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August 2019

MONTHLY MARKET REVIEW

T. Rowe Price®
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MONTHLY MARKET REVIEW

U.S. Stocks

August 2019

Stocks recorded their first monthly loss since May, as the deepening U.S. trade conflict with China and global growth concerns weighed on sentiment. Stocks were also especially volatile, with the Cboe Volatility Index (VIX) touching its highest level since the start of the year. The smaller-cap indexes fared worst, and the S&P MidCap 400 Index briefly joined the small-cap Russell 2000 Index in correction territory, or down more than 10% from its August 2018 highs. At its low point on August 5, the large-cap S&P 500 Index was 6.8% below its July 26 peak.

Within the S&P 500, the typically defensive and interest rate-sensitive utilities and real estate sectors performed best. Energy stocks fared worst, falling over 8%, as investors worried about stubbornly high U.S. oil and gas inventories and slowing global demand. Financials shares were also weak as longer-term bond yields fell to three-year lows, threatening banks' lending margins.

New Tariffs and Yuan Devaluation Mark Escalation in Trade War

The month started off on a decidedly down note. On August 1, stocks suffered their biggest intraday plunge since May, after President Donald Trump announced that the U.S. would impose a new 10% tariff on the roughly USD 300 billion in Chinese imports not currently facing duties. Investors may have been particularly concerned that the new, consumer-oriented tariffs, slated for September 1, might have a broader and more visible impact on the U.S. economy than the USD 250 billion worth of mostly intermediate Chinese goods already taxed at a 25% rate. The head of the American Apparel & Footwear Association put it bluntly, telling CNBC that his members were "cooked" if the tariffs go through.

Stocks plunged again on August 5, following a return salvo from China. Chinese officials allowed the yuan to fall below 7.0 per U.S. dollar, a threshold that they kept the yuan from breaching over the past decade. T. Rowe Price traders noted that the move played into growing concerns that the trade war could devolve into a currency war, although Chinese officials pledged that they would not engage in a competitive devaluation. Nevertheless, the White House quickly punched back, formally labeling China a currency manipulator. The Treasury Department's move was largely symbolic since China's daily intervention in its currency is widely acknowledged—and most analysts believe that China intervenes to prop up the yuan, not to drive it lower. The yuan continued to fall

Total Returns

	August	Year-to-Date
Dow Jones Industrial Average	-1.32%	15.14%
S&P 500 Index	-1.58	18.34
Nasdaq Composite Index	-2.60	20.01
S&P MidCap 400 Index	-4.19	14.37
Russell 2000 Index	-4.94	11.85

Past performance is not a reliable indicator of future performance.
Note: Returns are for the periods ended August 31, 2019. The returns include dividends based on data supplied by third-party provider RIMES and compiled by T. Rowe Price, except for the Nasdaq Composite Index, whose return is principal only.
Sources: Standard & Poor's, LSE Group. See Additional Disclosures.

through much of the rest of the month, reaching as low as 7.17 per dollar.

Trade Tensions Continue to Ratchet Higher, but Investors Look for Resumption in Negotiations

Stocks rallied periodically throughout August as both U.S. and Chinese leaders offered scattered conciliatory gestures and comments. The S&P 500 Index recorded its second-best day of the month on August 13, after President Trump announced that some of the new tariffs would be delayed until December, so as not to interfere with the holiday shopping season—his first acknowledgment that U.S. consumers were bearing at least part of the tariff burden. Investors were later encouraged that the White House delayed a ban on U.S. firms doing business with Chinese telecom giant Huawei Technologies, easing tensions in what some have called an emerging "technological cold war."

Investors were taken by surprise, therefore, when the trade dispute intensified once more later in the month. On August 23, China announced a new set of retaliatory tariffs on USD 75 billion in U.S. goods, ordered a halt to purchases of U.S. farm goods, and reinstated tariffs on imports of U.S. autos and parts. After the close of trading, President Trump tweeted that the U.S. would respond by upping its latest round of tariffs by 5%. The tit-for-tat exchange seemed to end there, however, helping stocks regain some of their losses over the final week of the month. Markets may have also received a lift from signs that both sides were preparing to resume negotiations in September.

Manufacturing Sector Slows, but Consumers Remain in Good Shape

The month's economic signals were bifurcated. IHS Markit reported that its gauge of current U.S. manufacturing activity, which had been slipping for nearly a year, had reached levels indicating a contraction for the first time since 2009. The firm's service sector gauge also fell more than expected, although it continued to indicate modest expansion.

Conversely, the U.S. consumer seemed to remain in solid shape, with improving conditions particularly evident among those with modest incomes and those recently reentering the labor force. Major discount retailers reported solid revenues, while core (excluding sales at gas stations and auto dealerships) retail sales jumped 1% in July. On the last trading day of the month, however, the University of Michigan reported that its consumer sentiment index for August had fallen by the most in almost seven years, hitting its lowest level since late 2016. The Michigan survey's chief economist noted that the "data indicate that the erosion of consumer confidence due to tariff policies is now well underway."

Neither Side May Be Willing to Compromise in Trade War

Many T. Rowe Price managers and analysts are not optimistic that the U.S. and China will reach a substantial trade deal before the November 2020 U.S. presidential election. Chinese officials may prefer to wait to negotiate with a potential Democratic successor and may be concerned that President Trump, if he is reelected, could seek new concessions in 2021. For his part, President Trump may perceive that the political benefits of a tough stance on China outweigh the damage done by a modest economic slowdown. T. Rowe Price Legislative Analyst Katie Deal notes that perceptions of China among the U.S. public have deteriorated markedly over the past year. Indeed, nearly four out five farmers—who are shouldering direct costs from closed Chinese markets—believe the trade war will ultimately be to their benefit.

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MONTHLY MARKET REVIEW

International Stocks

August 2019

Developed non-U.S. equity markets fell in August as the ongoing trade tensions between China and the U.S. pressured economies in developed and emerging markets. Brexit uncertainty as well as violent demonstrations in Hong Kong added to the selling pressure.

The MSCI EAFE Index, which measures the performance of stocks in Europe, Australasia, and the Far East, returned -2.58%. Within the index, eight sectors declined, led by losses in energy, materials, and financials. Consumer staples, health care, and utilities gained. Growth stocks in the EAFE index fell 1.20%, outperforming value shares, which returned -4.09%. Some developed Asian markets suffered significant declines, with Hong Kong stocks down 8.28%. Emerging equity markets returned -4.85%, as trade tensions spurred investors to flee riskier assets.

European Stocks Retreat as Growth Slows

European equities declined in August amid ongoing concerns about trade, the possibility of a hard Brexit, and slowing global growth. Data showed Germany, Europe's largest economy, had recorded one quarter of negative growth, with business confidence at its lowest level in seven years.

Brexit Turbulence Weakens UK Pound

The British pound lost 0.54% against the U.S. dollar and UK equities dropped 4.66% in U.S. dollar terms in August. Brexit brinkmanship intensified, with Prime Minister Boris Johnson's suspension of Parliament in an effort to break the political deadlock over Brexit and keep the UK on course for the October 31 departure from the European Union (EU). Lawmakers disagree on how close the UK's future ties to the EU should be. The main sticking point is the "backstop" provision, which aims to avoid a physical border between Northern Ireland and the Republic of Ireland. Johnson and his supporters said the provision would keep the UK tethered to the EU and he has threatened to call snap elections if lawmakers block a no-deal Brexit. After the period ended, UK lawmakers dealt Johnson a blow by agreeing to debate

Total Returns

MSCI Indexes	August	Year-to-Date
EAFE (Europe, Australasia, Far East)	-2.58%	10.14%
All Country World ex USA	-3.07	9.19
Europe	-2.50	11.36
Japan	-1.01	7.03
All Country Asia ex Japan	-4.35	4.20
EM (Emerging Markets)	-4.85	4.19

Past performance is not a reliable indicator of future performance.
All data are in U.S. dollars and represent gross returns as of August 31, 2019.
This table is shown for illustrative purposes only and does not represent the performance of any specific security.
Source: MSCI. See Additional Disclosures.

a law that would require Johnson to ask the EU for Brexit to be delayed until the end of January if he does not secure a deal with the EU to manage Britain's exit. T. Rowe Price Fixed Income Portfolio Manager Quentin Fitzsimmons estimates that there is an 80% chance of a no-deal Brexit and that the odds of an election before year-end are very high. The uncertainty has also increased demand for the safety of UK sovereign debt, sending the yield on the 10-year gilt down to 0.48% from 0.63% at the beginning of the month.

Italian Stocks Buoyed by New Coalition

Italian stocks rebounded after the country's center-left Democratic Party and the populist Five Star Movement overcame bitter differences and agreed to form a new coalition government. In doing so, they sidelined right-wing Deputy Prime Minister Matteo Salvini, who had called for early elections and sought to consolidate his power. T. Rowe Price Sovereign Analyst Ivan Morozov expects the new government to face tough challenges, including keeping the budget deficit below 3% of gross domestic product in 2020, economic stagnation, and a permanently rising debt stock—all of which could expose wide cracks between the two parties. Morozov noted that the survivability of the coalition and performance of Italian assets heavily depend on whether coalition partners manage to overcome differences and internal party disagreements when faced with these challenges.

Japanese Equities Under Pressure From Trade Tensions

Japanese stocks fell but outperformed many of their developed market peers, and the Japanese yen rose 2.29% against the U.S. dollar. The U.S.-China trade dispute continued to take its toll on the trade-dependent Japanese economy, especially among auto parts and semiconductor producers. Japanese manufacturing activity declined for a fourth month in August, while exports fell for an eighth month in July, dropping 1.6% year on year, according to the Ministry of Finance. In July, exports to China, Japan's largest trading partner, fell 9.3% year on year, led by a 35% decline in car parts, a 31.5% drop in semiconductor production equipment, and a 19% reduction in electronics parts. Adding to the worries, the Reuters Tankan survey indicated that Japanese manufacturers' business confidence turned negative for the first time since August 2013.

Emerging Markets Hit by New Waves of Risk Aversion

Stocks in emerging markets fell as trade tensions once again sparked a flight from riskier assets. Latin American markets declined, pressured by a massive sell-off in Argentine equities, which plunged 50%. Much of that decline came after Alberto Fernández, the presidential candidate of the Peronist coalition, and his running mate former President Cristina Fernández de Kirchner won the presidential primary. Their defeat of market-friendly President Mauricio Macri sparked a crisis of confidence that has led to a run on the currency, financial market turbulence, price controls, a failed debt auction, and, finally, the surprise imposition of capital controls (September 1). The MSCI EM Europe, Middle East, and Africa Index dropped 7.29%, led by declines in Turkey and South Africa. The Turkish lira weakened against the U.S. dollar, losing 4.54%, after the government lowered reserve requirements to encourage banks to lend more. According to Bloomberg, South African markets experienced their worst August since 1998 as trade tensions sparked an investor flight from riskier assets. The rand lost 6.65% against the U.S. dollar.

Outlook: Global Growth Expected to Moderate

We expect global economic growth to moderate against the backdrop of ongoing trade tensions, slowing Chinese demand, and geopolitical disruption. Trade-driven economies may be the hardest hit going forward. Indeed, the most recent manufacturing surveys show some of the weakest activity since 2009. A continuation of trade tensions could exacerbate this slowdown, while Chinese monetary and fiscal stimuli would have the greatest potential to drive global growth higher. Expectations for additional easing by the Federal Reserve and European Central Bank (ECB) have already loosened financial conditions, and the ECB has suggested it may restart quantitative easing. A further decrease in oil prices could give growth a boost among oil importers.

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MONTHLY MARKET REVIEW

Fixed Income Markets

August 2019

The yield of the 30-year Treasury bond hit a record low in August as longer-term Treasury yields plummeted amid an escalation in the trade dispute between the U.S. and China and growing concerns about a global economic slowdown. The benchmark 10-year Treasury note's yield fell to its lowest level since 2016. (Bond yields and prices move in opposite directions.)

Treasury Yields Tumble Amid Higher Tariffs, Slowing Global Growth

Treasury yields began to tumble on the first day of the month following President Donald Trump's announcement that the U.S. would impose a new 10% tariff on all remaining Chinese imports not currently facing duties—roughly USD 300 billion worth of goods. China responded by stopping all U.S. agricultural imports and letting the yuan fall below the level of 7.0 per U.S. dollar—a threshold that had not been breached over the past decade. Negative developments in the trade conflict continued throughout the month, sparking investor demand for safe-haven government debt.

Although U.S. economic news remained relatively healthy, weakening growth outside the U.S., falling inflation expectations, and geopolitical worries—notably unrest in Hong Kong and an unexpected election result in Argentina—helped fuel the Treasury rally. Despite being at or near record lows, Treasuries offered higher yields than many foreign markets, where the yields of many bonds were in negative territory.

Monetary policy considerations seemed to take a back seat as a highly anticipated speech by Federal Reserve (Fed) Chairman Jerome Powell at the annual economic symposium in Jackson Hole, Wyoming, was overshadowed by the day's tariff-related headlines. In the speech, Powell said the economy faced "significant risks" and pledged to "act as appropriate" to head off a recession. The Fed cut its benchmark lending rate at the end of July for the first time in a decade, and, based on the futures market, investors were expecting another cut when the Fed meets again on September 17–18.

Inverted Yield Curve Raises Recession Concerns

After starting the month at 2.02%, the 10-year Treasury yield fell to a low of 1.47% on August 28 before finishing the month at 1.50%. Meanwhile, the 30-year Treasury bond's yield fell below

Total Returns

Index	August	Year-to-Date
Bloomberg Barclays U.S. Aggregate Bond Index	2.59%	9.10%
J.P. Morgan Global High Yield Index	-0.09	10.66
Bloomberg Barclays Municipal Bond Index	1.58	7.61
Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index	1.59	5.89
J.P. Morgan Emerging Markets Bond Index Global Diversified	0.75	13.50
Bloomberg Barclays U.S. Mortgage Backed Securities Index	0.89	5.53

Past performance is not a reliable indicator of future performance.
Figures as of August 31, 2019. This table is shown for illustrative purposes only and does not represent the performance of any specific security.
Sources: RIMES, as of August 31, 2019; Bloomberg Index Services Limited, J.P. Morgan. See Additional Disclosures.

U.S. Treasury Yields

Maturity	July 31	August 31
3-Month	2.08%	1.99%
6-Month	2.10	1.89
2-Year	1.89	1.50
5-Year	1.84	1.39
10-Year	2.02	1.50
30-Year	2.53	1.96

Source: Federal Reserve Board.

the 2% mark for the first time and finished the month at 1.96%. Yields of shorter-maturity Treasuries did not fall as much, leading to a further inversion of the yield curve.

Inversions occur when shorter-maturity securities offer higher yields than longer-maturity bonds, and inversions of some segments of the curve are closely watched by investors as a possible signal that a recession is looming. During the month, the two-year/10-year portion of the curve inverted for the first time since 2007, and the inversion of the three-month/10-year segment became more pronounced. By month-end, the three-month Treasury bill was offering a higher yield than even the 30-year Treasury bond.

Longer-Term Treasuries, Investment-Grade Corporate Bonds Record Solid Results

With the sharp drop in yields, longer Treasuries were the top-performing segment of the Bloomberg Barclays U.S. Aggregate Bond Index. Investment-grade corporate bonds also produced solid returns. Although macroeconomic concerns dampened risk sentiment and contributed to underperformance versus Treasuries, investment-grade corporates were supported by continued flows into the asset class. Mortgage-backed securities produced modest gains but faced headwinds as lower mortgage rates increased prepayment risk. Treasury inflation protected securities underperformed nominal Treasuries as inflation expectations declined.

High yield corporate bond returns were flat to negative, although the sector's year-to-date results remained robust. After several weeks of inflows from the end of June through July, flows turned negative in August as equity weakness led to a reversal of investor sentiment. Higher-quality bonds in the sector generally held up better than lower-rated segments. Floating rate loans were negative and underperformed their high yield bond counterparts.

Demand for Tax-Free Income Remains Strong

Municipal bonds continued to benefit from strong demand and manageable supply. Longer-maturity and lower-quality munis generally outperformed. High yield Puerto Rico bonds delivered strong results as the market reacted favorably to the commonwealth's new governor. Illinois bonds also performed well amid improving investor sentiment. The state's recent tax revenues have been strong, and, at the end of the month, a judge ruled in favor of Illinois in a lawsuit that sought to invalidate some of the state's general obligation debt.

Slowing Growth Sends Developed Market Bond Yields Lower

Government bond yields in most major developed markets declined in August amid sluggish economic reports. In Germany, the economy shrank in the second quarter, and the yield of the 10-year note ended the month at -0.698%, a record low. Political uncertainty fueled volatility in the Italian bond market, but the yield of the 10-year Italian government bond finished the month lower.

Argentina's Markets Under Pressure After Surprising Election Result

Argentina dominated emerging markets headlines in August after a surprisingly weak performance by market-friendly incumbent Mauricio Macri in the presidential primary. The strong showing by populist challenger Alberto Fernández led to a broad sell-off across the country's equity, bond, and currency markets, with the peso losing more than a quarter of its value versus the dollar during the month. Argentina's government used its dollar reserves to support the peso following the election, but the currency came under renewed pressure at the end of the month after the finance minister announced a debt restructuring. The move, which would extend the maturities of some bonds, prompted S&P Global Ratings to downgrade Argentina's credit rating to "selective default." T. Rowe Price analysts noted that Argentina's problems did not appear to lead to contagion in other Latin American bond markets.

Meanwhile, a series of emerging markets central banks cut their key policy rates in August in response to slowing growth and low inflation. In a surprise move, the Indonesian central bank cut its key policy rate for the second time in the past two months, and central banks in India, Mexico, Thailand, and Egypt also cut rates.

Outlook: Fed Still Has Opportunity to Change Hawkish Narrative

According to T. Rowe Price fixed income portfolio manager Stephen Bartolini, a range of indicators show that the market believes the July 31 Fed cut was the start of an easing cycle—and not what Fed Chairman Powell characterized as a "midcycle adjustment." Notably, financial conditions tightened after the rate cut instead of loosening as they usually do. Bartolini says that the central bank would have needed to lower rates by 50 basis points in July and follow up with dovish comments to convince the market that the cut truly was a midcycle adjustment. He believes the Fed probably still has a small window of opportunity to act forcefully to change the hawkish narrative, but this would also need to be coupled with major trade war concessions from the Trump administration.

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MONTHLY MARKET REVIEW

Global Capital Markets Environment

August 2019

Major U.S. stock indexes declined in August amid escalating trade tensions between the U.S. and China. During the month, smaller-cap indexes—including the S&P MidCap 400 Index and Russell 2000 Index—dipped into correction territory, or down more than 10% from the highs reached in late August 2018. Early in the month, stocks fell sharply after President Donald Trump tweeted that the U.S. would impose a new 10% tariff on all remaining Chinese imports not currently facing duties—roughly USD 300 billion worth of goods. China's failure to prevent the yuan from falling below the symbolic 7.0 per U.S. dollar threshold, a level not breached during the past decade, added to the tensions. The White House immediately labeled China as a "currency manipulator," and Trump suggested that an upcoming round of negotiations with China, scheduled for September, could be canceled.

U.S. equity markets got a small reprieve in the middle of the month, when Trump announced that the 10% tariffs on some Chinese products that were scheduled to be imposed on September 1 would be delayed until mid-December, to lessen the impact to U.S. consumers during the holiday shopping season. This positive sentiment was short-lived, however, as China announced that it would impose new tariffs on USD 75 billion of U.S. imports, including automobiles. In the final days of August, U.S. equities rallied and ended above their lowest levels of the month. The trade war with China seemed to soften a bit, as China suggested that it would not retaliate against the U.S.'s recent tariff implementations. On August 29, a Chinese spokesman said that China "firmly opposes" escalation of the trade war and wants to resolve the standoff with "consultation and cooperation."

Large-cap shares held up better than mid- and small-caps. The large-cap S&P 500 Index returned -1.58% versus -4.19% for the S&P MidCap 400 and -4.94% for the small-cap Russell 2000. As measured by various Russell indexes, growth stocks outperformed value across all market capitalizations.

In the large-cap universe, as measured by the S&P 500, sector performance was mostly negative. Energy shares were the worst performers and produced steep losses. Domestic oil prices plunged early in the month following a surprise rise in U.S. crude inventories. Financial shares also trailed and posted significant losses as falling long-term interest rates and the likelihood of another Federal Reserve rate cut in mid-September make it challenging for banks to issue profitable loans. Materials and industrials and business services shares slightly lagged the broad market. The information technology (IT) and consumer discretionary sectors were volatile but ended the month roughly in line with the broad index. Semiconductor stocks in the IT sector were especially volatile due to global growth worries, while several large consumer discretionary retailers released strong earnings reports later in August. On the other hand, the interest rate-sensitive utilities and real estate sectors—two of the more defensive

U.S. Stock Returns

	S&P 500 Index	S&P MidCap 400 Index	Russell 2000 Index
August	-1.58%	-4.19%	-4.94%
Year-to-Date	18.34	14.37	11.85

Past performance is not a reliable indicator of future performance.

Sources: RIMES, as of August 31, 2019; Standard & Poor's, LSE Group. See Additional Disclosures.

sectors—posted strong positive returns as long-term interest rates fell sharply.

Domestic investment-grade taxable bonds gained as intermediate- and long-term Treasury yields declined. The 2- to 10-year portion of the Treasury yield curve inverted several times during the month, which means that two-year yields were occasionally higher than 10-year yields. Historically, this often foreshadows a recession. The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.59%. In the investment-grade universe, long-term Treasuries and corporate bonds performed best. Asset- and mortgage-backed securities rose to a lesser extent. Tax-free municipal bonds rose but underperformed the broad taxable bond market, as muni yields fell less than Treasury yields. High yield bonds were flat and lagged high-quality issues. The risk-averse environment and weakness in the energy sector weighed on lower-quality bonds.

Stocks in developed non-U.S. equity markets declined and underperformed U.S. large-cap shares, hurt in part by local currency weakness versus the U.S. dollar. The MSCI EAFE Index, which measures the performance of stocks in Europe, Australasia, and the Far East, returned -2.58%. Developed Asian markets were broadly negative, but Japanese shares held up best, returning roughly -1% in U.S. dollar terms. Japanese stocks slipped amid some disappointing economic data, as slowing global demand is taking a toll on the Japanese economy. Data released during the month showed that manufacturing activity contracted for a fourth straight month, while exports declined for an eighth consecutive month. Hong Kong shares plunged more than 8%, as increasingly violent demonstrations by Hong Kong citizens opposing a Chinese extradition bill caused the country's airport to close multiple times during the month. Investors were also concerned about the economic impact of the protests, the reduction of tourism, and the potential for the Chinese government to take a heavy-handed approach to stop the protests.

European stock market returns were also mostly negative, but investors are increasingly anticipating new stimulus measures from the European Central Bank as soon as September. On the plus side, shares in Denmark and Switzerland produced positive returns in dollar terms, whereas Belgian and Austrian shares fell about 5%. German shares fell almost 3%, as the German central bank, or Bundesbank, said that the country could fall into recession. Data released in August showed that orders at factories and service companies dropped at a faster pace than had been seen in six years. Shares in the UK slipped roughly 5% in dollar terms as Prime Minister Boris Johnson met with various European leaders in the hopes of ironing out a Brexit deal. Because EU leaders are unwilling to renegotiate a UK withdrawal agreement, Johnson may need to push for a "no deal" departure from the European Union by the end of October.

Emerging markets stocks fell and underperformed developed non-U.S. markets. The MSCI Emerging Markets Index returned -4.85%. Emerging Asian markets were broadly negative, with South Korean stocks falling more than 5% while Chinese shares returned roughly -4%. Some positive corporate earnings reports and monetary policy changes by the People's Bank of China helped stabilize Chinese shares at the end of the month. In Latin America, equities were widely negative. In Argentina, presidential candidate Alberto Fernandez soundly defeated incumbent President Mauricio Macri in the primary round of the country's presidential election. This unexpected outcome led to a massive sell-off, as Argentine stocks fell more than a whopping 50% in dollar terms for the month, with the peso plunging 26% versus the greenback. The extreme decline in Argentine equities indicates that investors are

U.S. Bond Returns

	Bloomberg Barclays U.S. Aggregate Bond Index	Bloomberg Barclays Municipal Bond Index	J.P. Morgan Global High Yield Index
August	2.59%	1.58%	-0.09%
Year-to-Date	9.10	7.61	10.66

Past performance is not a reliable indicator of future performance.

Sources: RIMES, as of August 31, 2019; Bloomberg Index Services Limited, J.P. Morgan. See Additional Disclosures.

Non-U.S. Stock Returns

	MSCI EAFE Index	MSCI Emerging Markets Index
August	-2.58%	-4.85%
Year-to-Date	10.14	4.19

Past performance is not a reliable indicator of future performance.

Sources: RIMES, as of August 31, 2019; MSCI. See Additional Disclosures.

Non-U.S. Bond Returns

	Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index	J.P. Morgan Emerging Markets Bond Index Global Diversified	J.P. Morgan GBI-EM Global Diversified Index
August	1.59%	0.75%	-2.64%
Year-to-Date	5.89	13.50	6.83

Past performance is not a reliable indicator of future performance.

Sources: RIMES, as of August 31, 2019; Bloomberg Index Services Limited, J.P. Morgan. See Additional Disclosures.

fearful that a Fernandez presidency would mean a return to a Peronist government characterized by populist policies, currency and capital controls, and debt defaults. Brazilian stocks also fell sharply in dollar terms—about 9%—even as the country's much-needed pension reform legislation moved closer to becoming law. In emerging Europe, shares were mostly negative. Stocks in Turkey plunged nearly 11% in dollar terms for the month, and the lira fell about 5% versus the dollar, as the central bank reduced reserve requirements for banks demonstrating rapid loan growth. Russian shares declined about 5%, as falling oil prices weighed heavily on the oil-exporting nation.

Bonds in developed non-U.S. markets delivered positive returns in U.S. dollar terms. Global slowdown fears and trade tensions fueled demand for core government bonds during August, driving yields lower. In the eurozone, a growing pool of negative-yielding bonds moved deeper into negative territory, with the 10-year German bund yield ending the month at -0.70%, near record lows. The greenback strengthened versus most major currencies, but the yen—which appreciated more than 2% against the dollar—was a major outlier. The 10-year Japanese government bond yield ended the month at -0.27%, which is well below the Bank of Japan's targeted yield of 0.0%.

Emerging markets bonds underperformed bonds in developed markets. Dollar-denominated debt edged higher, but local currency issues declined amid broad currency weakness versus the greenback. Aside from the Argentine peso—which plummeted due to the political uncertainties listed above—some other notably weak currencies included the Brazilian real, the South African rand, the Mexican peso, and the Turkish lira.

MONTHLY MARKET REVIEW

Emerging Markets Stocks

August 2019

Emerging markets stocks fell in August as the U.S.-China trade battle intensified and curbed investors' risk appetite. A slew of below-forecast economic indicators in China, falling prices for some commodities, and an inversion in a closely watched part of the U.S. Treasury yield curve for the first time since 2007 added to evidence of slowing global growth and further reduced demand for higher-risk assets. Currencies in most developing countries weakened against the dollar, which contributed to the declines in emerging markets stocks. The Chinese yuan notched a record monthly drop as U.S. trade tensions eroded investor confidence. All 11 sectors in the MSCI Emerging Markets Index fell, led by real estate. Health care stocks declined the least.

Chinese Stocks Decline as Tariffs Weigh on Economy; Southeast Asian Stocks Retreat

- U.S. dollar-denominated Chinese stocks and yuan-denominated A shares declined as the U.S and China slapped additional tariffs on each other's goods and data reflected the trade war's growing toll on China's economy. The yuan fell 3.6% in August, its biggest monthly drop since 1994 when China adopted its current exchange rate system, and touched a record low in unregulated currency trading offshore.

- Indian stocks shed about 3%. India reported that its gross domestic product (GDP) grew a worse-than-expected 5.0% in the June quarter from a year ago, its fifth straight quarter of cooling growth and weakest economic expansion since 2013. The weak GDP data boosted expectations that India's central bank, which cut its benchmark rate by an unconventional 35 basis points in early August, would cut rates further this year.

- Southeast Asian markets weakened. Central banks in Thailand, the Philippines, and Indonesia cut their respective benchmark interest rates as they stepped up efforts to counter the economic impact from the intensifying trade war. The rate cut in Thailand was its first in more than four years, while Indonesia's rate cut marked its second in just two months.

Total Returns

MSCI Index	August	Year-to-Date
Emerging Markets (EM)	-4.85%	4.19%
EM Asia	-3.74	4.17
EM Europe, Middle East, and Africa (EMEA)	-7.29	4.62
EM Latin America	-8.11	3.86

Past performance is not a reliable indicator of future performance.

All data are in U.S. dollars as of August 31, 2019. This table is shown for illustrative purposes only and does not represent the performance of any specific security. Source: MSCI. See Additional Disclosures.

Brazilian Stocks Drop as Feared Argentinian Default Hurts Real; Andean Stocks Drop on Commodity Outlook

- Brazilian stocks gave up roughly 9% as the country's currency sank by almost the same amount. Brazil reported that its GDP rose a better-than-forecast 0.4% in the second quarter from a year earlier, easing recession fears but still indicating a sluggish economy. The real's weakness stemmed from growing default fears in neighboring Argentina and led Brazil's central bank to sell dollars from its foreign currency reserves for the first time since the global financial crisis.

- Mexican stocks edged lower. Mexico's central bank slashed its full-year economic growth forecast to a range of 0.2% to 0.7%, its lowest target since the global financial crisis. The downgrade came after Mexico reported flat second-quarter economic growth and the central bank cut its benchmark rate by a quarter point to 8.0%, its first rate cut in five years.

- Stocks in Chile, Colombia, and Peru retreated as weakening global growth signals weighed on the outlook for the countries' commodity-driven economies. Chilean stocks fell more than 6%, the most in the Andean region, as prices declined for copper, its chief export. Peru's central bank cut its benchmark interest rate to 2.5% amid rising expectations for an economic slowdown. Colombia reported that its GDP grew a surprisingly strong 3.0% in the second quarter from a year earlier.

South African Stocks Drop on Eskom Concerns; Turkish Stocks Sink on Central Bank Instability

- South African stocks fell almost 9% as the financial troubles of the country's cash-strapped utility Eskom Holdings weighed on the country's fiscal outlook and currency, which shed nearly 7% in August.

- Russian stocks declined as data continued to underscore the country's moribund economy. Russia's economy ministry cut its 2020 growth forecast to 1.7% from 2.0% in April due to flagging consumer demand. The ministry also slashed its inflation forecasts for this year and next further below the central bank's 4.0% target, increasing the likelihood for additional rate cuts.

- Turkish stocks sank nearly 11% amid currency weakness following the central bank's decision to lower banks' required reserve levels in an effort to incentivize lending, a move that was seen as fueling inflation. Earlier in August, Turkey's central bank unexpectedly dismissed its chief economist and several other high-level officials, a move that reignited concerns about political interference in the country's central bank.

Solid Fundamentals in Emerging Markets Offset Near-Term Risks

We are optimistic about the long-term outlook for emerging markets. Most developing countries have smaller current account deficits, larger foreign exchange reserves, and more flexible currencies than they did in previous decades, reducing the risk of a financial crisis. Compared with developed markets, most emerging markets have more attractive demographics and a stronger tailwind from rising consumption. Corporate earnings in emerging markets have recovered after years of disappointing performance, and valuations for many companies are attractive compared with their developed markets peers. Rising trade tensions and slowing global economic growth represent the most pressing near-term risks. However, we believe that careful stock selection based on intensive research remains the key driver of long-term performance as individual emerging markets countries and companies continue to show wide dispersion in their returns.

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