

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished May at 24,815, down -6.69% for the month but up +6.38% year-to-date. The S&P 500 closed May 31 at 2,752, down -6.58% for the month, up +9.78% so far for the year. The NASDAQ Composite lost -7.93% in May, up +12.33% for the year. Small company stocks as measured by the Russell 2000 ended May at 1,465, down -7.90% for the month, up +8.67% year-to-date. Real Estate (+17.5%) has been the best performing sector year-to-date.

"Even the market's new highs haven't led anywhere. The S&P 500 hit a new one in April, but it was only 0.5% above its September all-time high, which was just 2% above its January 2018 record." (Barron's, *The Trader*, Ben Levisohn, May 31, 2019)

Tariff Concerns Worsen

May was the worst month for stocks since December 2018, with the major equity indices down -6.5% or more. The Dow Jones Industrial Average ended the month with its sixth straight weekly loss, the longest weekly losing streak for the index since June 2011. Trouble began in early May when trade negotiations between the U.S. and China appeared to deteriorate, and an increase in tariffs on \$200 billion of Chinese imports was announced. Markets had previously been optimistic the trade negotiations were progressing, and that the tariff increases could be avoided. News to the contrary led to a sharp pullback in stocks.

Later in the month, another tariff surprise rattled markets when the Trump administration abruptly announced escalating tariffs on Mexico over disagreements on immigration and border policy. The uncertainty surrounding these sudden trade developments is being mentioned by many business leaders as a headwind to future growth. An inability to plan for the near-term with a stable trade policy is just as damaging in some cases as the direct effect of tariffs. Equities are likely to remain volatile as the market wrestles with whether these developments are negotiating tactics or actual long-term policy. Some observers suspect the market is still pricing in a somewhat optimistic outlook the trade issues will be resolved before the full extent of announced tariffs go into effect. This means more bad news could drive markets even lower. Investors should expect the volatility to persist, those with shorter-term investment horizons may wish to reevaluate and confirm their risk levels given the uncertain environment at this late stage of the business cycle.

"In April, the International Monetary Fund cut its estimates for global growth, pointing to increased trade tensions and tariff increases between the U.S. and China as a key factor. Yields on government bonds around the world fell to fresh 2019 lows last week, as flaring trade worries drove investors into haven assets. Activity in Chinese factories fell in May, a key measure showed last week, as new orders for goods dropped in response to uncertainties created by the trade dispute with the U.S." (The Wall Street Journal, *Trade Worries Slam Emerging Markets*, Ira Iosebashvili, June 3, 2019)

Yield Curve — Fixed Income

Yields on U.S. government bonds moved sharply lower in May, as investors sought the safety of U.S. Treasury debt amidst the market uncertainty described above. This increased demand drives prices higher, which results in lower yields. At month end, short-term 3-month treasury bills were yielding more than the 1, 5, 10, and even 20 year treasury bonds. When short-term yields are higher than longer-term yields the yield curve is said to be inverted, which has been a historically reliable indicator of a future recession. The most recent inversion has lasted only a few days, and most observers look for longer-term trends before considering a signal reliable, but the recent moves in bond yields do reflect the stock market turmoil and uncertainty observed in May. Interest rates and bond yields will be closely watched measures moving forward.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 04/30/2019	CLOSE AS OF 05/31/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	26,592.91	24,815.04	-1,777.87	+6.38%
S&P 500	2,945.83	2,752.06	-193.77	+9.78%
NASDAQ Composite	8,095.39	7,453.15	-642.24	+12.33%
RUSSELL 2000	1,591.21	1,465.49	-125.72	+8.67%
Fed Funds Rate	2.25%- 2.50%	2.25% - 2.50%	UNCHANGED	
2-Year Treasury	2.27%	1.95%	-0.32%	
10-Year Treasury	2.51%	2.14%	-0.37%	
Crude Oil \$ per Barrel	\$63.91	\$53.50	-\$10.41	+17.82%
Gold \$ per Troy oz.	\$1,285.70	\$1,311.10	+\$25.40	+2.33%
UK Pound in U.S. \$	\$1.3037US = 1£	\$1.2604US = 1£	\$ STRONGER	-1.04%
Euro in U.S. \$	\$1.1207US= 1€	\$1.1144US= 1€	\$ STRONGER	-2.52%
Canada \$ per U.S. \$	\$1.3452C= \$1.00US	\$1.3519C= \$1.00US	\$ STRONGER	-1.02%
Japan Yen per U.S. \$	111.375¥= \$1.00US	108.575¥= \$1.00US	\$ WEAKER	-1.04%



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