MONTHLY
MARKET REVIEW

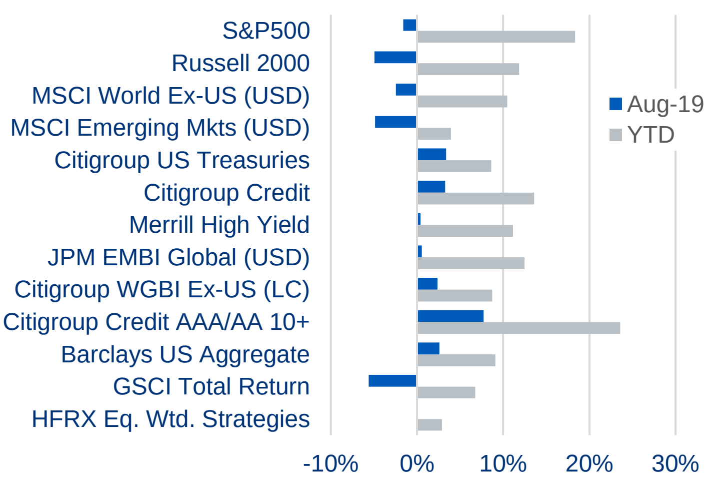
08 2019

Global Market Review

Macro Summary

Volatility across global markets rose in August reflecting the vagaries of trade wars and Brexit. Uncertainty created by erratic trade policies sent U.S. stocks lower despite continued healthy consumer demand. European equities suffered in the wake of more Brexit chaos and underwhelming Eurozone economic growth. Emerging markets faced myriad issues from political uncertainty and natural disasters in Latin America to trade tumult in the Pacific. Turmoil in global equity and currency markets led investors to seek respite in developed market government debt, sending 30-year U.S. Treasury yields to record lows.

Performance of Major Market Indices
Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Trade Tensions Trigger Turbulence

U.S. equities meandered mostly in negative territory throughout August, facing crosswinds of near-daily shifts in trade war rhetoric and encouraging reports from the U.S. retail sector. U.S. markets fared somewhat better than did their global counterparts as robust consumer spending and strong quarterly results from major U.S. retail companies softened the blow from trade and growth concerns. U.S. stocks were pummeled early in the month as trade tensions escalated, but recovered somewhat to close August with a 1.6% decline. For the year-to-date, however, the S&P 500 remains up 18.3%.

Amid August's volatility, only defensive U.S. sectors finished above water. Consumer staples earned 1.6% and utilities stocks gained nearly 5% during the month. Financials and energy shares sank to the bottom of the pack. Banks suffered – falling over 5% – as long-term yields tumbled, while energy stocks were driven lower by falling oil prices and concerns about global economic growth.

The gaps that have formed year-to-date between small versus large cap and value versus growth stocks widened further in August. The Russell 1000 Index is outpacing its small cap counterpart by nearly 7 percentage points for the year, while the Russell 3000 Growth Index is beating value stocks by almost 10 percentage points. This trend is making growth stocks increasingly overvalued, while enhancing the relative attractiveness of value shares.

Brexit, Trade, and Forest Fires – Oh My!

Equities across global markets tumbled, reflecting heightened fears that the disruption created by unstable trade policies would hasten an economic slowdown. Volatility spread across developed and emerging markets in August, sending the MSCI World ex-U.S. Index down 2.5%. Europe continued to face a weakening manufacturing sector in addition to growing concerns of a no-deal Brexit. Emerging markets were plagued by a panoply of woes. Argentina's financial crisis intensified; Amazonian blazes cast a pall over Brazil; and Asian markets suffered from trade uncertainty.

Boris Johnson's young tenure as UK prime minister has dramatically increased expectations of a no-deal Brexit, and that trend intensified in August. Johnson announced plans to shut down Parliament for five weeks during the crucial lead up

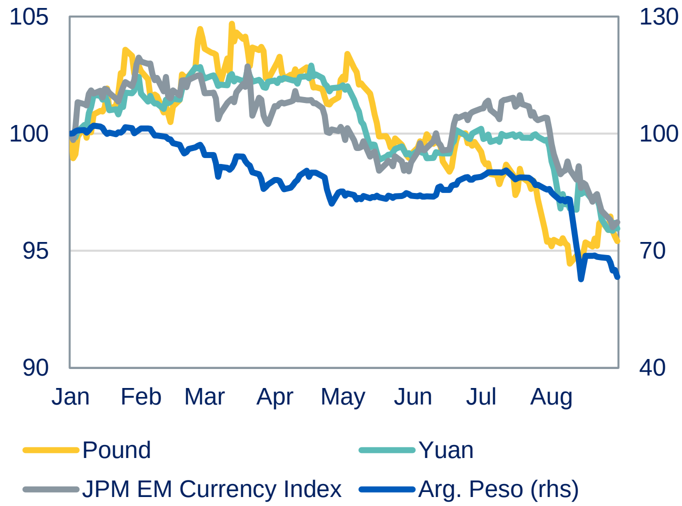
1001 Nineteenth Street North
16th Floor
Arlington, VA 22209 USA

+1 703.243.4433 TEL
+1 703.243.2266 FAX

strategicgroup.com

to the current Brexit deadline on October 31. This essentially guarantees either a no-deal Brexit outcome or a similarly dramatic move from Johnson's anti-Brexit opponents in the coming weeks. Markets reacted negatively as the pound fell to decades-old record lows (Exhibit below). Across the channel, an uptick in private sector activity buoyed by the services sector was not enough to placate woes surrounding the Eurozone's weakening manufacturing growth. The MSCI Europe Index fell 2.7% in August.

Global Currencies Fall amid Idiosyncratic Turmoil
Source: Bloomberg. YTD through August 31.

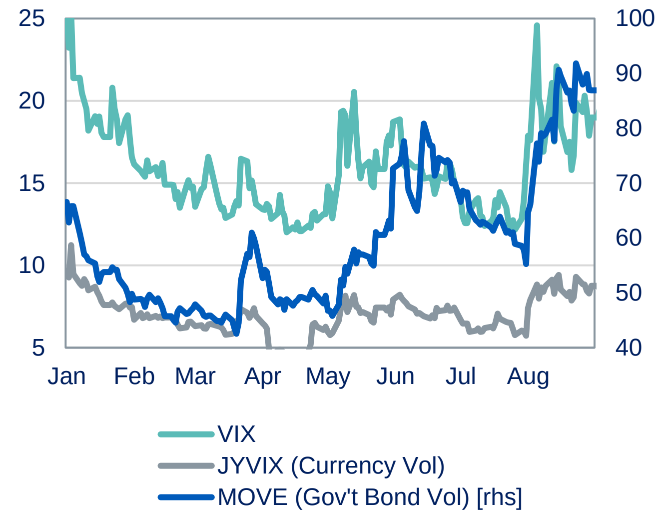


Across emerging markets, political, economic, and even environmental crises rattled investor sentiment. In Argentina, a poor performance in primary elections for incumbent President Macri saw the peso tumble over 20% in one trading session. Concerns that a populist victory in October over Macri's market-friendly agenda also pushed up yields on Argentina's short dated sovereign debt to distressed levels. Brazilian equities tumbled as fires ravaged the Amazon and Brazilian President Bolsonaro faced criticism for his handling of the crisis from both citizens and world leaders. Trade tensions between the U.S. and China intensified, sending the Chinese yuan to a record low against the dollar following the extension of tariffs to nearly all Chinese imports. The MSCI EM Index fell 4.9%.

Global Turmoil Sparks Search for Safety

Fixed income markets benefitted from the volatility that shook up global equity and currency markets in August. As growth concerns, trade tensions, and political turmoil rumbled throughout global equity and currency markets, investors sought yield and safety in longer-maturity government bonds and investment grade debt, sending most fixed income markets higher in August. The yield on the 30-year U.S. Treasury hit an all-time low in August, ending the month under 2%. Ten-plus year U.S. Treasuries gained 10.5% in August, bringing the gain for the year to 23%. Longer-dated investment grade credit gained nearly 8% in August. While outside of the U.S., the World Government Bond Index ex-U.S. earned 2.2% in August.

Volatility Spiked across Asset Classes in August
Source: Bloomberg. YTD through August 31.



Macro Capitalizes on Global Volatility

August presented a fruitful environment for hedge fund strategies that stand to benefit from bouts of volatility, particularly in currencies and yields (Exhibit above). Thus, global macro and event driven funds won the day, gaining 1.5% and 0.5%, respectively. Both beta-driven and market neutral equity strategies suffered, however, as stocks across global markets declined more on economic and political news than fundamentals. Broad hedge fund indices were little changed in August.

Gold Shines, but Oil Overpowers

Investors turned to defensive assets in August, driving gold prices up over 7%. Uncertainty over global growth created by trade tensions and an unexpected increase in the U.S. oil stockpile sent oil prices tumbling another 5.9% in August. Oil's domination within the GSCI dragged the index down 5.6% in August, despite gold's outperformance.

Performance of Major Market Indices through 8-31-2019
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-1.6%	-0.2%	18.3%	2.9%	12.7%	10.1%
Russell 2000	-4.9%	-4.4%	11.8%	-12.9%	7.9%	6.4%
MSCI World Ex-US (USD)	-2.5%	-3.6%	10.5%	-2.9%	5.9%	1.6%
MSCI Emerging Mkts (USD)	-4.9%	-6.0%	3.9%	-4.4%	5.8%	0.4%
Citigroup US Treasuries	3.4%	3.3%	8.6%	10.3%	2.5%	2.9%
Citigroup Credit	3.3%	3.9%	13.6%	13.2%	4.5%	4.5%
Merrill High Yield	0.4%	0.9%	11.1%	6.6%	6.2%	4.8%
JPM EMBI Global (USD)	0.5%	1.7%	12.5%	13.1%	4.1%	4.7%
Citigroup WGBI Ex-US (LC)	2.4%	3.6%	8.7%	10.0%	2.5%	3.8%
Citigroup Credit AAA/AA 10+	7.7%	8.7%	23.6%	23.9%	6.8%	7.7%
Barclays US Aggregate	2.6%	2.8%	9.1%	10.2%	3.1%	3.3%
GSCI Total Return	-5.6%	-5.8%	6.7%	-14.5%	2.3%	-13.1%
HFRX Eq. Wtd. Strategies	0.1%	0.7%	2.9%	-1.7%	1.2%	0.3%