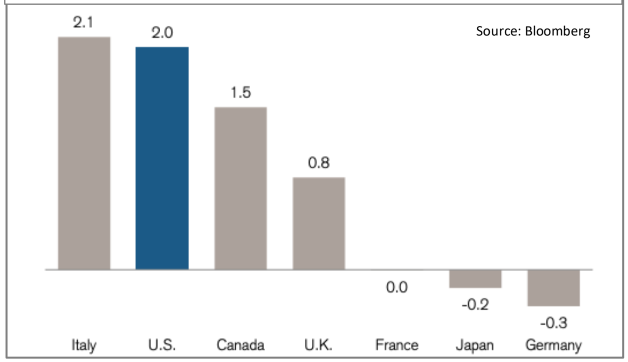
Quarterly Commentary 2Q'19

In The Quarter

Stocks continued their upward rise through the second quarter of 2019. There were a few bumps (e.g., a weak May on trade threats towards Mexico) but for the most part the trends that have been intact since the beginning of the year held true. US stocks outperformed those of most other countries, large company stocks outperformed small, and growth continued to outperform value. The US-based S&P 500 was up 4.3% for the quarter and 18.5% for the first half of 2019, while the global MSCI All Country World Index rose 3.8% for the quarter and 16.6% year-to-date.

Low bond yields across developed markets



It's been a notably strong year so far for US bond markets with the Bloomberg Barclays Aggregate Bond Index up 3.1% for the quarter and 6.1% year-to-date. Interest rates dropped through the quarter to a somewhat surprising degree, as investors increasingly anticipate an economic slowdown ahead. Indeed, bond markets around the world are facing stubbornly low interest-rate conditions. Economists see a number of drivers: aging populations especially in developed countries, commensurate slower spending, and a focus on investing for safety driving a willingness to accept low returns.

Of course, low interest rates are positive for stocks and the idea that rates might go even lower helped propel equity markets through the quarter. The Federal Reserve signaled that it's ready to "act as needed" to maintain positive economic growth. Investors responded by pushing stocks to new highs, anticipating perhaps as many as three Fed rate cuts before the end of the year. Meantime, the Fed left rates unchanged at its June 19 meeting – although it did remove the word "patient" from the description of its approach to policy. Trade conflicts, on the other hand, have been a negative counter-influence for stocks. The quarter brought lots of speculation and rhetoric, as Trump continued to use tariffs to threaten China, Mexico and other countries. The threat of tariffs on Mexican goods was rescinded quickly, while negotiations with China continue to dominate the daily news and influence investor sentiment.

Are economic conditions truly slowing? Indicators are mixed: US employment is still strong, wages are increasing albeit at a moderating pace, and global growth remains solid with the rate of growth slowing only modestly. Manufacturing is a weak spot, especially in Europe, and trade tensions continue to pressure specific sectors like machinery and agriculture (see next page), but to date there are no economic indicators of a recession in the very near term.

Down On The Farm

Trade tensions are hurting key parts of the economy, perhaps none as severely as agriculture. While US tariffs on steel and other inputs are driving up costs for farmers, China's retaliatory tariffs on US agricultural goods are damaging the ability of US farmers to compete with other countries.

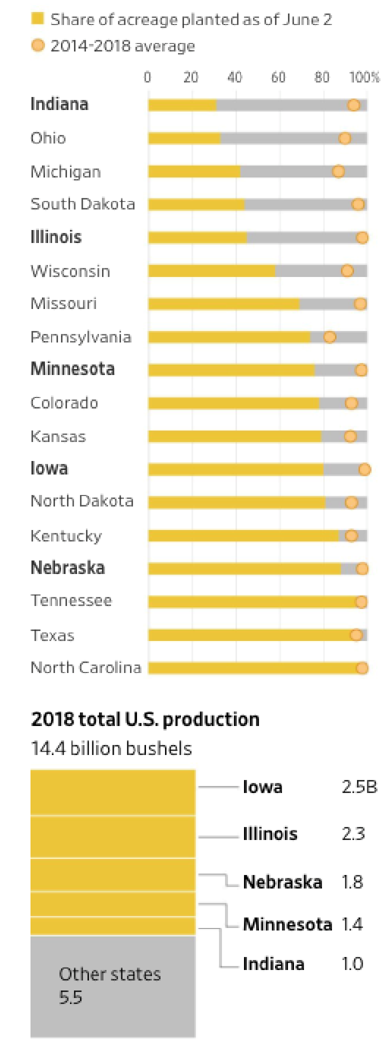
Compounding these challenges, farmers are, in fact, at the confluence of trade wars and climate disruption. Farmland worldwide has been hit hard by the tangible repercussions of a changing climate: altered precipitation patterns, an increase in extreme weather events, and reduced water availability and access. Swaths of once fertile and consistently-productive land have succumbed to drought and/or severe flooding, rendering the land unworkable and causing vulnerable populations to seek better lives elsewhere. This spring, the US Midwest was deluged by rainfall and flooding rivers, which forced farmers to make a difficult decision: take the insurance bailout or risk an unprofitable yield. As of June 2nd, midwestern states were acres behind their historic corn planting schedules (see chart).

Of course, the world needs to be fed. By 2050, the global population is expected to grow to 9.8 billion people, up from today's 7.6 billion, meaning the agricultural output must yield roughly 50% more than current production levels, which pays no mind to natural resources already facing an increased strain. Innovations in agriculture are sorely needed to adapt to this uncertain climate and increased demand; enter (with an ironic twist) one of America's oldest businesses: Deere & Co (DE). While Deere has been developing farming equipment and technology for generations, it has recently embraced what's known as "precision agriculture": a method of smart farming that uses exacting amount of water, responds to environmental changes, and aims to use inputs as efficiently as possible. While Deere won't dry out farmland across the Midwest, its innovations are helping farmers use limited resources more efficiently and sustainably.

We are watching other innovative vehicles that provide capital for conservation finance, sustainable farming, and related solutions. For example, Iroquois Valley Farms provides the next generation of organic farmers with leases and mortgages, aiding in the transition from conventional to organic farming. We're also seeing breakthrough innovations in plant-based food production. Beyond Meat (BYND), made a big splash with its market debut this quarter, fueling competition for Impossible Foods (privately-held) and other early entrants in the alternative meat space. While the jury is still out on the science and health of these products, we expect continued innovation to drive promising investment opportunities around the growth and consumption of food, in ways that benefit the planet and people alike.

The Sustainable Development Goals (SDGs) are set of 17 goals adopted by world leaders to protect the planet, eradicate poverty and promote global prosperity. Figure 8 has committed to use the SDG framework to define our own social and environmental impact.

Planting Progress for Corn Producing States in 2019*



*These states planted 92% of the 2018 corn acreage
Source: USDA