After The Close

Slowing manufacturing activity and new tariffs dampen investor sentiment

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Stocks start September on a low note after a difficult August

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Index Level</th>
<th>Net Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>2,906</td>
<td>-20.2</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>26,118</td>
<td>-285.3</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>1,472</td>
<td>-22.5</td>
<td>-1.5%</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>7,874</td>
<td>-88.7</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

All data via FactSet as of approximately 4 PM ET

The month of August was a rollercoaster ride for investors, and that pattern continued with September’s open. Toward the end of August, the S&P 500 Index was able to pare some of its earlier losses on the heels of some positive trade headlines, low volume that was tilted toward stock rebalancing, and a less pessimistic tone among traders in the final days of the month. Overall, the S&P 500 was down 1.8% in August on a price-only basis, its worst month since May. Stocks were led lower by Energy, Financials, Materials and Information Technology. Defensives, on the other hand, posted solid gains, with Utilities and Consumer Staples both up by over +2.0% on a price basis. Real Estate gained over +4.0% in August, as investors looked for income amidst more than $17 trillion in negative-yielding government debt, and an inverted U.S. Treasury yield curve.

Seasonal patterns can be difficult in August and September. Average returns for September have been negative over the last 20 years. That average, however, is heavily skewed by large declines in 2001, 2002, 2008, and 2011. Those years had very specific event-driven circumstances that led markets lower, such as the 9/11 terrorist attacks, the financial crisis, and the aftermath of a U.S. government debt downgrade. However, over the last ten years, the month of September has been generally positive for investors, with the S&P 500 gaining, on average, almost +1.0% during the month, according to FactSet data.

Bottom line: Returns in September have been more positive during the current bull market, have seen more frequent periods of event-driven selling, and historically are weaker compared to other months over a longer time frame (i.e., 20-year). As a result, investors should expect more volatile trading patterns for financial assets this month.

On the day

Although markets edged lower today, U.S. stocks were able to pare some of their heavier mid-day losses by the close. Contributing to investors’ sour mood on the first day back from a long Labor Day weekend was data on U.S. manufacturing activity that showed the sector’s first month-over-month contraction since January 2016. Along with increasing worries about a “no-deal” Brexit, investors looked for safety in Utilities, Real Estate, and Consumer Staples today. The 10-Year U.S. Treasury yield declined to 1.46%, gold rallied more than 1.0%, and crude oil was down roughly 2.0%.

Considering the seasonal factors discussed above, investors are again looking at trade headlines and new tariffs in a negative light. On Sunday, the U.S. implemented a 15% tariff on roughly $110 billion in Chinese imports, which affect a wider swath of consumer goods, including footwear, apparel, home textiles, and certain tech products. Another tranche of consumer goods that includes smartphones and laptops and valued at approximately $130 billion will see a 15% tariff on December 15th. In retaliation, on Sunday, China implemented a new round of tariffs on $75 billion of U.S. goods, which includes over 5,000 products. American pork, beef, chicken, and various agricultural products will now face an extra 10% tariff, while soybeans saw an added 5% tariff in addition to the existing 25% rate. For the first time in this trade war, U.S. crude prices will face a 5% tariff when entering China.

Looking down the road, the U.S. is planning to increase tariffs on $250 billion in Chinese imports to 30% from 25% on October 1st. Last Thursday, the U.S. Trade Representative Office said it would collect public comments through September 20th, which will likely show most businesses are opposed to the new tariffs. These new taxes on U.S. and Chinese goods should be expected to further slow global growth over time and negatively impact U.S. consumers. Some projections show the tariffs in total could cost the average U.S. household $1,000 a year, up from $600 for duties enacted last year. However, we believe this estimate appears overstated. Nevertheless, the cost of the U.S./China trade war is increasingly being placed on the U.S. consumer, which is responsible for roughly 70% of U.S. economic activity.

Committee View

In our view, trade events are likely to remain the largest macro influence on stock prices over the next few months. With increased tariff rates on more U.S. and Chinese goods now in place, incoming data on corporate profits and economic growth will be the key items to watch moving forward.

However, once we move past September, stock prices have a solidly positive seasonal pattern heading into the final months of the year. In consideration of the strength of returns in the front half of this year, such seasonal tailwinds could be influential. While much of the macro and subsequent direction for stock prices revolve around trade and the level of corporate profit growth, if markets can make it through September relatively intact, the rest of the year could look more positive, at least from a seasonal perspective.

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**As of June 30, 2019**

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