

# May 2019 Investment Report

## Highlights

- Tensions between the U.S. and China increased, as trade talks involving the world's two largest economies broke down and the countries announced additional tariffs.
- The Federal Reserve kept interest rates unchanged and indicated it will likely maintain this stance "for some time." Interest rate futures markets implied two 25 basis point cuts by early 2020.
- Consumer confidence reached multi-year highs; however, after month end, the Department of Labor's Non-farm Payrolls showed 75,000 new jobs in May, below expectations of 175,000 jobs. In response, the 10-year treasury yield fell to 2.06%, a 22-month low.
- China's manufacturing Purchasing Managers' Index (PMI) fell to 49.4 in May from 50.1 in April. PMI surveys indicate economic contraction below 50 and expansion above 50.
- Theresa May resigned as Prime Minister of the United Kingdom following several unsuccessful attempts to carry through on the U.K.'s exit from the European Union.
- In May, the U.S. Equity Fund-I, International Equity Fund-I, Fixed Income Fund-I, Inflation Protection Fund-I, and Multiple Asset Fund-I underperformed their benchmarks.

## Monthly Overview

### U.S. consumer confidence hits six-month high

The Conference Board Consumer Confidence Index increased in May, nearing the 18-year high it reached in October 2018. This is in line with the University of Michigan's Consumer Sentiment Index hitting a 15-year high in May. A strong labor market, steady wage growth and affordable mortgage rates supported consumer confidence. However, these surveys were conducted prior to the escalation of trade talks. Despite improving mortgage affordability, pending home sales posted a surprise drop of 1.5% in April after increasing 3.9% in March. Although total housing starts (including multi-family housing) were up 6% in April, single-family housing permits fell for a fifth straight month to their lowest level in nearly two years, possibly signaling a slowdown in homebuilding activity in the coming months.

### U.S./China trade negotiations break down

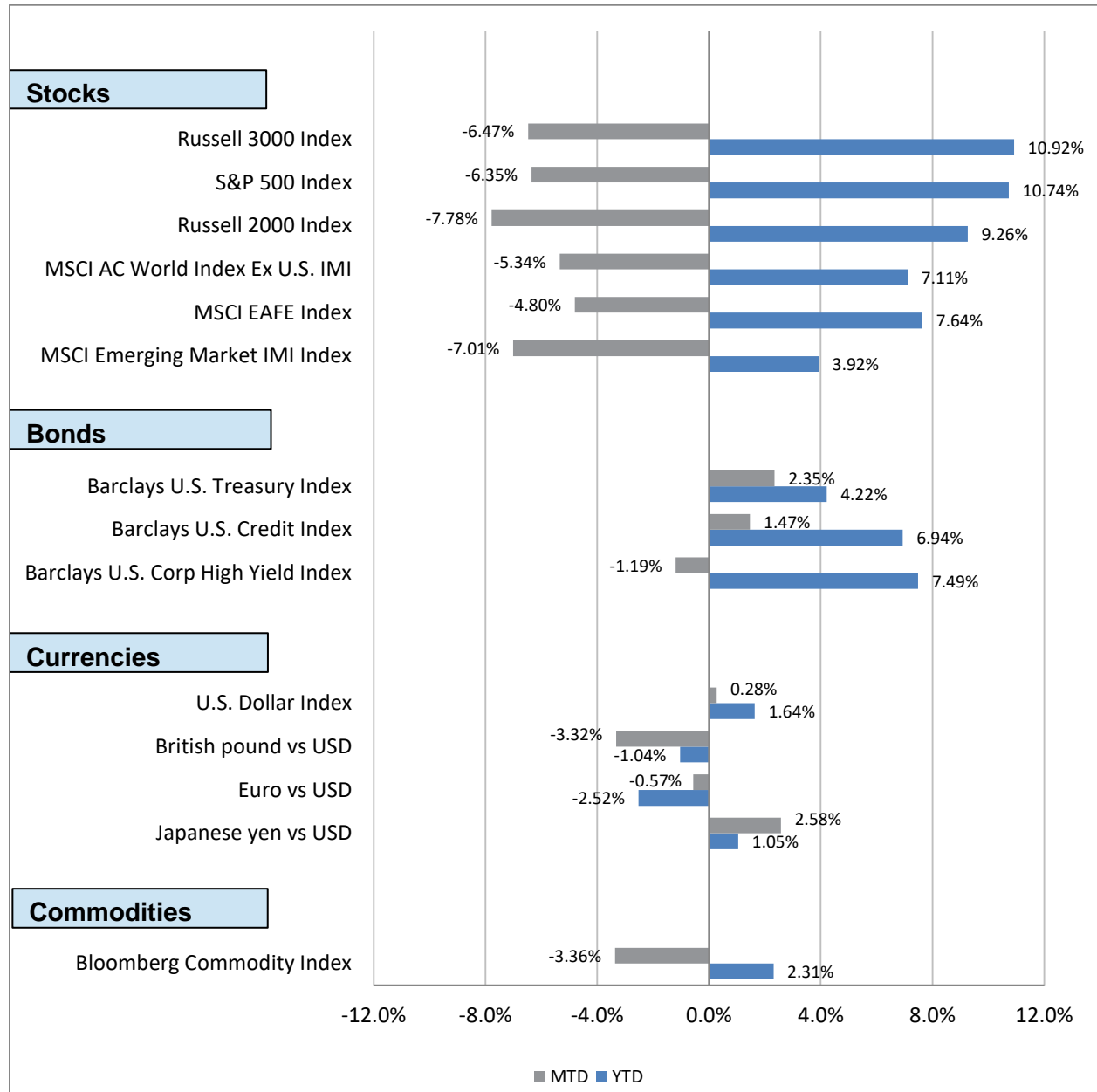
The U.S. announced that tariffs on \$200B of Chinese goods would increase to 25% from 10% and that it would consider new tariffs on an additional \$300B of Chinese goods. The administration also barred Chinese tech company Huawei from conducting business with U.S. companies. China halted new U.S. soybean orders, placing downward pressure on commodity prices. Presidents Trump and Xi are expected to attend the G-20 (Group of Twenty – an international forum for governments and central bank governors from 19 countries and the European Union) summit in late June, which would provide an opportunity to meet and agree on a deal.

### Trade tensions affect markets

While U.S. economic data has been solid, concerns over the impact of expanding trade wars motivated negative market sentiment in May. The S&P 500 Index and DJIA ended the month with four consecutive weekly declines, interrupting the year-to-date rally and pushing 10-year U.S. treasury yields lower. German 10-year bund yields hit their lowest recorded level following President Trump's threat to impose tariffs on Mexico, increasing global trade uncertainty and negatively affecting German automakers with plants in Mexico.

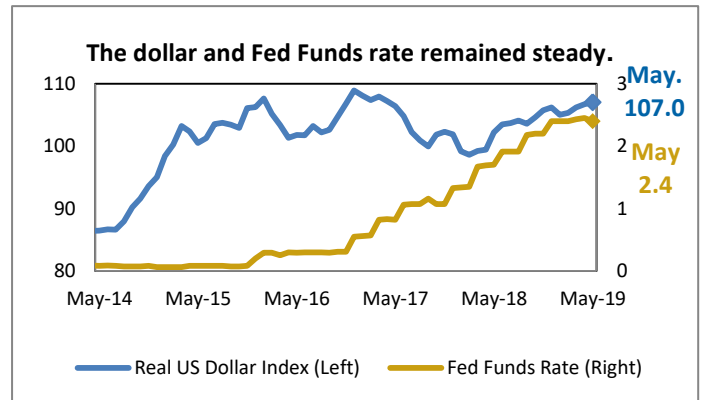
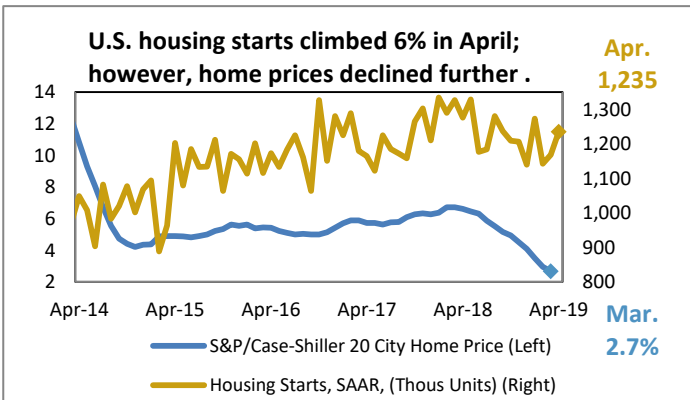
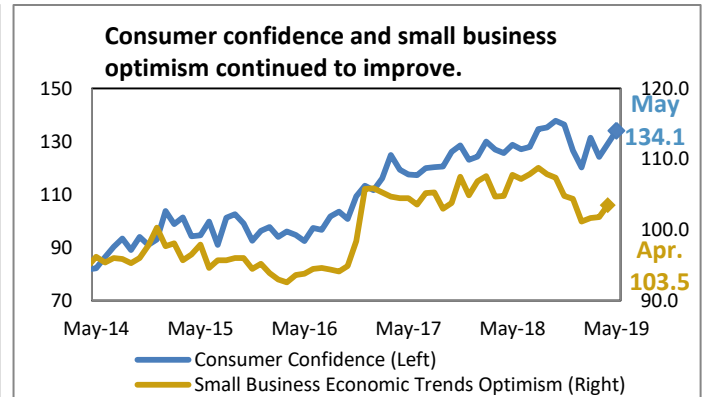
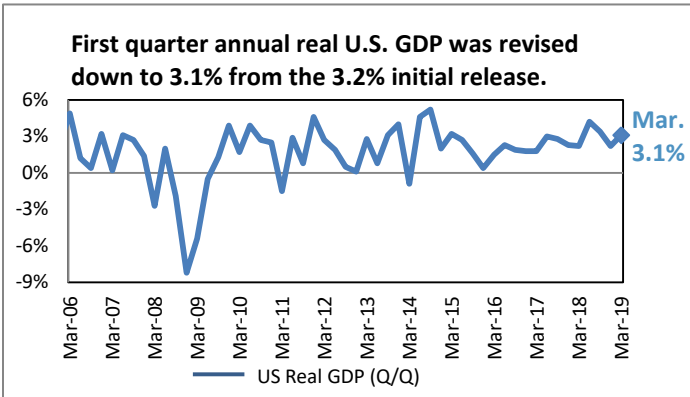
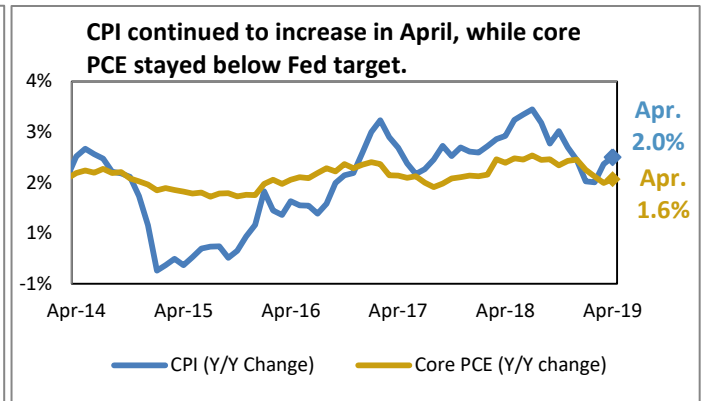
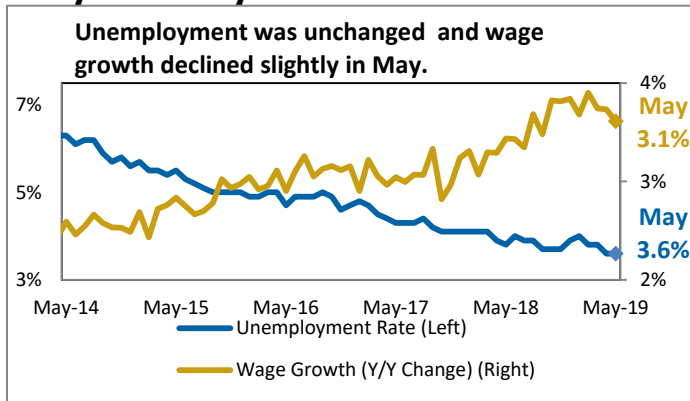


## Market Performance



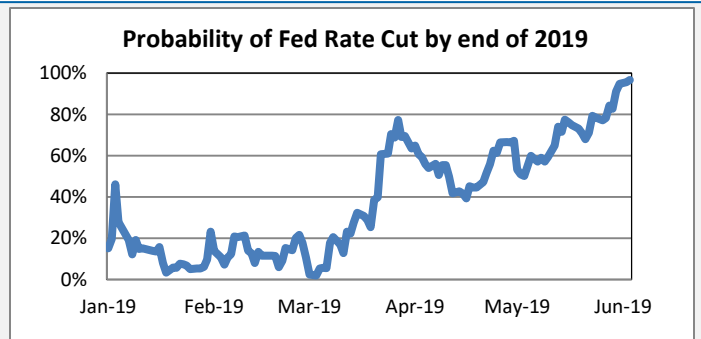
Source: FactSet, as of May 31, 2019

## Key Monthly Economic Statistics



### Chart of Month

- Federal Open Market Committee meeting minutes from early May expressed optimism for continued economic growth and strong labor markets.
- The Committee maintained the Fed Funds target range of 2.25% to 2.5%, citing its commitment to patience amid limited inflation pressures.
- By early June, escalating trade tensions and weakening economic indicators drove the market-implied probability of a rate cut during 2019 to nearly 100%, as measured by the futures markets.



## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds – I Series

#### U.S. Equity Fund–I

Fund	May	YTD
U.S. Equity Fund–I	-6.49%	+12.93%
Russell 3000 Index	-6.47%	+10.92%
Difference (percentage points)	-0.02	+2.01

- For the month, the fund’s relative performance benefited from its dedicated allocation to private equity and private real estate, while a strategic overweight to small- and mid-sized company stocks detracted from relative performance.
- Year-to-date, outperforming e-commerce and biotech investments held by managers had a sizable positive impact on the fund’s relative performance. The fund’s strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, detracted from relative performance. Wespath’s Exclusions policy (described [here](#)) also detracted from relative performance.

#### International Equity Fund–I

Fund	May	YTD
International Equity Fund–I	-6.16%	+9.02%
MSCI ACWI ex U.S. Investable Market Index (Net)	-5.34%	+7.11%
Difference (percentage points)	-0.82	+1.91

- For the month, the largest detractor to relative performance was the fund’s overweight to poor performing China, which was negatively impacted by trade tensions. In addition, the fund’s fair market valuation policy (described [here](#)) was a detractor to relative performance. Dedicated allocations to private equity and private real estate slightly contributed to relative returns.
- Year-to-date, the fund outperformed the benchmark due to over 90% of active managers outperforming their respective benchmarks. Specifically, an underweight to poor-performing Japan companies and superior stock selection within Japan, China and the U.K. were the largest contributors to benchmark-relative returns. The fund’s strategic underweight to developed market equities, and corresponding overweight to emerging market equities, detracted from relative performance. Additionally, the fund’s strategic allocation to alternative investments, along with stocks excluded in compliance with Wespath’s Exclusions policy (described [here](#)), detracted from benchmark-relative performance.

**U.S. Equity Index Fund–I**

Fund	May	YTD
U.S. Equity Index Fund–I	-6.43%	+10.71%
Russell 3000 Index	-6.47%	+10.92%
Difference (percentage points)	+0.04	-0.21

- The U.S. Equity Index Fund–I is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Wespath’s Exclusions policy (described [here](#)) positively affected benchmark-relative performance during the month but negatively affected relative performance year-to-date.

**Fixed Income Funds – I Series****Fixed Income Fund–I**

Fund	May	YTD
Fixed Income Fund–I	+1.15%	+5.39%
Barclays U.S. Universal (ex MBS) Index	+1.60%	+5.55%
Difference (percentage points)	-0.45	-0.16

- For the month, the overweight allocations to below-investment-grade corporate bonds and emerging market debt were the biggest detractors from benchmark-relative results. Wespath’s Positive Social Purpose Lending Program modestly positively contributed.
- Year-to-date, the fund’s allocation to developed market non-U.S. dollar denominated bonds and U.S. Agency commercial mortgage-backed securities detracted from benchmark-relative performance. The overweight allocation to corporate debt, both investment grade and below investment grade, as well as core-plus manager decisions to overweight corporate bonds issued by financial companies and allocate to bonds denominated in certain emerging market currencies, positively contributed to relative results.

**Inflation Protection Fund–I**

Fund	May	YTD
Inflation Protection Fund–I	+0.59%	+4.64%
IPF Benchmark <sup>ii</sup>	+1.55%	+5.74%
Difference (percentage points)	-0.96	-1.10

- The underweight to U.K. inflation-linked bonds was the biggest detractor from benchmark-relative performance for the month and year-to-date. The fund’s allocation to below-investment-grade floating rate bank loans also detracted from relative results during both periods.
- The dedicated commodities manager’s decision to overweight the energy sector detracted from benchmark-relative results during the month.

**U.S. Treasury Inflation Protection Fund-I**

Fund	May	YTD
U.S. Treasury Inflation Protection Fund-I	+1.78%	+5.45%
Barclays U.S. Inflation Linked Bond Index	+1.80%	+5.53%
Difference (percentage points)	-0.02	-0.08

- The U.S. Treasury Inflation Protection Fund-I is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

**Short Term Investment Fund-I**

Fund	May	YTD
Short Term Investment Fund-I	+0.26%	+1.05%
STIF-I Benchmark	+0.23%	+1.02%
Difference (percentage points)	+0.03	+0.03

- The Short Term Investment Fund-I holds cash and cash equivalents with the objective of preserving capital while earning current income higher than that of money market funds.

**Balanced Fund – I Series****Multiple Asset Fund-I**

Fund	May	YTD
Multiple Asset Fund-I	-3.81%	+8.91%
MAF Benchmark <sup>iii</sup>	-3.31%	+8.04%
Difference (percentage points)	-0.50	+0.87

- During the month, all four funds that make up the Multiple Asset Fund negatively affected benchmark-relative returns.
- Year-to-date, the U.S. Equity Fund-I and International Equity Fund-I positively contributed to benchmark-relative performance, while the Fixed Income Fund-I and Inflation Protection Fund-I negatively impacted relative returns.

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<sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – I Series and related documents](#) for more information about the funds. This is not an offer to purchase securities.

<sup>ii</sup> The benchmark for the Inflation Protection Fund–I is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.

<sup>iii</sup> The benchmark for the Multiple Asset Fund-I Series is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Bloomberg Barclays U.S. Universal Index ex-Mortgage Backed Securities (MBS) and 10% IPF-I performance benchmark.