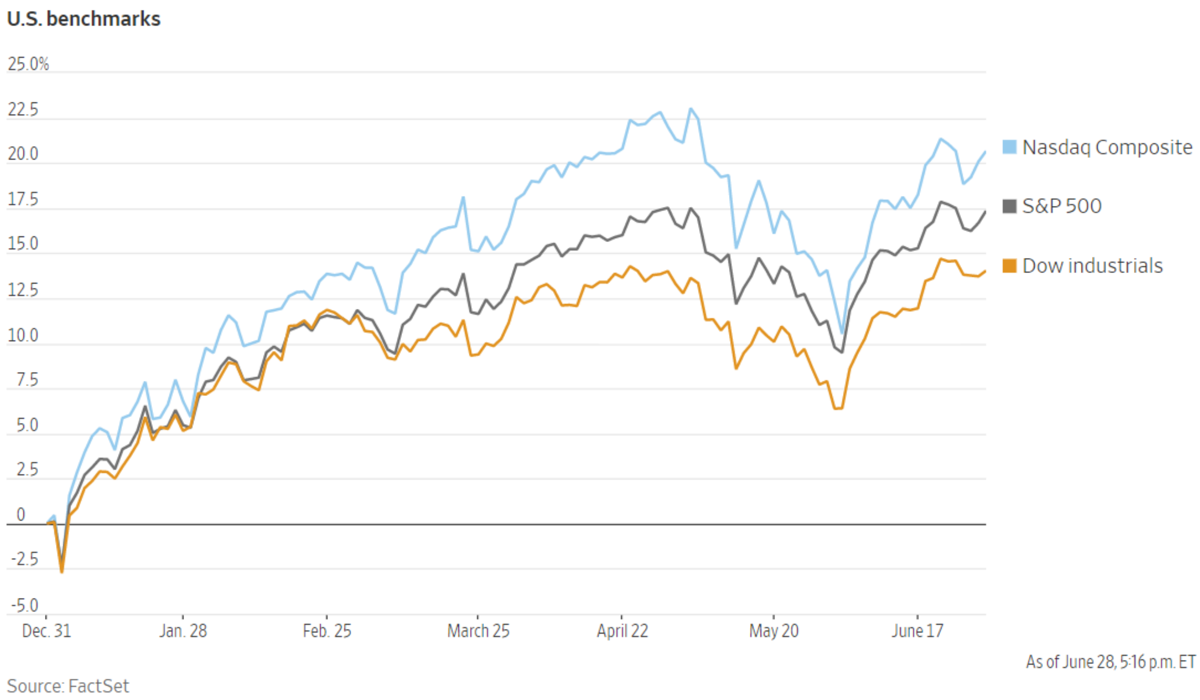
Market & Investment Update

July 1, 2019

US equities, as measured by the S&P 500 index, have returned 18.5% year-to-date, which is the best first-half gain for the index in a calendar year since 1997. As shown in the chart below, stocks have had a strong recovery from their Christmas Eve 2018 lows. The recovery began when the Federal Reserve (Fed) signaled they would be more patient and accommodative in their interest rate approach. Also, during the first half of 2019, US economic data remained stable and company earnings growth continued; these were both key concerns for investors heading into the year. Lastly, the Trump administration has signaled that they anticipate a trade deal with China will be accomplished in the near future; though, the uncertainty surrounding the negotiations have been a source of market volatility in 2019.

As of this writing, the US and China have agreed at the G-20 Summit to continue negotiations after both sides agreed not to impose additional tariffs for the time being. The US has also agreed to allow companies to sell components to Huawei, a Chinese telecommunications giant cited as a security risk in May, and China is expected to increase purchases of US agricultural products. While the talks were certainly a step in the right direction, no clear path for ending the trade war has been put forth.



Asset Class Returns (as of June 30, 2019)

Category	Representative Index	YTD 2019	2018
US Large Cap Equity	S&P 500	18.5%	-4.4%
US Small Cap Equity	Russell 2000	17.0%	-11.0%
Foreign Developed Equity	MSCI EAFE	14.0%	-13.8%
Emerging Market Equity	MSCI Emerging Markets	10.6%	-14.6%
US High Yield Fixed Income	ICE BofAML High Yield	10.2%	-2.3%
US Fixed Income	Barclays Aggregate Bond	6.1%	0.0%
Cash Equivalents	ICE BofAML 3 Mo Deposit	1.4%	2.1%

Prices & Interest Rates (as of June 30, 2019)

Representative Index	Current	Year-End 2018
S&P 500	2,942	2,507
Dow Jones Industrial Avg.	26,600	23,327
NASDAQ	8,006	6,635
Crude Oil	$58.20	$46.49
Gold	$1,413	$1,291
2 Year Treasury	1.75%	2.48%
10 Year Treasury	2.00%	2.69%
30 Year Treasury	2.52%	3.02%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)

Outlook & Positioning

<u>Risk-Taking</u>

US equities are now at all-time highs, while bond yields have declined precipitously over the last nine months (the bond market action has the implications of a future recession, bear market, or at the very least, significant monetary policy easing from the Federal Reserve). While there have been signs of moderating economic activity (slowing corporate earnings growth rates, increased input cost pressures on businesses, etc.), the balance sheets, sentiment, and spending patterns of consumers remain healthy, and equity market valuations are not at extreme levels. We view the environment for risk-taking today as neutral, and recommending balancing growth assets with defensive elements (bonds, low volatility equity, hedging strategies) to provide liquidity and flexibility during periods of market volatility.

US Economy

US economic activity has remained stable and growing in 2019, though some areas have shown signs that the pace of growth may be moderating. Perhaps most importantly, consumers are employed and seeing real wage growth, their personal balance sheets are relatively healthy, and they feel confident to make significant purchases likes homes and automobiles. And, while employment is near a 50-year low, we are not yet witnessing significant signs of inflation. The pace of decline in unemployment has begun to moderate, but we are not yet seeing an uptrend in unemployment or initial jobless claims that would be cause for alarm.

Fixed Income

Federal Reserve Chair, Jerome Powell, has frequently reminded audiences during his monetary policy update presentations of the Fed's dual mandate: price stability and maximum employment. While inflation has been modestly below the Fed's 2% target, it has been positive and "stable", and employment is at a 50-year low. The Fed has received significant criticism this year for not being accommodative enough, and bond market participants have very boldly pushed yields lower (prices higher) with the assumption that the Fed will cave to both market and political pressure. Powell has remained steadfast thus far in managing to the dual mandate, and we would not be surprised if bond market investors are disappointed at some point through year-end.