

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished July at 26,864, up +0.99% for the month and up +15.16% year-to-date. The S&P 500 closed July 31 at 2,980, up +1.31% for the month, and +18.89% so far for the year. The NASDAQ Composite gained +2.11% in July, up +23.21% for the year. Small company stocks as measured by the Russell 2000 ended July at 1,575, up +0.51% for the month, and up +16.76% year-to-date. Technology was the best (+3.3%) and Energy the worst (-1.9%) performing sectors in July.

"Investors said the latest salvo in the U.S.-China trade spat triggered fresh fears that higher tariffs will slow business investment and economic activity." (The Wall Street Journal, *Stocks, Bond Yields, Oil Fall on New China Tariffs*, Amrith Ramkumar, August 1, 2019)

Tariff and Interest Rate Update

The final week of July saw optimism surrounding both the Federal Reserve's monetary policy and U.S.-China trade negotiations reverse, causing stocks to move lower and uncertainty to increase heading into August. It began with comments made by Fed Chairman Jerome Powell following the Federal Open Market Committee's (FOMC) July 31st meeting. Despite having just lowered interest rates by 0.25% for the first time since 2008, his comments were taken by many to indicate a second rate decrease in September, something many market participants had become optimistic would occur, was less than certain. The following day, President Trump tweeted that 10% tariffs would be applied to the final \$300B in Chinese imports, making effectively all Chinese imports subject to some level of tariff. Importantly, this group of imports will include many consumer goods such as clothing, shoes, and electronics (including iPhones), making it even more likely consumers will be directly affected by higher prices. While there's still a possibility the tariffs, scheduled to go into effect in September, could be delayed or withdrawn if negotiations take a positive turn, just the uncertainty around trade policy has been cited already as a contributor to the slowdown in business investment seen in 2019.

Given these developments, many expect that more volatility is ahead for investors. While the uncertainty and volatility can be concerning, we encourage investors to 'zoom out' somewhat their view of the day-to-day headlines, and to instead consider 3, 5, 10, or even 20 year outcomes in markets. Through a consistent barrage of short-term crises over long periods of time, markets have historically rewarded patient and disciplined investors. We encourage investors to remain disciplined in asset allocations between stocks, bonds, and cash that are appropriate for your time horizon and goals - and to otherwise try to tune out the noise in markets on a day-to-day or month-to-month basis.

"The tariffs' potential blow to already slowing world trade had an even stronger impact on the bond market, with the 10-year Treasury note's yield having its biggest one-week decline in more than seven years, falling 21.7 basis points, to 1.864%, the lowest since Election Day, Nov. 7, 2016, according to Dow Jones data." (Barron's, *New Tariff Threat Bites Investors*, Randall Forsyth, August 2, 2019)

Economic Reports

The first estimate for GDP growth in the 2nd quarter 2019 was 2.1%, slower than the first quarter's 3.1% growth rate but still solidly positive. Business investment fell for the quarter, while increases in consumer spending drove much of the growth. July's employment report showed 164,000 jobs were added for the month and the unemployment rate held steady at 3.7%, near 50 year lows. Wage growth of 3.2% is considered healthy and in line with recent months. These economic indicators support the view that the underlying foundation of the U.S. economy has remained moderately solid for now, amidst uncertainty surrounding Fed policy, global trade, and geopolitical tensions. Signs of deterioration in the economic data will leave less of a backstop for a market facing increasing uncertainty and risks.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 06/30/2019	CLOSE AS OF 07/31/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	26,599.96	26,864.27	+264.31	+15.16%
S&P 500	2,941.76	2,980.38	+38.62	+18.89%
NASDAQ Composite	8,006.24	8,175.42	+169.18	+23.21%
RUSSELL 2000	1,566.57	1,574.61	+8.04	+16.76%
Fed Funds Rate	2.25% - 2.50%	2.00% - 2.25%	-0.25%	
2-Year Treasury	1.75%	1.89%	+0.14%	
10-Year Treasury	2.00%	2.02%	+0.02%	
Crude Oil \$ per Barrel	\$58.47	\$58.58	+\$0.11	+29.00%
Gold \$ per Troy oz.	\$1,413.70	\$1,437.80	+\$24.10	+12.21%
UK Pound in U.S. \$	\$1.2727US = 1£	\$1.2245US = 1£	\$ STRONGER	-3.86%
Euro in U.S. \$	\$1.1388US = 1€	\$1.1134US = 1€	\$ STRONGER	-2.60%
Canada \$ per U.S. \$	\$1.30675C=\$1.00US	\$1.31315C=\$1.00US	\$ STRONGER	-3.85%
Japan Yen per U.S. \$	107.74¥ = \$1.00 US	108.575¥=\$1.00 US	\$ STRONGER	-1.04%



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