

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished August at 26,403, down -1.72% for the month and up +13.19% year-to-date. The S&P 500 closed August 30 at 2,926, down -1.81% for the month, up +16.74% so far for the year. The NASDAQ Composite lost -2.60% in August, up +20.01% for the year. Small company stocks as measured by the Russell 2000 ended August at 1,495, down -5.07% for the month, and up +10.85% year-to-date. Technology is the best (+26.4%) and Energy the worst (-1.0%) performing sectors year-to-date.

"Investors grappled with a lack of clarity on core issues like trade and global growth and remain wary heading into what has historically been a shaky month for stocks." (The Wall Street Journal, *Stocks Break Losing Streak to End Volatile August*, Akane Otani, Aug. 30, 2019)

Stocks Choppy as Recession Signals Flash Yellow

The Dow Jones Industrial Average saw drops of 600 points or more on 3 separate trading days in August, the most in a month since 2011. There were gains of 300 points or more, however, on 5 separate trading days, illustrating the back and forth volatility apparent in today's markets. Stocks ended the month just 3.3% below the record high set in July 2019, but just 1.9% above the record high set in January 2018. In that time, stocks have traded within a range of +/- 28%. Our view is that this level of volatility illustrates the importance of remaining disciplined and invested in an appropriate asset allocation based upon your time horizon, needs, and goals. Selling out of securities as a sudden reaction to sharp drawdowns, or due to poor cash flow planning, can be particularly harmful to long-term returns in such a choppy environment. We expect the elevated uncertainty and volatile headlines to persist. If you have any questions or updates regarding your situation, time horizon, or ability to take risk, please don't hesitate to reach out to us for a review of your plan.

Yield Curve Inversion

Regular readers of the newsletter may have been well prepared for the extensive media coverage of the inverted yield curve this month. While we've been closely watching the Federal Reserve's preferred signal of the 3-month treasury vs. the 10 year, which inverted in May, the more widely followed measure of the 2-year vs. 10-year treasury inverted in August. Short-term interest rates having higher yields than longer dated securities (an inversion) signals that the bond market is expecting a slowdown in growth or recession. This development is consistent with our view that we're late in this cycle. Attempting to time a recession, however, most often leads to underperformance in our view.

"For the year through Thursday, a 60 SPY/ 40 AGG portfolio would show a sparkling return of 14.45%, consisting of 18.16% from the equity side and 8.89% from the debt portion. But for the past 12 months, the 60-40 portfolio returned 5.53%, better than the 2.37% from the stock side, benefiting from 10.26% from the fixed-income side. Score one for old-fashioned diversification." (Barron's, *Up and Down Wall Street*, Randall Forsyth, Aug. 30, 2019)

Economic Reports

The theme of still strong but weakening economic indicators continued in August, with releases on retail sales and the index of leading indicators showing steady, if modest, growth. Consumer confidence surveys showed some signs of deterioration amidst U.S.-China trade uncertainty, with industrial manufacturing showing clear signs of contraction as tariffs and trade uncertainty persist. With signs pointing toward a still healthy consumer in the U.S. for now, where consumer spending accounts for over 2/3 of GDP, forecasts from the Federal Reserve and the IMF expect positive U.S. GDP growth of around 2% in 2019 and 2020. We continue to watch for signs that today's modestly slowing growth indicators are more rapidly deteriorating, which would put further downward pressure on markets.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 07/31/2019	CLOSE AS OF 08/30/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	26,864.27	26,403.28	-460.99	+13.19%
S&P 500	2,980.38	2,926.46	-53.92	+16.74%
NASDAQ Composite	8,175.42	7,962.88	-212.54	+20.01%
RUSSELL 2000	1,574.61	1,494.84	-79.77	+10.85%
Fed Funds Rate	2.00%- 2.25%	2.00% - 2.25%	UNCHANGED	
2-Year Treasury	1.89%	1.50%	-0.39%	
10-Year Treasury	2.02%	1.50%	-0.52%	
Crude Oil \$ per Barrel	\$58.58	\$55.10	-\$3.48	+21.34%
Gold \$ per Troy oz.	\$1,437.80	\$1,529.40	+\$91.60	+19.36%
UK Pound in U.S. \$	\$1.2245US = 1£	\$1.2179US = 1£	\$ STRONGER	-4.38%
Euro in U.S. \$	\$1.1134US = 1€	\$1.1013US = 1€	\$ STRONGER	-3.67%
Canada \$ per U.S. \$	\$1.31315C=\$1.00US	\$1.3228C=\$1.00US	\$ STRONGER	-2.71%
Japan Yen per U.S. \$	108.575¥=\$1.00US	106.145¥=\$1.00US	\$ WEAKER	-3.25%



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