



NEWPORT CAPITAL GROUP

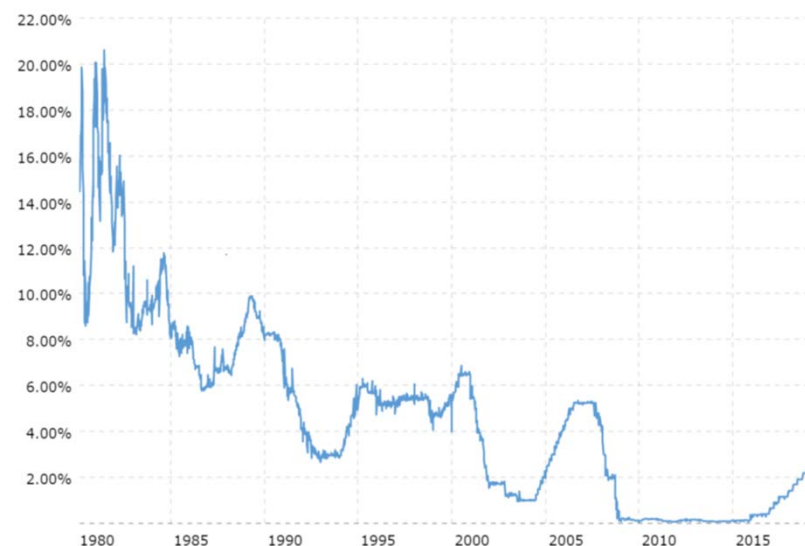
# **ECONOMIC AND CAPITAL MARKETS OVERVIEW**

## **3<sup>RD</sup> QUARTER 2019**

# U.S. ECONOMIC OVERVIEW

- ✦ The U.S. economy grew at an annualized rate of 2.0% in the second quarter of 2019, slower than the 3.1% rate experienced in the first quarter of the year. The increase reflected positive contributions from PCE, federal government spending, and state and local government spending and was partly offset by negative contributions from private inventory investment, exports, nonresidential fixed investment, and residential fixed investment.
- ✦ The unemployment rate in the US reached 3.5% at the end of the third quarter, down from the 3.7% reported in the second quarter, matching a fifty-year low. This compares to the long-term average of 5.7% going back to 1948. Nonfarm payrolls averaged a gain of 157K per month in the third quarter as compared with 171K in the second.
- ✦ The Consumer Price Index (CPI) was up 1.7% in September, slightly higher than the 1.6% rate experienced in June. Core PCE (excluding food and energy) was up 1.8% yr/yr in August, remaining below the U.S. Federal Reserve's 2.0% target. Wage growth declined in the quarter with hourly wages up 2.9% yr/yr in September as compared with 3.1% growth in June.
- ✦ Oil prices (crude) declined 7.6% for the quarter, primarily on slowing global economic growth. Oil prices were down 26.2% yr/yr through the end of the third quarter.
- ✦ The Federal Reserve's Open Market Committee (FOMC) lowered its target on the federal funds rate by 25 basis points twice during the quarter to a range of 175 to 200 basis points on global growth concerns and muted inflation. These were the first interest rate cuts for the federal funds rate following nine 25 basis point interest rate hikes which began in December 2015.
- ✦ Additional monetary policy accommodation will include an expansion of the Federal Reserve's \$3.7 trillion balance sheet.
- ✦ At the September meeting, seven of the ten FOMC voting members voted for the cut while three voted against. James Bullard had favored a 50 basis point cut while Esther George and Eric Rosengren preferred to leave rates unchanged.

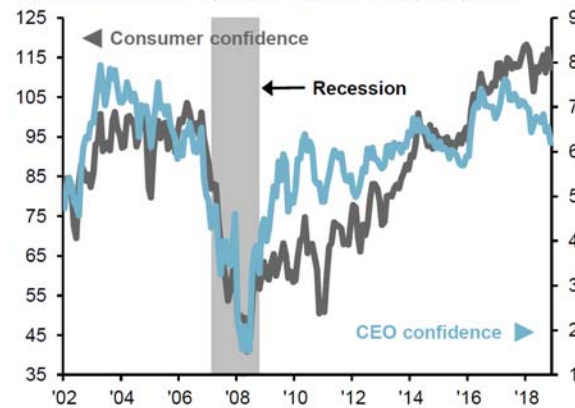
Fed Funds Rate Historically



Source: Federal Reserve Economic Data – St. Louis

# ECONOMIC TRENDS

Cons. confidence has been more resilient than bus. confidence  
 Consumer confidence\*, CEO confidence index, index level



Source: JPMorgan Weekly Market Recap September 9, 2019

## Central banks accelerated easing in the third quarter

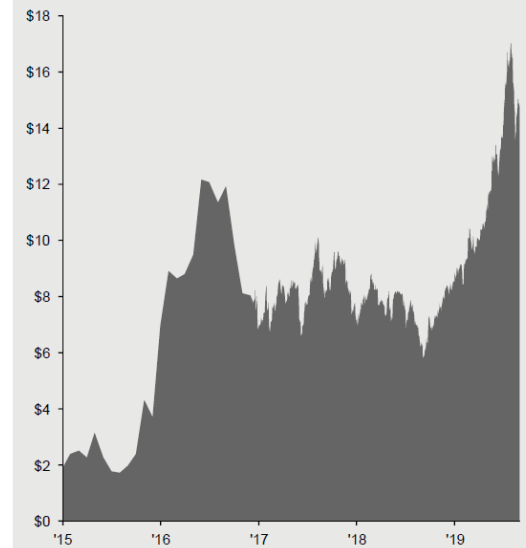
Share of central banks cutting rates (%)



Source: Financial Times October 9, 2019; UBS, FT Research

## Negative yielding debt

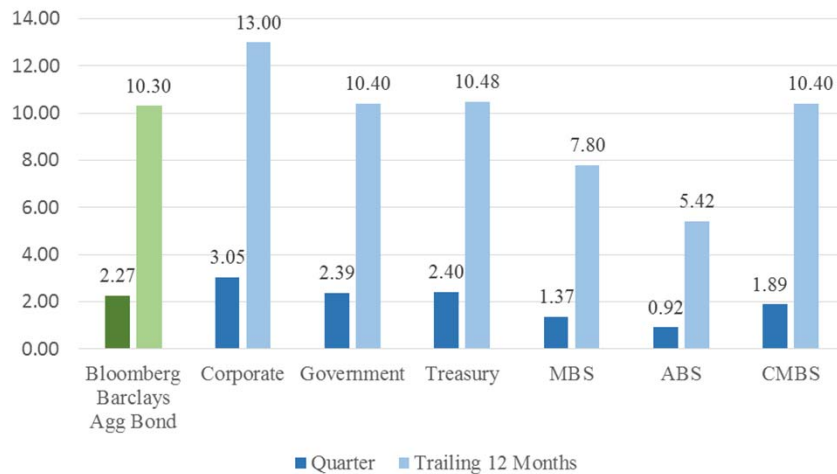
USD trillions



Source: JPMorgan Guide to the Markets as of September 30, 2019

# U.S. FIXED INCOME MARKET OVERVIEW

Bloomberg Barclays Aggregate Returns by Sector (%)  
as of September 30, 2019



- ◆ Short-term interest rates continued to move lower in the third quarter on fears of slowing economic growth. The U.S. 2-year Treasury yield was down 12 basis points, ending the quarter at 1.63% while the ten-year Treasury bond saw yields down 34 basis points, ending the quarter at 1.67%.
- ◆ The spread between the yields on the U.S. 2-10 year Treasuries inverted during the final days in August. This is significant, as many market participants believe it is a precursor to recession. Historically, recessions have followed within 1 to 2 years of inversion.
- ◆ The Bloomberg Barclays U.S. Aggregate Index was up 2.3% in the quarter led by Corporate Bonds (+3.1%). Higher rated bonds along with longer duration issues were relative outperformers.

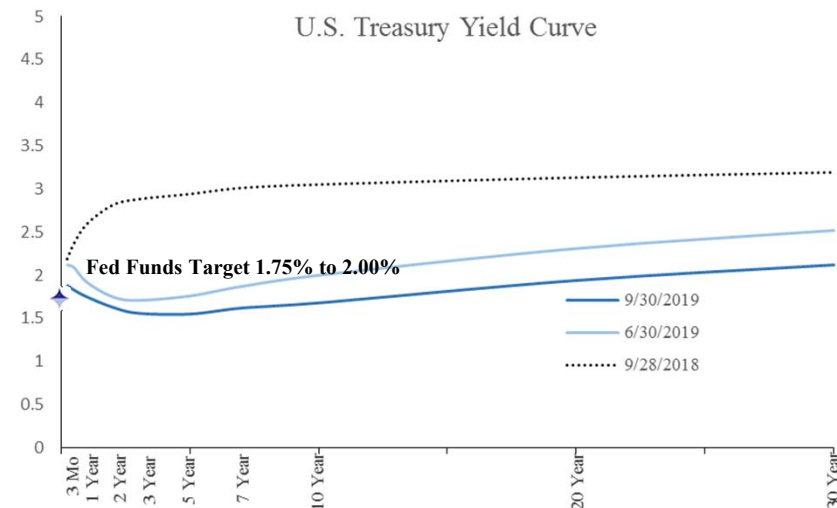
Returns by Quality (%)

	Qtr	YTD	1 Yr	3Yr	5 Yr
Barclays Aggregate Bond	2.27	8.52	10.30	2.92	3.38
Aaa	4.21	14.96	16.60	4.96	5.43
Aa	2.85	10.31	11.50	3.66	4.13
A	2.93	12.27	12.58	3.96	4.53
Baa	3.13	14.33	13.40	5.07	4.92
High Yield	1.33	11.41	6.36	6.07	5.37

Returns by Maturity (%)

	Qtr	YTD	1 Yr	3Yr	5 Yr
3 Month T-Bills	0.51	1.74	2.35	1.62	1.02
1-3 Yr	0.71	3.45	4.67	1.84	1.61
3-5 Yr	1.27	5.76	7.71	2.29	2.62
5-7 Yr	1.47	6.78	8.91	2.50	2.97
7-10 Yr	2.77	9.80	12.10	2.89	3.81
>10 Yr	6.58	20.92	22.01	5.53	6.80

U.S. Treasury Yield Curve



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# U.S. EQUITY MARKET OVERVIEW

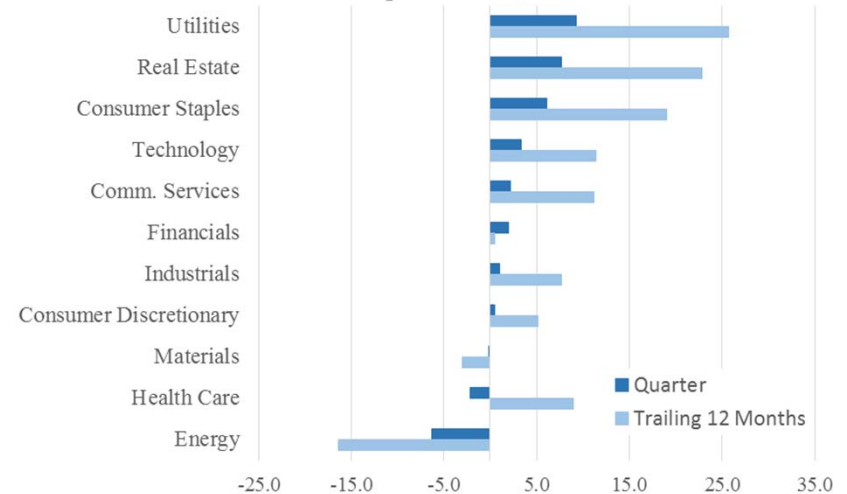
Domestic Equity Performance (%)

Large Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell 1000 Value	1.36	17.81	4.00	9.43	7.79
S&P 500	1.70	20.55	4.25	13.39	10.84
Russell 1000 Growth	1.49	23.30	3.71	16.89	13.39

Mid Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell Mid Cap Value	1.22	19.47	1.60	7.82	7.55
Russell Mid Cap	0.48	21.93	3.19	10.69	9.10
Russell Mid Cap Growth	-0.67	25.23	5.20	14.50	11.12

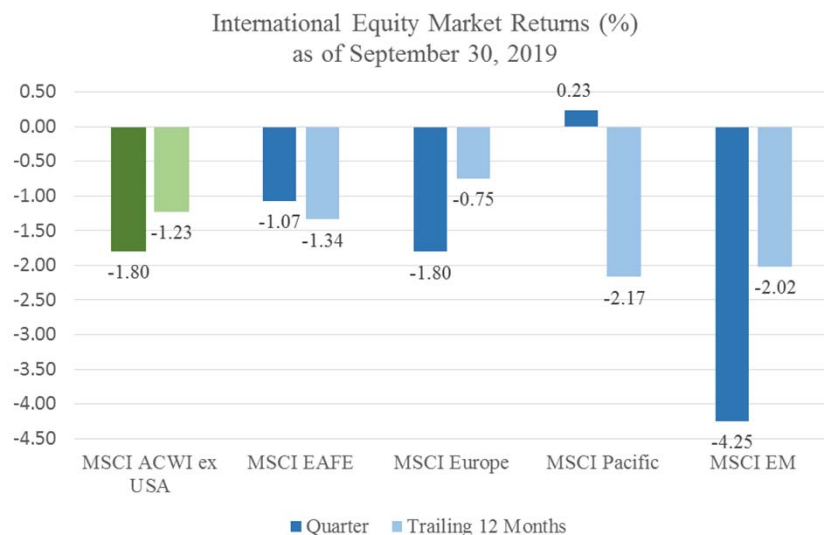
Small Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell 2000 Value	-0.57	12.82	-8.24	6.54	7.17
Russell 2000	-2.40	14.18	-8.89	8.23	8.19
Russell 2000 Growth	-4.17	15.34	-9.63	9.79	9.08

Sector Performance (%)  
as of September 30, 2019



- ✦ The S&P 500 Index ended the third quarter of 2019 with a slight gain of 1.7%. However, the index returned a strong 20.6% year-to-date due to a robust first half supported by strong consumer spending and a solid job market.
- ✦ Large cap stocks outperformed their mid and small cap counterparts, and small cap stocks finished the quarter in negative territory. The Russell 2000 Index declined 2.4% during the quarter. While growth outperformed value among large cap issues, value outpaced growth within the mid and small cap categories.
- ✦ Utilities was the top performing sector returning 9.3%, followed by Real Estate (+7.7%) and Consumer Staples (+6.1%). Laggards included Materials (-0.1%), Health Care (-2.2%) and Energy (-6.3%).
- ✦ Trade tensions with China continued during the third quarter leading to short-term spikes in market volatility.

# INTERNATIONAL MARKETS OVERVIEW



	10-Yr Govt Bond Yield (%)	Exchange Rate	
United States	1.67	DEX	99.38
United Kingdom	0.49	Pound/USD	1.23
Germany	-0.57	Euro/USD	1.09
France	-0.27		
Japan	-0.22	USD/Yen	108.06
China	3.16	USD/Yuan	7.14
Brazil	7.05	USD/Real	4.16
Data as of 9/30/19			

- ◆ International stocks were relative underperformers as compared to the U.S in the third quarter primarily on slower economic growth, weakened global manufacturing and continued trade tensions. The MSCI EAFE Index was down 1.1% while the MSCI Emerging Markets Index lost 4.3%.
- ◆ The US dollar (DXY) increased by 3.4% in the third quarter and gained 4.5% yr/yr on stronger relative U.S. economic growth.
- ◆ The majority of global Central Banks remain accommodating in their monetary policies over concerns for weaker economic growth and uncertainty surrounding Brexit and potential tariffs. The People's Bank of China (PBOC) and European Central Bank (ECB) cut interest rates in September.
- ◆ Approximately \$15 trillion, or about 25%, of government bonds across the globe now trade with negative yields. Germany's 30 year bonds traded with negative yields for the first time in history.

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