Economic Market Performance and Outlook

Mid-Year 2019

2019 1st Half Recap

Toward the end of December 2018, markets experienced a significant correction. As a result, the beginning of 2019 was met with trepidation and we cautioned investors to take a "wait-and-see" approach until we had a clearer picture from the Fed and the economy as a whole. Ultimately we witnessed significant improvement in market conditions supported by solid economic data and a reversal in course from the Fed on interest rate policy. U.S. economic data has been strong throughout the first half of the year, despite numerous external pressures. Antitrust cases against tech giants such as Google, Facebook, Amazon and Apple led to an underperformance of these companies in relation to the market as a whole in January. Many analysts were optimistic at the beginning of the year that the trade negotiation issues with the U.S. and China would be resolved quickly, but there has been no recent advancement in said talks between the two countries. In Q1, U.S. GDP rose by 3.1%, mainly attributed to exports. Likewise, corporate profits have continued to be robust.

The first half of 2019 was a big surprise to many IPO investors. In Q2, IPOs raised $25 billion, which amassed a total return of 30%. Technology and Biotech were the leading sectors, while the Energy and Financial sectors underperformed. Notable IPOs for 2019 include the following:

- Beyond Meat up 542%
- Zoom Video up 140%
- CrowdStrike up 89%
- Chewy up 50%
- Pinterest up 38%
- Slack up 39%

Commodity Performance

Commodities	Dec. End	June End
Corn	$3.42	$3.18
Copper	5,965	6,650
Silver	15.47	16.11
Gold	1,279	1,252
Natural Gas	2.94	2.99
Gasoline	2.27	2.83
Oil (WTI)	45.15	73.45

JP Morgan Weekly Market Recap[1]

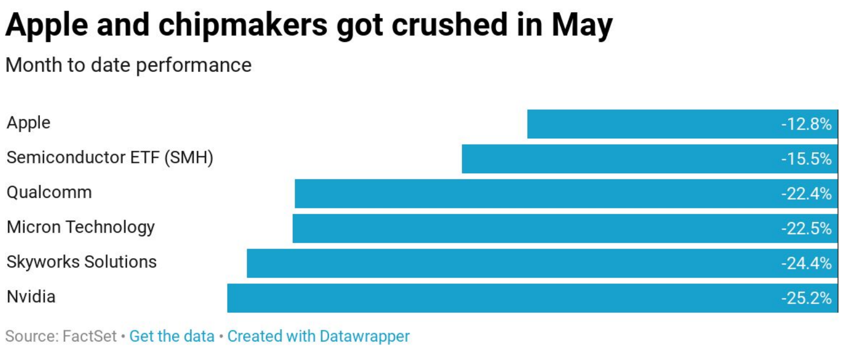
The commodity bull market continued in June, the S&P GSCI was up 12.5% YTD. Petroleum prices were the standout drivers in the broad commodity index (see "Commodity Performance" chart). Oil prices surged in April, while slightly declining towards the end of Q2.

Commodity prices have been increasing over a six-month period. Oil prices increased by a significant amount, 63% in the 1st half, whereas gold fell by 2%. One of the main drivers for the increase in oil prices is that the demand for crude has been stronger than gloomy forecasts suggested last fall.[1]

Index Performance

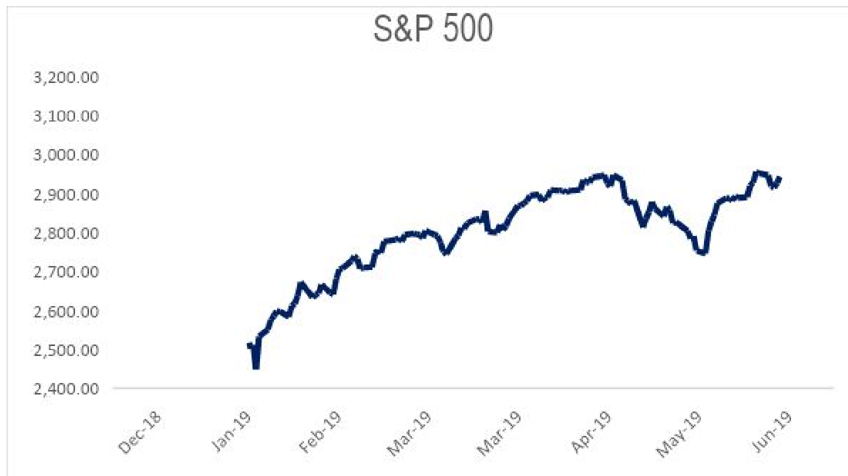
The S&P 500 rose by 18.54% year to date, whereas the Dow Jones and Nasdaq rose by 15.4% and 21.33% respectively. The market felt a drop back in May 2019 as investors fretted over U.S. trade relations with China and Mexico and worried over global economic growth. May saw a decline of 6.6% (the first monthly decline of 2019), snapping a four-month winning streak. This was largely attributed to weakness in the technology sector as indicated in the image below[2].

[1] https://www.cnbc.com/2019/04/03/why-oil-and-gasoline-prices-are-rising-faster-than-analysts-expected.html
[2] https://www.cnbc.com/2019/05/31/the-markets-drop-in-may-felt-serious-but-it-is-normal-for-stocks.html



The S&P 500, Dow Jones and Nasdaq have been showing an upward trend over the 1st half of the year. S&P 500 index performance can be viewed in the chart on the right.[3]

Overall, the market has faced less volatility as compared to last year. Apart from the stock decline in May 2019, the economy has supported an upward movement in the equities market.



2019 2nd Half Outlook

As 2019 reaches its midpoint, investors and market watchers seem to question whether the solid performance in the 1st half of the year is setting up for a similar second half of the year. Historical scenarios have shown that the markets are more volatile in the 2nd half of the year. Therefore, we remain cautiously optimistic for Q3 and Q4, as markets are presently at all-time highs.

The stock market in the second half of the year will possibly have to deal with slowing economic growth. The market's performance will also be highly impacted by economic pressures that may weigh on stock markets, including:

- Mounting trade tariffs between the U.S. and China
- The United Kingdom heading toward a "hard" Brexit
- Renewed U.S geopolitical tensions with Venezuela, Iran and North Korea
- The lagged effect of interest rate hikes by the Federal Reserve
- The slump in corporate earnings[4]

These factors could be challenging for investors who are not adequately prepared. The likelihood of the impact of these risks on the investment world are hard to forecast as financial and market conditions are changing constantly. However, we have seen of late the Fed's desire to act quickly to support the market. We feel that this proactive approach will minimize the aforementioned concerns, as the market has shown remarkable resilience and continues to move higher.

Commodities will also be a major contributor toward the market performance for the 2nd half of 2019. It is expected that gold could trade at the top end of the forecasted prices, if investors demand gold as a hedge against a weaker dollar. The US dollar is also expected to be cheaper in the second half of 2019, due to interest rates cuts.

[3] https://finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC
[4] https://www.schwab.com/resource-center/insights/content/midyear-outlook-global-stocks-and-economy

US-China War

Chinese President Xi Jinping and U.S. President Donald Trump met towards the end of June and agreed to resume trade talks. The U.S. has agreed not to slap new tariffs on Chinese exports, while China will buy more U.S. agricultural products. The planned levies on an additional $300 billion (€263 billion) worth of Chinese goods, that would have effectively extended tariffs to all exports from China to the U.S were suspended. However, this remains a very fluid situation and could change at any moment. We are hopeful that a deal gets done quickly, but have no additional insight when that could be. We are positioning our portfolios accordingly.

On May 15th, President Trump issued an executive order effectively barring U.S. companies from using foreign telecoms believed to pose a security risk to the country. This had a drastic effect on Huawei, as the company was declared a security threat by the Trump administration. Subsequently, some exceptions were made to this executive order during the June meeting between the two governments.

A resolution of these issues is very important for our economy, because an ongoing trade war is considered not only economically disadvantageous for the U.S. and China, but for the global economy as well. For example, many European companies would suffer because they both sell and produce goods in the U.S. and China, the world's two largest economies. This has also had a disruptive effect on supply chains for many multinational companies.

Conclusion

In the second half of 2019, global economic growth is expected to slow slightly, as economic data indicates that the world economy may worsen by lingering trade tension between the U.S. and China. Despite these concerns, we still remain confident that the U.S. economy is the strongest in the world and are committed to maintaining a strong equity position in the markets. Although the trade war has taken a pause, tension still exist while the issue remains unresolved. We view that an agreement would provide strong upward momentum to the market. A recession is not expected in the second half of 2019. As far as commodities are concerned, analysts expect gold and oil prices to surge going forward as the dollar weakens due to interest rate cuts. We have seen the U.S. Dollar hit a 2-year high in comparison to the British Pound.

Investors should stay alert to economic updates, as the market will face some volatility going forward in Q3 and Q4. Investors should ensure they have an appropriate amount of broad international exposure, including a mix of both emerging and developed markets as we see opportunity here. This will enable investors to continue to achieve their diversification goal as well.

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