

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished June at 26,600, up +7.19% for the month and up +14.03% year-to-date. The S&P 500 closed June 30 at 2,942, up +6.89% for the month, and up +17.35% so far for the year. The NASDAQ Composite gained +7.42% in June, up +20.66% for the year. Small company stocks as measured by the Russell 2000 ended June at 1,567, up +6.90% for the month, and up +16.17% year-to-date. Materials (+11.71%) and Energy (+9.27%) were the best performing sectors in June.

"The S&P 500 gained 6.9% this month, its best June since 1955, on its way to a 17% rise during the first six months of 2019, its best first half since 1997." (Barron's, *The Trader*, Ben Levisohn, June 28, 2019)

Mid-Year Review

Stocks finished the first half of the year near record highs after overcoming a sharp selloff in May. Of note, through the record close on July 3, stocks are only about 4% higher than the record close set January 26, 2018. Since then, the S&P 500 has seen drawdowns of 5% or more six separate times, including a 19.7% drawdown which ended Christmas Eve 2018. Much of the back and forth has been driven by developments in U.S. – China trade talks, and by interest rate expectations from the Federal Reserve. Due to the uncertain nature of these drivers, markets have been especially sensitive to bits of news hinting at where these issues may be heading. Optimism has turned to pessimism and back again a number of times over this recent cycle. Investors are encouraged to be prepared for additional choppiness as these issues remain unresolved, and to view temporary reversals in the context of your long term needs and goals.

Corporate Earnings

Corporate earnings, a fundamental driver of equity returns, contracted slightly in the 1st quarter 2019 by -0.4%, and 2nd quarter earnings are expected to be lower by -2.6%. If this estimate holds, it will be the first time earnings have declined for two consecutive quarters since 2016. Rising input and labor costs, tariffs, a declining impact from tax reform, and trade policy uncertainty have all been referenced as difficulties affecting corporate profits. These challenges are in addition to signs pointing toward a global slowdown in GDP growth. With slowing or negative corporate earnings, there could be less of a backstop for equity markets if investor sentiment reverses. Investors are encouraged to continue to plan ahead for near term cash needs given the elevated potential for sudden volatility.

"Stocks also rose despite mounting fears of an economic slowdown that have pushed bond yields down globally. The yield on the 10-year U.S. Treasury closed the quarter at 2%, nearly a half-percentage-point drop from the end of March, a downward lurch that took many investors by surprise. 'The second quarter is a fabulous example of the volatility that is wrought by headlines and emotions,' said Michael Farr, president of wealth-management firm Farr, Miller & Washington." (The Wall Street Journal, *S&P Posts Best First Half in 22 Years*, Corrie Driebusch, June 28, 2019)

Employment Reports

The U.S. economy added a better than expected 224,000 jobs in June, extending a record 105 month streak of job gains. The unemployment rate ticked up to 3.7%, though this was partly due to more people joining the labor force and seeking employment. Wage growth of 3.1% is considered a positive for workers/consumers and not too high to trigger inflation worries. In a reflection of current market dynamics, the initial response to the positive report was for stocks to move lower, since evidence of a strong underlying economy gives the Federal Reserve less reason to lower interest rates. This dynamic and any evidence of increasing wage inflation will be closely watched in future reports.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 05/31/2019	CLOSE AS OF 06/30/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	24,815.04	26,599.96	+1,784.92	+14.03%
S&P 500	2,752.06	2,941.76	+189.70	+17.35%
NASDAQ Composite	7,453.15	8,006.24	+553.09	+20.66%
RUSSELL 2000	1,465.49	1,566.57	+101.08	+16.17%
Fed Funds Rate	2.25% - 2.50%	2.25% - 2.50%	UNCHANGED	
2-Year Treasury	1.95%	1.75%	-0.20%	
10-Year Treasury	2.14%	2.00%	-0.14%	
Crude Oil \$ per Barrel	\$53.50	\$58.47	+\$4.97	+28.76%
Gold \$ per Troy oz.	\$1,311.10	\$1,413.70	+\$102.60	+10.33%
UK Pound in U.S. \$	\$1.2604US = 1£	\$1.2727US = 1£	\$ WEAKER	-0.07%
Euro in U.S. \$	\$1.1144US = 1€	\$1.1388US = 1€	\$ WEAKER	-0.38%
Canada \$ per U.S. \$	\$1.3519C = \$1.00US	\$1.30675C = \$1.00US	\$ WEAKER	-4.32%
Japan Yen per U.S. \$	108.575¥ = \$1.00US	107.74¥ = \$1.00US	\$ WEAKER	-1.80%



NEW COVENANT TRUST COMPANY

200 E 12th Street, Jeffersonville, IN 47130
800-858-6127 option 6 newcovenanttrust.com