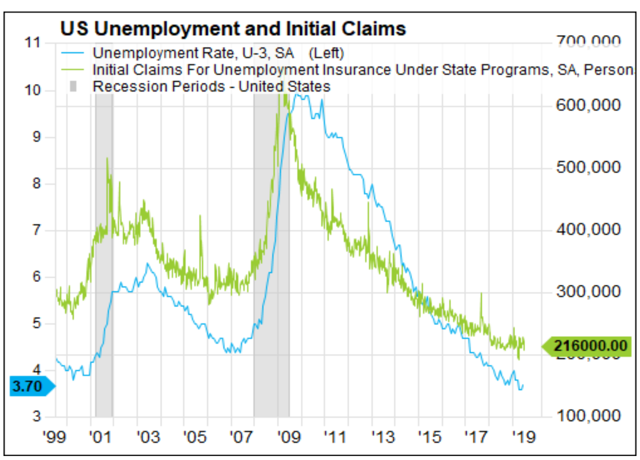
2019 – 2nd Quarter Review & Outlook

Economic and Investment Review

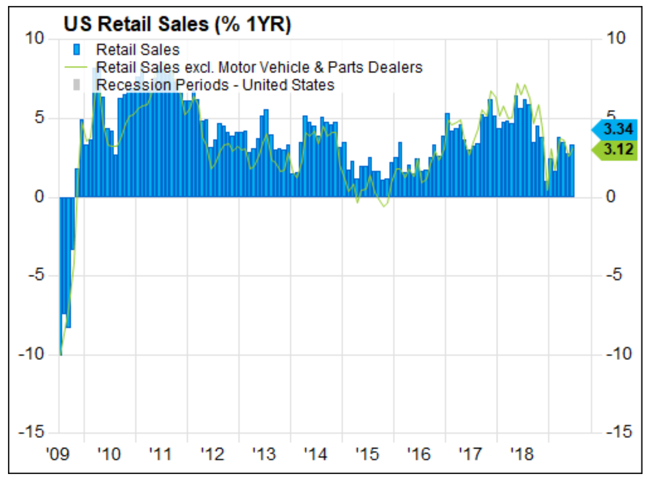
Economic Growth: GDP for the 2nd quarter is expected to be 1.8% compared with 3.1% for the 1st quarter and 4.2% for the same period last year. Consumer spending should be a positive while business spending is expected to slow. Exports add to GDP while imports subtract from it. The trade deficit is expected to widen in the quarter creating a drag on economic growth. GDP for all of 2019 is expected to be 2.4% compared with 2.9% in 2018. Raymond James Chief Economist, Scott Brown, states in the July 19, 2019 Weekly Economic Monitor that "household fundamentals (jobs, wage growth) should continue to support a moderately strong pace of growth in consumer spending, which accounts for about 68% of GDP." He identifies trade policy uncertainty as a factor in slower global growth and lower fixed business investment.

The domestic employment picture remains very strong. Job growth remains impressive and the unemployment rate remains near historic low levels.



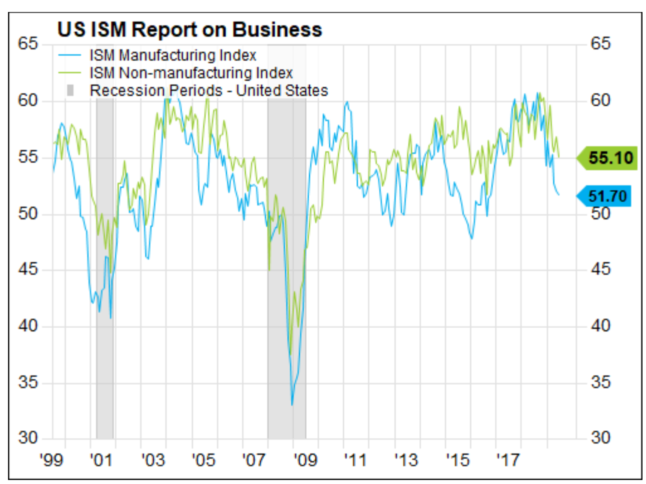
Source: FactSet

Retail sales powered on in June, up 3.34% over the same period last year.



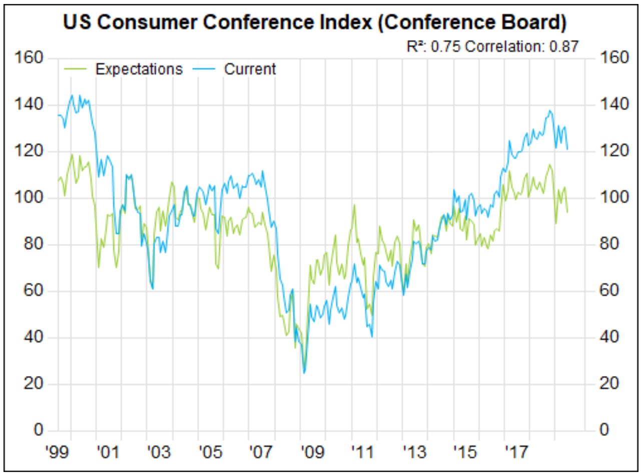
Source: FactSet

However, the ISM (Institute for Supply Management index) has been showing declining rates of growth for both manufacturing and non-manufacturing. New order are flat and new exports remain weak.



Source: FactSet

Consumer confidence, measured by the Consumer Confidence Index is defined as the degree of optimism about the state of the economy that consumers are expressing through their activities of saving and spending. The index is off from peak levels but remains very positively elevated.



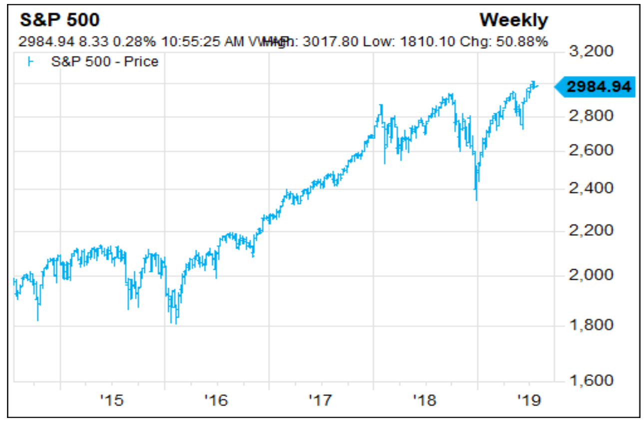
Source: FactSet

Also, the University of Michigan consumer sentiment index remains at high levels based on consumers generally feeling good about their personal financial situation.

Equity Markets

Equity prices have already met our expectations for the year. The decline in earnings growth, the possibility of peak margins, slowing global growth and tariff induced trade strife have been headwinds for the market. However, steady consumers, a strong employment picture, the prospect for a supportive Fed, improving earnings growth and an improved trade picture look be tailwinds to help offset the headwinds. The equity markets have reacted positively to these tailwinds, largely already including these scenarios in valuation analysis. Because of this, there may be a period of wait and see if companies can meet expectations and grow into their valuations.

The S&P 500 continued its positive trend, moving up 4.30% for the quarter and 18.5% YTD.



Source: FactSet

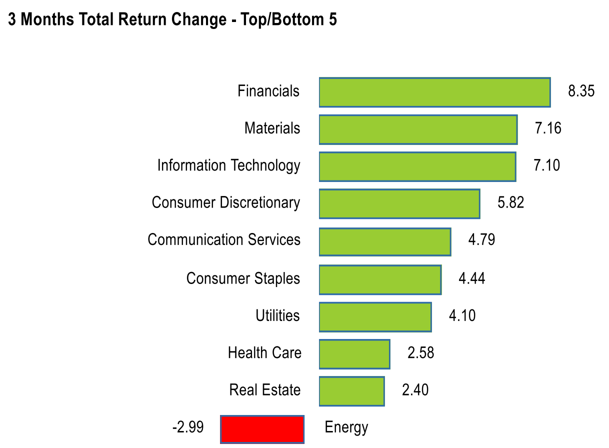
Mid Cap stocks lagged large cap stocks slightly for the quarter but posted similar returns YTD. Small Cap stocks trailed large cap stocks by 2.4% for the quarter and nearly 5% YTD.

International stocks also performed well during the quarter. The MSCI EAFE index (Developed International) was up 3.7%% for the quarter and 14.0% YTD. The MCSI Emerging Markets index trailed the EAFE index, posting gains of just 0.6% for the quarter and 10.6% YTD. Growth stocks retained their lead over value stocks in the second quarter returning 4.6% compared to 4.0% for the quarter and 20.2% compared with 16.7% YTD respectively. The premium paid for growth stocks generally increases as growth slows.

EQUITY	Q2 2019	YTD 6.30.19	1 Year 6.30.19	3 Years Annualized
S&P 500	4.30	18.54	10.42	14.19
S&P 500 Value	4.02	16.70	8.67	10.64
S&P 500 Growth	4.56	20.19	12.02	17.26
Dow Jones Ind Avg	4.17	18.74	9.63	14.08
S&P Mid Cap 400	3.05	17.97	1.36	10.90
S&P Small Cap 600	1.87	13.69	-4.88	11.97
MSCI EAFE	3.68	14.03	1.08	9.11
MSCI Emerging Mkts	0.61	10.59	1.21	10.66

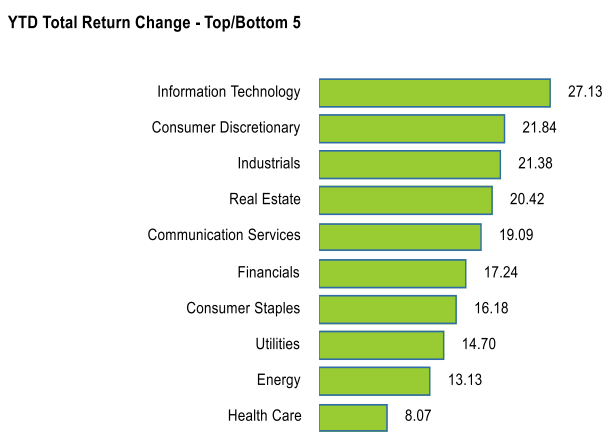
Source: FactSet

All economic sectors within the S&P 500 except Energy posted positive returns on a quarterly basis. Financials led all sectors, followed by Materials and Information Technology. Health Care was the weakest sector.



Source: FactSet

Information Technology was the strongest sector YTD, followed by Consumer Discretionary and Industrials. Health Care was again the weakest.

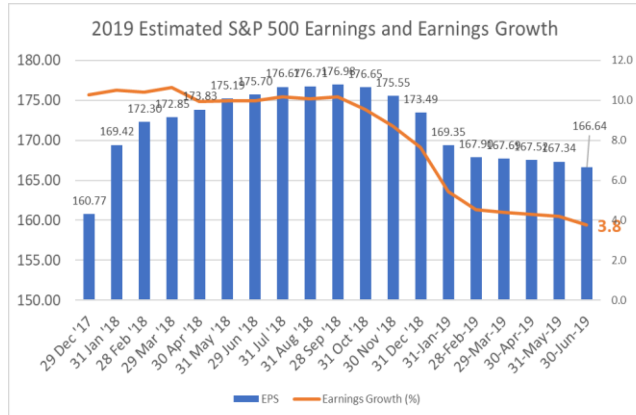


Source: FactSet

Two subsectors within Health Care, Health Care Providers & Service and Biotechnology had negative returns on a year-to-date basis.

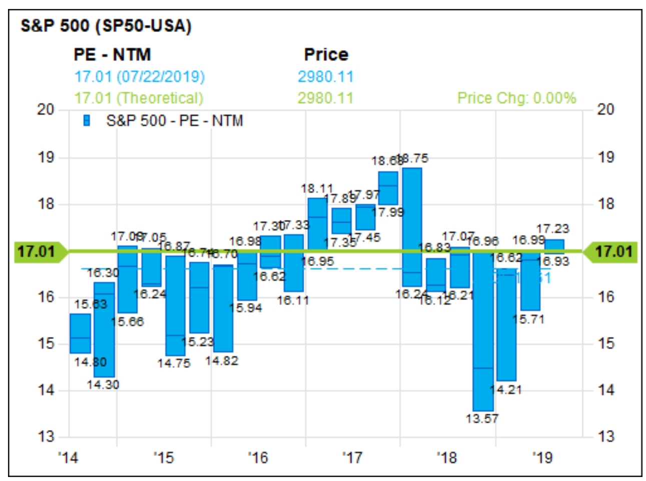
We are early in second quarter earnings season and so far, 79% of S&P 500 companies have reported a positive EPS surprise and 62% of companies have reported a positive revenue surprise. However, earnings reported to date for the index have declined 1.9%. If EPS reports finish in negative territory for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 and Q2 of 2016.

Earnings growth estimates for 2019 have declined from over 10% in mid-2018 to 3.8% currently. The rate of decline has leveled out during the current calendar year.



Source: FactSet

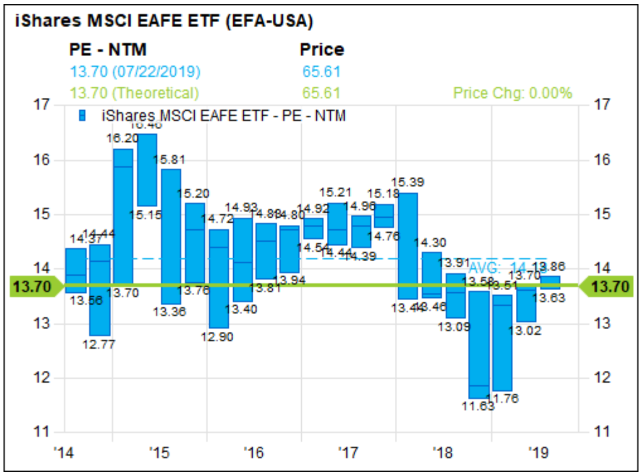
The S&P 500 is trading at an 18.0x P/E for calendar 2019 and a 16.2x P/E for calendar 2020. The index is trading at a 17.0X based on the next twelve months of expected earnings. This compares with the 5-year average of 16.6x.



Source: FactSet

Our 12-month forecast for the S&P 500 is 3,000, indicating a flat domestic equity market for the remainder of 2019. The forecast is based on an adjusted earnings growth rate of 3.6% and PE multiples of 17.0x for FY1 and 16.5x for FY2.

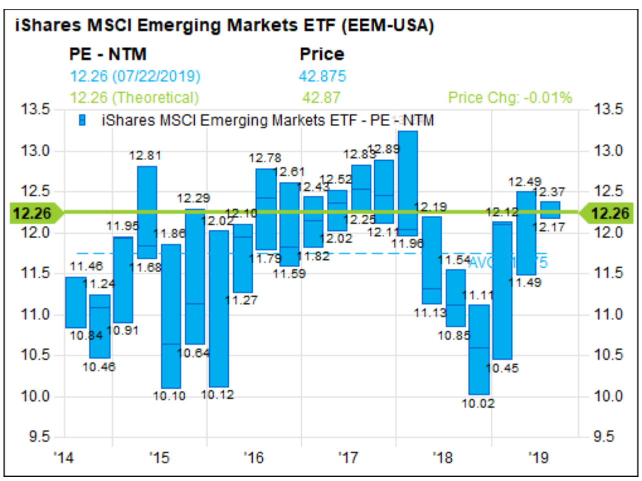
International-Developed markets continue to trade below the five-year average PE for the next twelve months. The MSCI EAFE index is currently at a 13.7x multiple compared with the five-year average of 14.2x.



Source: FactSet

Earnings growth in both Europe and Japan remain below the U.S. which contributes to lower valuation multiples. Earnings growth for EAFE related companies is currently estimated at just 1.1% for 2019. However, much like the domestic market, earnings growth is expected to improve in 2020.

International – Emerging Markets are trading at 12.3x the next twelve months of expected earnings compared with the 5-year average of 11.7x.

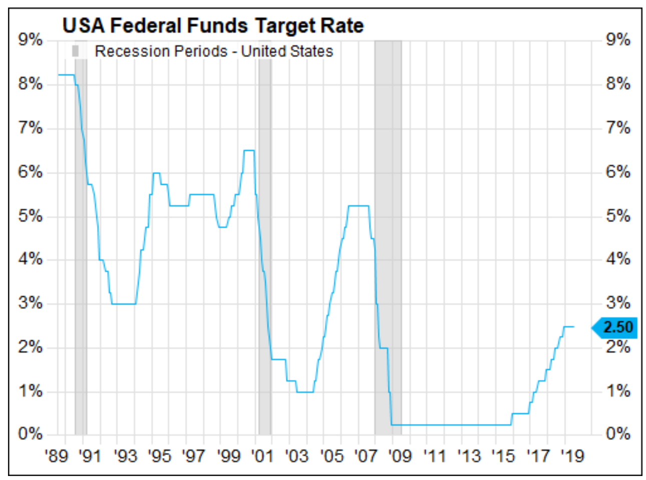


Source: FactSet

Estimates for 2019 earnings growth for International-Emerging Markets as represented by the MSCI Emerging Markets Index are now expected to be lower than in 2018. Earnings growth is expected to decline by 2.1% from the previous year. EPS estimates point to improvement in 2020; however, in order for growth to be sustained and PE multiples to expand there will likely have to be a reduction in tariff disputes. Still, emerging market growth should benefit from a stable dollar and easier monetary policy.

Fixed Income Markets

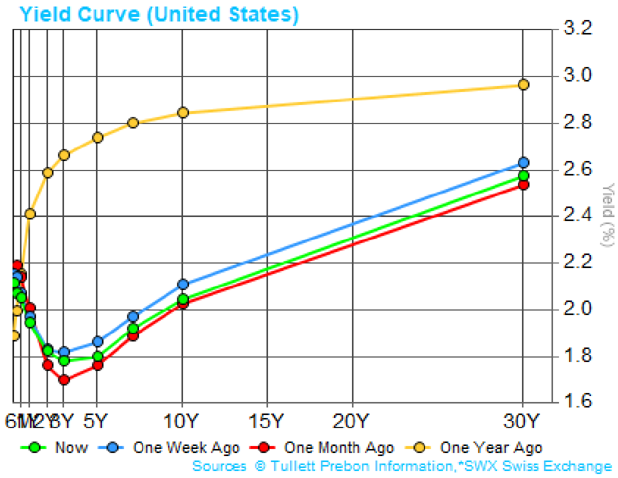
Interest rates declined over the quarter as the Fed pivoted from its plan to increase the Fed Funds Target Rate over the year to considering reducing rates due to the lack of inflation and slowing global growth. The Bloomberg Barclays US Aggregate Bond Index was up 3.08% for the quarter, 6.11% YTD and up 7.87% for one year through June 30. Municipal bonds, as measured by the S&P National AMT-Free Municipal Bond Index, were up 2.26% for the quarter, 5.11% YTD and 6.55% for one year. The Fed is broadly expected to reduce the target rate from 2.50% to 2.25% at the July 30 meeting.



Source: FactSet

The consensus estimate for Fed Funds indicates that the target rate is expected to decline to 2.00% in 2020. While forecasters expect the Fed Fund rate to decline, as a group, they still expect the 10-year U.S. Treasury to increase from about 2.05% current to 2.30% by year-end.

The U.S. Treasury Yield Curve remains well below last year's levels for all but the shortest maturities. The curve remains inverted with the very shortest maturities but maintains a positive slope with the 6-month, 1 and 2-year maturities compared with the 10-year U.S. Treasury bond.



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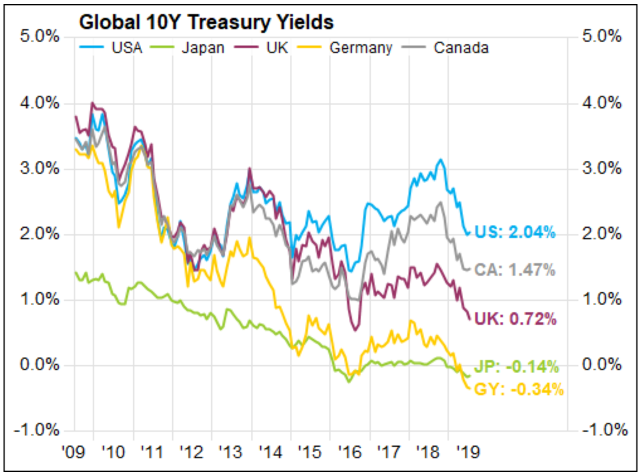

Source: FactSet

It would be natural for investors to turn to international fixed income options due to low domestic rates; however, comparable developed nation rates have moved nearly in sync with U.S. rates.

The High Yield Corporate Composite Index was up 2.83% in the second quarter, 9.94% YTD and 8.58% for one year through June 30th.

Disclosures

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