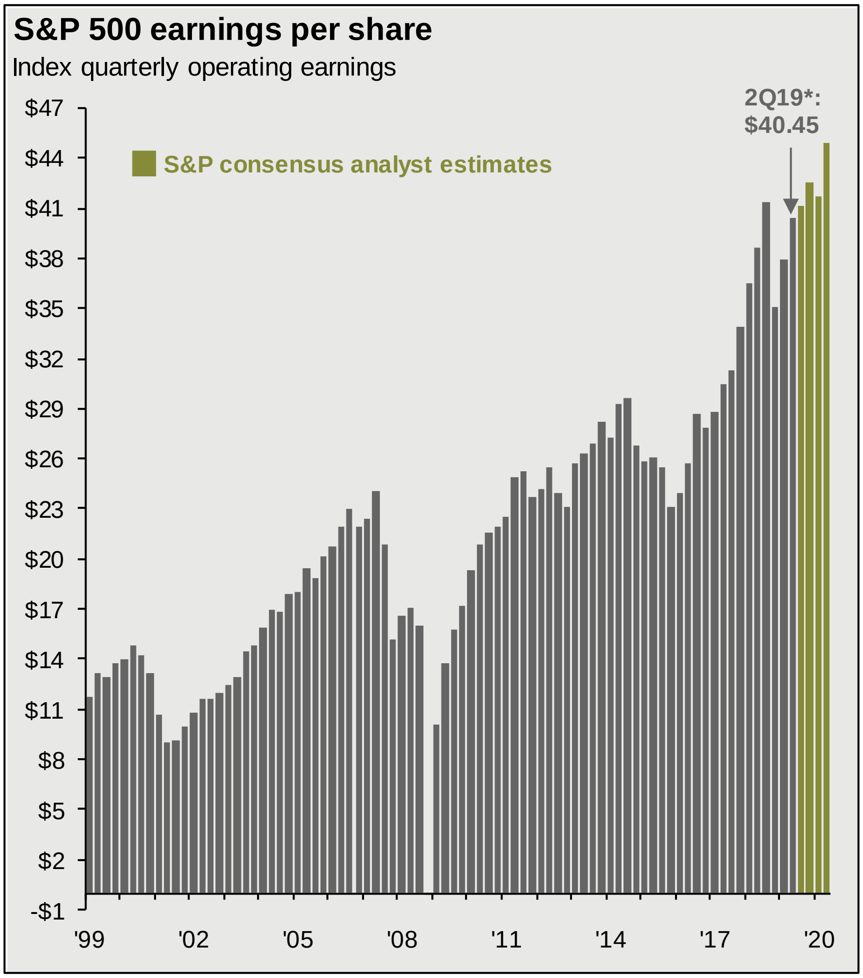
On July 31, the Federal Reserve ("Fed") announced that it is lowering its benchmark interest rate by 0.25% to 2.00-2.25%. This was the first policy rate reduction since 2008. Shortly after receiving this news, many market participants have speculated that the Fed will continue to reduce borrowing costs in 2019 and 2020. The Fed has specifically cited uncertainties such as global growth and trade wars as sources of concern that they are monitoring in addition to their more traditional data that tracks US economic health in their effort to support full employment and price stability. According to CME Group, there exists a 90% implied probability that the Fed will reduce rates by another 0.25% at its September 17 to 18 policy meeting. While Federal Reserve Chair, Jerome Powell, has attempted to leave his comments about future interest rate policy flexible, it does seem that the Fed is entering into some form of an easing cycle as opposed to the "mid-cycle adjustment" that was cited as the justification for July's decision.

Short & Long-Term US Treasury Rates (Year-to-Date Change)

Source: Wall Street Journal

Earnings

According to Factset, 99% of S&P 500 companies have reported second quarter results as of August 31, and 75% of those have reported better-than-expected earnings; 56% of those companies have reported better-than-expected revenue. However, the year-over-year earnings growth is expected to be negative for the second straight quarter (-0.4%), which last occurred during the first half of 2016. And, 79 S&P 500 companies have issued negative year-over-year earnings growth guidance for the third quarter (30 have issued positive guidance). As of August 30th, the price-to-expected earnings (next 12 months) of the S&P 500 is 16.6x, which is approximately equal to the five-year average (16.5x) and above the ten-year average (14.8x), which includes the early recovery years following the Global Financial Crisis.



Source: JPMorgan

Trade

Trade policy was likely the most active source of volatility in equity markets during August, with tweets from our President and statements from China leading to a few 600+ declines in the Dow Jones Industrial Average during the month. In late August, when China announced it would impose tariffs of $75 billion of US imports, which led President Trump to respond via Twitter to criticize the move and imply further action would shortly follow. He also "ordered" US companies to "immediately start looking for an alternative to China." Shortly thereafter, he questioned, "who is our bigger enemy, Jay Powell [Federal Reserve Chairman] or President Xi [of China]?" This was followed by a tweet late on August 24 from President Trump with his intention to increase tariffs on the existing approximately $250 billion of Chinese imports to the US from 25% to 30% on October 1st, and he indicated that tariffs on nearly all other Chinese imports originally scheduled to take place September 1 and December 15 would be increased to 15% from 10%. In early September, markets rallied after the US and China both confirmed intentions to restart talks in Washington in October.

What does all this mean for the markets?

As of this writing on September 6, 2019, the S&P 500 is again just 1-2% away from its all-time high which was established on July 26 at 3,026. There are renewed discussions of US-China trade talks in October, US economic data has remained relatively solid (more good than bad), and markets expect that the Federal Reserve will continue to accommodative policies. There has also been renewed discussion of a very large infrastructure spending package being a focus during the 2020 Presidential election. There are absolutely signs that our current economic growth cycle is mature, but not necessarily signs that it is ending just yet.

Prices (as of August 31, 2019)

Representative Index	Current	Year-End 2018
S&P 500	2,926	2,507
Dow Jones Industrial Avg.	26,403	23,327
NASDAQ	7,963	6,635
Crude Oil	$54.79	$46.49
Gold	$1,534	$1,291
2 Year Treasury	1.50%	2.48%
10 Year Treasury	1.50%	2.69%
30 Year Treasury	1.96%	3.02%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of September 6, 2019 and are subject to change based on changes in fundamental economic or market-related data. Please contact your Financial Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.