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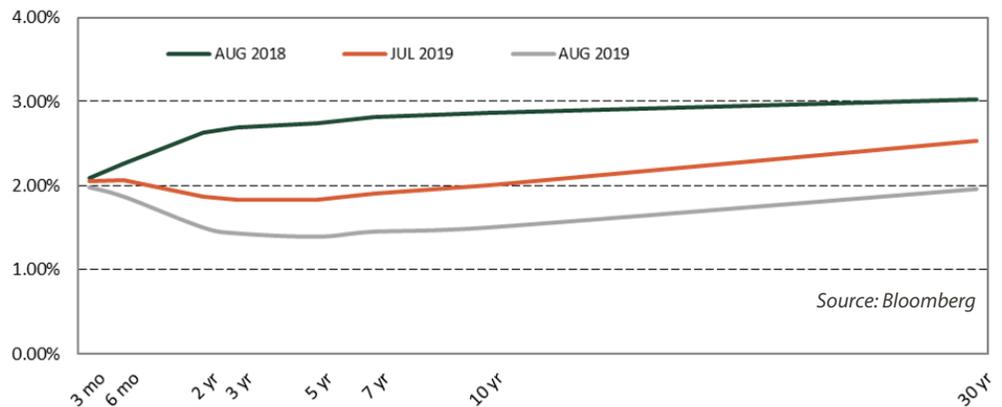
## Market Summary

US economic data is sending conflicting signals about the outlook for economic growth. While US labor market fundamentals and consumer confidence remain strong, trends in the housing market and manufacturing sector have been disappointing, and we believe risks to the economic outlook remain skewed to the downside. Although recent headlines on US-China trade negotiations and Brexit have been incrementally positive, the situations remain fluid and uncertain. Global economic data remains generally lackluster. The trajectory of economic growth is likely to hinge on the outcome of ongoing trade negotiations as well as policy action by the major global central banks.

We believe the Federal Open Market Committee (FOMC) is likely to cut the fed funds rate again to a range of 1.75%-2.00% at their upcoming September 17-18 meeting. Although we anticipate that policymakers will debate the need for a cut, we believe the majority of voting FOMC members will support adding further monetary policy accommodation in an effort to sustain the economic expansion. Furthermore, we believe the Fed is now more likely to err on the side of allowing inflation to run a bit hotter than their long-term target of 2.0%, rather than risk hindering economic growth with potentially restrictive monetary policy.

Treasury yields declined in August. The 3-month T-bill yield declined nearly nine basis points to 1.976%, the 2-year Treasury yield declined nearly 37 basis points to 1.504%, and the 10-year Treasury yield declined about 52 basis points to 1.496%. An inversion of the yield curve in which the 10-year Treasury yield is lower than both the 3-month T-bill yield and the 2-year Treasury yield is generally viewed as a powerful predictive signal of an upcoming recession. We believe downside risks to the economy are elevated. However, we believe increased short-term Treasury issuance to fund the deficit, and negative sovereign bond yields in other countries may be distorting the US Treasury yield curve. German sovereign bond yields from 1-month out to 30-years were all negative at August month-end.

## The Treasury Yield Curve Remains Partially Inverted



The shape of the Treasury yield curve has changed significantly. As of August month-end, the 3-month T-bill yield was down 12 basis points, the 2-Year Treasury yield was down nearly 115 basis points, and the 10-Year Treasury yield was down nearly 136 basis points, year-over-year. The current shape of the yield curve implies that market participants are pricing-in additional rate cuts. We believe the year-over-year decline in long-term Treasury yields reflects a high level of market participants' nervousness about the outlook for global economic growth and a decline in global inflation expectations.

TREASURY YIELDS	Trend (▲/▼)	8/31/2019	7/31/2019	Change
3-Month	▼	1.98	2.06	(0.08)
2-Year	▼	1.50	1.87	(0.37)
3-Year	▼	1.43	1.83	(0.40)
5-Year	▼	1.39	1.83	(0.44)
7-Year	▼	1.45	1.91	(0.46)
10-Year	▼	1.50	2.01	(0.51)
30-Year	▼	1.96	2.53	(0.57)

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 1.8% year-over-year in July, versus up 1.6% year-over-year in June. Core CPI (CPI less food and energy) was up 2.2% year-over-year in July, versus up 2.1% year-over-year in June. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in July, up slightly from 1.3% in June. Core PCE, which is the Fed's primary inflation gauge, was unchanged at 1.6% year-over-year in July. Core PCE remains below the Fed's 2.0% inflation target.

### Retail Sales

Retail sales in July were stronger than expected, up 0.7% in the month versus expectations of 0.3%, following an increase of 0.3% in June. Excluding autos and gas, retail sales were even stronger in July, up 0.9% (outpacing expectations of 0.5%). On a year-over-year basis, total retail sales were up 3.4% year-over-year in July, versus 3.3% year-over-year in June.

### Labor Market

U.S. nonfarm payrolls rose by 130,000 in August, below expectations of 160,000. On a trailing 3-month and 6-month average basis, payrolls increased an average of about 156,000 and 150,000 per month, respectively, which represents a moderate decline from the 12-month average of 173,000. The unemployment rate was unchanged at 3.7% in August, despite an increase in the participation rate to 63.2% from 63.0% in July. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part time for economic reasons, increased to 7.2% in August after declining to 7.0% in July (the lowest level since December 2000). Wages rose 0.4% in August on a month-over-month basis (slightly above expectations), following a 0.3% increase in July. On a year-over-year basis, wages were up 3.2% in August, versus up 3.3% in July. The August employment report suggests that the pace of job growth is slowing but wages are rising, which is consistent with a tight labor market.

### Housing Starts

Housing starts were lower than expected in July, down 4.0% month-over-month to a 1.191 million annualized rate. Multi-family starts fell 16.2% month-over-month to an annualized rate of 315,000, while single-family starts rose 1.3% to an annualized rate of 876,000. On a year-over-year basis, total housing starts were roughly flat.

### Credit Spreads Widened in August

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.01	0.10	(0.09)
2-year A corporate note	0.47	0.42	0.05
5-year A corporate note	0.69	0.61	0.08
5-year Agency note	0.08	0.10	(0.02)

Source: Bloomberg

Data as of 8/31/2019

### Economic Data Remains Consistent with Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(54.0) \$Bln JUL 19	(55.5) \$Bln JUN 19	(52.4) \$Bln JUL 18
GDP	2.0% JUN 19	3.1% MAR 19	3.5% JUN 18
Unemployment Rate	3.7% AUG 19	3.7% JUL 19	3.8% AUG 18
Prime Rate	5.25% AUG 19	5.50% JUL 19	5.00% AUG 18
CRB Index	170.36 AUG 19	178.53 JUL 19	192.96 AUG 18
Oil (West Texas Int.)	\$55.10 AUG 19	\$58.58 JUL 19	\$69.80 AUG 18
Consumer Price Index (y/o/y)	1.8% JUL 19	1.6% JUN 19	2.9% JUL 18
Producer Price Index (y/o/y)	0.8% JUL 19	0.4% JUN 19	4.3% JUL 18
Dollar/Euro	1.10 AUG 19	1.11 JUL 19	1.16 AUG 18

Source: Bloomberg

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## Market Data

### World Indices

data as of 8/31/2019

	Diff (7/31/19)	% Change
S&P 500		
2,926.46	53.92	-1.81%
NASDAQ		
7,962.88	212.54	-2.60%
DOW JONES		
26,403.28	460.99	-1.72%
FTSE (UK)		
7,207.18	379.60	-5.00%
DAX (Germany)		
11,939.28	249.76	-2.05%
Hang Seng (Hong Kong)		
25,724.73	2,053.02	-7.39%
Nikkei (Japan)		
20,704.37	817.16	-3.80%

Source: Bloomberg



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