

SECOND QUARTER 2019 MARKET RECAP: STOCKS REBOUND AS BOND YIELDS SAG

July 2, 2019 | Gene Walden, Senior Finance Editor

Stocks rallied over the past month as government bond yields continued to sag amidst speculation that the Federal Reserve (Fed) will soon cut rates.

After a rocky month in May, when the S&P 500® dropped nearly 5%, the index gained 6.89% in June. Through the first six months of 2019, the S&P 500 is up 17.35%. (The S&P 500 is a market-cap-weighted index that represents the average performance of a group of 500 large capitalization stocks.)



On the other hand, bond yields have dropped significantly as the Fed considers cutting interest rates to stimulate economic expansion. Yields on 10-year Treasuries have dropped from 2.68% at the end of 2018 to 2.00% at the June close.

Here are some recent economic highlights, many of which are covered in greater detail later in this report (Exhibit 1):

In a nutshell					Exhibit 1	
	Dec. 31, 2018	March 31, 2019	June 30, 2019	% Change Quarter	% Change YTD	
S&P 500 Index	2,506.85	2,834.40	2,941.76	3.79%	17.35%	
NASDAQ Composite Index	6,635.28	7,729.32	8,006.24	3.58%	20.66%	
MSCI EAFE Index	1,719.88	1,875.43	1,922.30	2.50%	11.77%	
US 10-Yr Treasury	2.68%	2.42%	2.00%	N/A	N/A	
Oil (West Texas Intermediate)	45.41	60.14	58.47	-2.78%	28.76%	

Source: FactSet, Morningstar

- **Retail sales rise.** Retail sales were up 0.5% from the previous month in May, according to the Department of Commerce.
- **Modest job gains.** The economy added only 75,000 new jobs in May, but the unemployment rate held steady at just 3.6%, according to the U.S. Bureau of Labor Statistics.
- **Oil prices recover.** After a sharp drop in prices in May, oil recovered some of its lost ground in June.

Drilling Down

U.S. stocks rebound

The S&P 500 moved up 6.89% in June and 3.79% in the second quarter (Exhibit 2). It is up 17.35% for the year.

The total return of the S&P 500 (including dividends) was 7.05% in June and 18.54% for the first six months of 2019.



The NASDAQ Index also recovered nicely in June after a down month in May, from 7,453.15 at the May close to 8,006.24 at the end of June – a 7.42% gain. For the year, the NASDAQ is up 20.66%. (The NASDAQ – National Association of Securities Dealers Automated Quotations – is an electronic stock exchange with more than 3,300 company listings.)

Retail sales rise

Retail sales for May were up 0.5% from the previous month, according to the Department of Commerce June 14 report. Sales were up 3.2% from a year earlier.

Motor vehicle sales were up 0.7% from the previous month and 3.1% from a year earlier, building materials were up 0.1% from the previous month and 0.2% from a year earlier, and non-store retailers (primarily online) were up 1.4% for the month and 11.4% from a year earlier.

General merchandise store sales were up 0.7% for the month and 3.3% from a year earlier, but department store sales were down 0.7% for the month and 4.6% from a year earlier.

Employment rises modestly

U.S. employers added just 75,000 new jobs in May, and the unemployment rate remained at 3.6%, according to the U.S. Bureau of Labor Statistics Employment Situation Report issued June 7.

The economy has added jobs for 104 consecutive months. Average hourly earnings increased by \$0.06 for the month to \$27.83. Over the past 12 months, wages have increased 3.1%.

All sectors move up for the month

All 11 sectors of the S&P 500 gained ground in June, with Materials leading the way with a 11.71% gain.

For the second quarter, 10 of the 11 sectors were up, led by Financials, up 8.0%. Energy was the only negative sector for the quarter, down 2.83%. The leading sector through the first six months of 2019 was Information Technology, up 27.13%

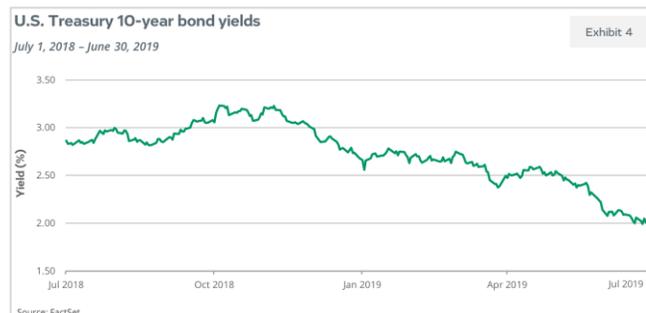
Exhibit 3 shows the results of the 11 sectors for the past month, the second quarter and all of 2019.

	June returns	2nd quarter returns	2019 YTD
Financials	6.74%	8.00%	17.24%
Materials	11.71%	6.31%	17.26%
Information Technology	9.13%	6.06%	27.13%
Consumer Discretionary	7.78%	5.28%	21.84%
Comm Services	4.27%	4.49%	19.09%
Consumer Staples	5.22%	3.72%	16.18%
Industrials	7.85%	3.57%	21.38%
Utilities	3.32%	3.48%	14.70%
Real Estate	1.76%	2.46%	20.42%
Health Care	6.64%	1.38%	8.07%
Energy	9.27%	-2.83%	13.13%
S&P 500 total return	7.05%	4.30%	18.54%

Source: Morningstar

Treasury yields down

The yield on 10-year U.S. Treasuries fell in June to the lowest level since September 2017, ending the month at 2.00% (Exhibit 4). The decline in yields was attributed to expectations that the Fed would soon cut interest rates. The yield dropped 0.14% from the May close of 2.14%. For the year, rates are down 0.68% after closing 2018 at 2.68%.



Corporate earnings growth slowing

After strong corporate earnings growth throughout 2018, projected earnings growth has slowed down in 2019. The estimated 12-month forward earnings per aggregate share of the S&P 500 was up 2.07% in the second quarter (Exhibit 5). For the first six months of 2019, forward earnings projections are up 1.31% from the 2018 year-end estimates.

The 12-month forward price-earnings ratio (P/E) of the S&P 500 increased in the second quarter, as stock prices moved up and projected earnings declined (Exhibit 6). The P/E closed the second quarter at 16.74, which is slightly above the 16.44 P/E at the end of the first quarter and well above the 14.41 P/E at the close of 2018 (which was the lowest level since 2014).

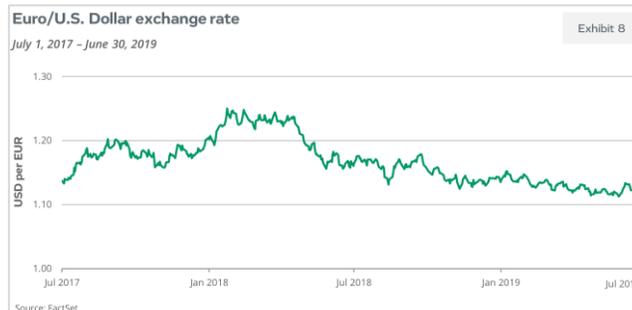
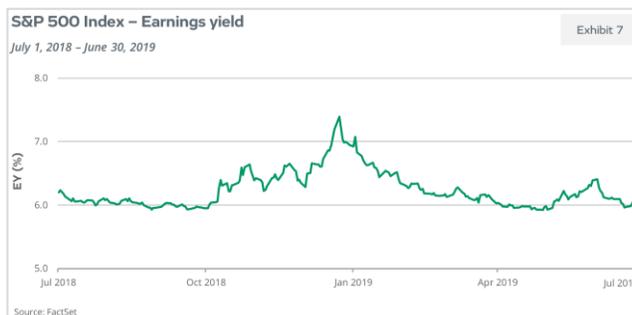
The forward 12-months earning yield for the S&P 500, which is the inverse of the P/E, ended the first quarter at 5.99%, which is slightly below the 6.10% at the end of the first quarter and well below the 6.94% yield at the close of 2018 (Exhibit 7). The 12-month forward earnings yield can be helpful in comparing equity earnings yields with current bond yields. The S&P 500 earnings yield is still significantly higher than the 2.00% rate of 10-year U.S. Treasuries.

Dollar mixed versus Euro and Yen

Through the first six months of 2019, the dollar has declined versus the Yen and strengthened versus the Euro (Exhibit 8). The dollar is up 0.38% versus the Euro and down 1.80% versus the Yen through the end of June (Exhibit 9).

Oil prices reverse downside

After a steep drop in prices in May, oil reversed course in June, with prices moving up 9.29% (Exhibit 10). The price of a barrel of West Texas Intermediate, a grade of crude oil used as a benchmark in oil pricing, climbed from \$53.50 at the end of May to \$58.47 at the June close. After closing 2018 at \$45.41, the price of oil has moved up 28.76% through the first six months of 2019.



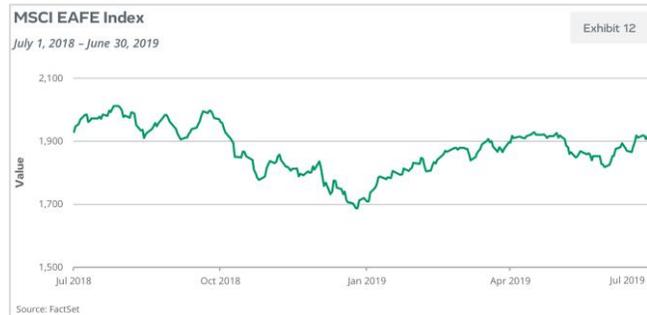
Gold rising

Gold prices had a strong move in the second quarter, from \$1,298.50 at the March close to \$1,413.70 at the end of June – an 8.87% gain (Exhibit 11). For the year, gold is up 10.19% after closing 2018 at \$1,283.00.

International equities gain

After losing ground in May, the international equity markets rebounded in June along with the U.S. market. The MSCI EAFE Index climbed 5.77% for the month from 1817.39 at the end of May to 1922.30 at the June close (Exhibit 12). It is still up 11.77% for the year. (The MSCI EAFE Index tracks developed-economy stocks in Europe, Asia and Australia.)

What's ahead for the economy and the markets? See [Third Quarter 2019 Market Outlook: Current Economic Recovery Still Faces Obstacles](#) by Mark Simenstad, CFA, Chief Investment Strategist



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