HOUSTON TRUST COMPANY

Market Commentaries

Fayez Sarofim & Company

- After climbing to fresh highs in April, the S&P 500 pulled back sharply in May as trade tensions between the U.S. and China intensified and nervousness about the economic outlook increased. The index then came roaring back in June as dovish comments from the Federal Reserve and hopes of a truce between the world's largest economies lifted investor sentiment, ultimately securing a gain for the quarter.
- Sector leadership shifted month to month, but financials, materials and information technology led the market for the quarter while energy was the weakest sector and registered a decline.
- A slowing but still growing global economy and supportive central banks are providing a favorable fundamental backdrop for equities, but downside risks to the outlook have increased.
- As the economic cycle unfolds and risks continue rising, we believe investors are increasingly likely to prefer higher quality companies that can both sustain growth and provide a degree of protection against greater market volatility.

Avalon Investment & Advisory

- The U.S. economy remained resilient to trade uncertainty and a sharp slowdown in global growth in the second quarter.
- Global central banks, including the Fed, have swung from removing monetary accommodation to pointing towards at least a mild easing cycle. Trade uncertainty has been a headwind for business investment and contributed to a slowing in the manufacturing data.
- The ECB tilted to a dovish stance, and its likely course of action is possibly cutting rates further into negative territory and additional quantitative easing.
- As supply chains become disrupted, confused or threatened, businesses become increasingly unlikely to undertake significant investment.
- The consumer is reasonably well positioned to continue supporting the expansion, allowing the U.S. economy to muddle through the weak levels of business investment.
- In a gift to the fed, the market has already largely done the Fed's job for it. An alternative measure of monetary policy, the shadow rate, shows that lower rates have already contributed the equivalent of a couple of rate cuts without the Fed doing anything. Importantly, this makes it far more critical for the Fed to follow through with some easing.
- The longest US expansion should live on, but the second half of 2019 is unlikely to resemble the beginning of the year. Growth will be slower and less inspiring with easing that does not necessarily inspire confidence immediately. The global economy should continue to muddle through as the monetary stimulus works through the system.

Luther King Capital Management

- We do not yet see any overly-concerning imbalances in the domestic real economy or capital markets, with the exception of debt levels in certain circumstances.
- The Federal Reserve appears to be responding to two very closely related developments, the multi-front trade war and the collapse of inflation expectations, often a harbinger of a general decline in global economic growth.
- The greatest near-term peril of the economy is the escalation of trade barriers and the resulting impact on global corporate supply chains.
- The equity market appears optimistic about the future of this record economic expansion, whereas the bond market is acting increasingly nervous.
- We forecast overall corporate profits will grow 3-5% for the year.
- Over the past month, downside risks to the outlook for the US economy have been building.
- Our base case forecast is that the economic expansion remains intact near-term, albeit at a slower pace.

Manager commentaries published in 2nd Quarter of 2019.