

July was a month of waiting. Investors waited with the calm patience of an all-star slugger waiting for the right pitch. With the Federal Reserve (the Fed) Open Markets Committee scheduled to meet on July 31, market conditions were tranquil – volatility measures were well below average and July was nearly the first month of 2019 in which the S&P 500® Index did not record a daily change of 1% or more. Nearly. That one percent move came on the last day of the month as the Fed threw a curveball at investors and the S&P 500® Index declined 1.09%, its largest daily loss since the equity market decline and elevated volatility within the month of May.

The Fed meeting was not the only thing investors waited on in July – Brexit and U.S.-China trade talks were on hold until late July. With Theresa May's efforts to negotiate a Brexit deal having stalled out, investors were left waiting for Boris Johnson to be elected leader of the UK's Conservative Party and be appointed as the country's new Prime Minister after Theresa May's resignation on July 24. The new Prime Minister wasted no time in confirming that the UK would leave the EU on October 31, regardless of whether a mutually agreeable exit deal is negotiated with the EU. Investors also waited until the last two days of July for the resumption of U.S.-China trade talks that President Trump and President Xi had agreed to in late June. While the Fed meeting was the focus of the market's anticipation throughout the month, all three events may prove to be highly impactful to market conditions – volatility levels in particular – and investor outcomes going forward. Unfortunately, the initial impact to the equity market to all three events was negative.

While the Fed delivered the rate cut investors were expecting, the post-meeting message from Fed Chairman Powell was largely interpreted as an effort to tamp down expectations of aggressive rate cutting in the future. This disappointed a significant portion of the investor population and was the main driver of the market decline after the Fed announcement and press conference on July 31. Part of the justification for the rate cut was the potential negative impact of slowing economic growth outside the U.S. along with risks of further economic deterioration due to tariff-driven trade policies from the world's two largest economies. These concerns were exacerbated by a Trump Administration announcement, made the day after the Fed meeting, of 10% tariffs on an additional \$300 billion of Chinese imports to the U.S., with the potential to increase the tariff rate to as high as 25%.

Gateway's investment philosophy is informed by its long history and maintains that the U.S. equity market is the most reliable source of attractive long-term returns, despite its high volatility relative to other asset classes and tendency to periodically deliver significant short-term losses. Gateway's investment philosophy also holds that consistency is key to long-term success and that generating cash flow, rather than seeking to forecast the market, can be a lower-risk means to participate in equity markets. By staying true to this philosophy and continuing to manage strategies consistent with the firm's historical approach, Gateway assists investors in managing risk while pursuing long-term returns in an uncertain environment.

#### **IMPORTANT INFORMATION**

Sources: Morningstar Direct<sup>SM</sup>, Bloomberg, L.P.

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