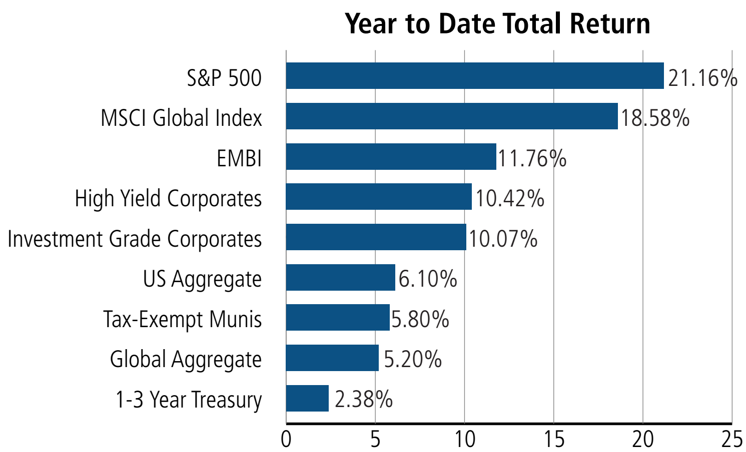
Week Ending **July 26, 2019**

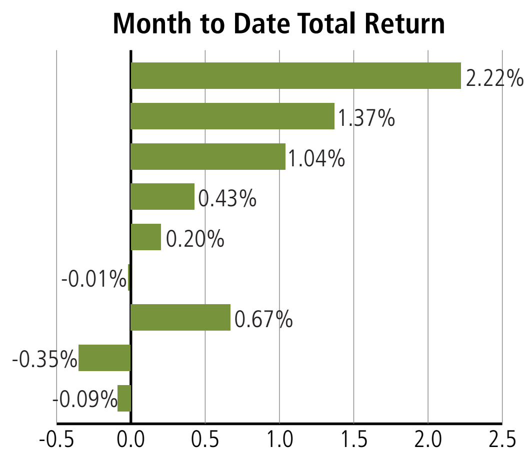
Worse And Worse

Economic Overview:

The European Central Bank (ECB) Governing Council met this week in Frankfurt and President Mario Draghi delivered his candid assessment of the euro area economic outlook. "You still see signs of strength in the economy," he admitted, but, "at the same time, this outlook is getting worse and worse." On the positive side of the ledger? A resilient labor market. Unemployment across the euro area just fell to a cycle low of 7.5%. Strong employment growth supports nominal wage growth, which, in turn, continues to support euro area consumption. On the negative side? The manufacturing sector continues to weaken. Since manufacturing value chains criss-cross the Continent, "this [the weakening manufacturing sector] must be taken into account." We think the euro area can avoid a recession, but leading indicators of GDP growth in the euro area's core economy, Germany, suggest weakness will persist into the second half of the year. Draghi once said he would do "whatever it takes" to save the euro. His parting shot as ECB chief might be to do "whatever it takes" to boost output and inflation. Expect the ECB to deploy all available tools—and soon.

Total Returns by Asset Class





Highlights of the Week:

- **Corporates:** Earnings season is in full effect with 136 companies reporting earnings this week. Earnings results from the big six U.S. banks have been mostly inline due to lower analysts' projections. Credit card and consumer loan growth remain a bright spot while net interest income is expected to come under pressure over the remainder of the year due to lower interest rates.

- **Securitized Products:** Imitation is the sincerest form of flattery—Charles Colton. In 1986, Discover introduced the popular "cash back" program. Today, it is offered everywhere. This week, Discover brought a $800 million AAA-rated credit card deal with a 6/15/21 expected final at 1-month LIBOR + 27. The deal was welcomed by the marketplace as credit card issuance has been lower than expected this year.

- **High Yield:** The media loves a good story about the impending doom of BBB-rated corporate bond issuers. One might think they were all about to fall to high yield! Bonds that fall from investment grade to high yield are referred to as "fallen angels," and they've actually been scarce this year. Rising stars, or high yield upgrades to investment grade, have been far more common, outpacing fallen angels by a 8:1 ratio in 2019 ($37 billion vs $5 billion).

- **Equities:** The U.S. equity market bounced back from the prior week's loss on better than expected corporate earnings results. The anticipation of a Fed interest rate cut at the end of this month has also boosted stock prices with major U.S. stock indices hitting new record highs. The best performing sectors this week were communications and financials, while the worst performing sectors were energy and utilities.