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Q2 2019 continued the upward trend of Q1 in four of our five asset classes; only commodities were down. Larger US stocks enjoyed returns of about 4.3%. For the year, so far, all the key asset classes had a positive performance with Real Estate (REITS) leading the way with 19.3%. Indeed, Investors seem unconcerned with the economic climate in the US and overseas.

Surely, this strong investment performance party will end some-day, we just don't know when. And we remain mindful of legendary investor - Peter Lynch's - sentiment that "More money is lost anticipating a bear market, than is lost in the bear market itself".

We have, however, implemented new portfolio risk management tools to identify Equity products that offer less volatility than broad market funds. By using them we hope clients will weather potential market declines, better. Of course, we give up some upside potential, but given our view that considerable upside is currently limited, we think this may be a viable approach.

Our investment approach is to accept uncertainty and focus on structuring sensible and prudent portfolios. We think some of these low volatility products will help us do that. We plan to keep portfolios diversified across the 5 main asset classes and to rely on fundamentals and evidence-based strategies, and remain cost-conscious. We think this is a sound investment approach.

Comfortably numb? Not!



COMFORTABLY NUMB - Q2 2019 MARKET REVIEW

The Markets (second quarter through June 28, 2019)

The second quarter was full of ups and downs for stocks as investors had plenty to worry about. Throughout the quarter, the trade war between the United States and China ebbed and flowed as news continuously changed from positive to negative. Employment was steady and the unemployment rate remained low, but wage growth was moderate at best. Manufacturing and industrial production hit a snag during the second quarter, as did business fixed investment.

Key Dates/Data Releases

**7/1: PMI
Manufacturing Index, ISM
Manufacturing**

Index**7/3: International trade, ISM Non-Manufacturing Index**

April saw stocks post solid returns as each of the benchmark indexes listed here enjoyed gains of at least 2.5%. The yield on 10-year Treasuries increased by 10 basis points as prices fell. A solid start to corporate earnings season helped support stocks, as did low interest rates and weak consumer price pressures. The March labor report helped quell investors' fears, as almost 200,000 new jobs were added. As to the major indexes listed here, the Nasdaq led the way, gaining over 4.7%, followed by the S&P 500, which closed the month up by almost 4.0%. The small caps of the Russell 2000 and the Global Dow each rose by nearly 3.3%. The Dow, while pulling up the rear, still gained over 2.5% by the end of April.

7/5: Employment situation**7/9: JOLTS****7/11: Consumer Price Index, Treasury budget**

Unfortunately, the gains of April were lost in May as stocks fell sharply, closing out their worst month since last December. Encouraging rhetoric at the end of April that a trade deal could be reached between the United States and China was quickly replaced in early May with the imposition of new tariffs on U.S. imports from China. Retaliatory tariffs on U.S. exports entering China soon followed. The Nasdaq and Russell 2000 fell almost 8.0% in May, while the S&P 500, Dow, and Global Dow each dropped by more than 6.5%. Money moved from stocks to bonds, driving prices higher and yields lower. The yield on 10-year Treasuries sank 37 basis points to close May at 2.13%. Crude oil prices, which had exceeded \$60 per barrel in April, plummeted by almost \$10 per barrel by the end of May.

7/12: Producer Price Index**7/16: Retail sales, import and export prices, industrial production**

Stocks rebounded during the middle of June and soared by the end of the month. The tech-heavy Nasdaq led the monthly gains, reaching almost 7.5%, followed by the Dow, which also gained over 7.0% for the month. The Fed's decision to hold interest rates helped drive investors to stocks. Still, investors sought long-term bonds, driving prices higher and yields lower.

7/17: Housing starts**7/23: Existing home sales****7/24: New home sales****7/25: Durable goods orders, international trade in goods**

Ultimately, stocks posted solid gains by the end of the second quarter. Each of the benchmark indexes listed here closed the quarter with gains, although not close to the double-digit returns earned at the end of the first quarter. Low inflation, the trade war between China and the United States, and news that the Fed is considering lowering interest rates helped quell investors' concerns. The large caps of the S&P 500 led the way at the end of the second quarter, gaining 3.79%, followed closely by the tech stocks of the Nasdaq, the Dow, the Global Dow, and the small caps of the Russell 2000, which eked out a quarterly gain of 1.74%. By the close of trading on June 28, the price of crude oil (WTI) was \$58.16 per barrel, up from the May 31 price of \$53.33 per barrel. The national average retail regular gasoline price was \$2.654 per gallon on June 24, down from the May 27 selling price of \$2.822 and \$0.179 lower than a year ago. The price of gold soared by the end of June, rising to \$1,413.30 by close of business on the 28th, up from \$1,310.30 at the end of May.

7/26: GDP**7/30: Personal income and outlays****7/31: FOMC meeting statement**

Market/Index	2018 Close	As of June 28	Monthly Change	Quarterly Change	YTD Change
DJIA	23327.46	26599.96	7.19%	2.59%	14.03%
NASDAQ	6635.28	8006.24	7.42%	3.58%	20.66%
S&P 500	2506.85	2941.76	6.89%	3.79%	17.35%
Russell 2000	1348.56	1566.57	6.90%	1.74%	16.17%
Global Dow	2736.74	3074.41	6.45%	2.45%	12.34%
Fed. Funds	2.25%-2.50%	2.25%-2.50%	0 bps	0 bps	0 bps
10-year Treasuries	2.68%	2.00%	-13 bps	-40 bps	-68 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- Employment:** Total employment edged up 75,000 in May after adding 224,000 (revised) new jobs in April. The average monthly job gain in 2019 was 164,000 per month (223,000 in 2018). Notable employment increases for May occurred in professional and business services (33,000) and health care (16,000). The unemployment rate remained at 3.6% in May after falling 0.2 percentage point in April. The number of unemployed persons was little changed at 5.9 million. The labor participation rate was 62.8% and the employment-population ratio was 60.6% — both unchanged in May. The average workweek was unchanged at 34.4 hours for May. Average hourly earnings increased by \$0.06 to \$27.83. Over the last 12 months ended in May, average hourly earnings have risen 3.1%.
- FOMC/interest rates:** As expected, the Federal Open Market Committee did not change interest rates following its latest meeting in June. Lack of price inflation and slowing economic growth underscored the Committee's reluctance to raise rates. In fact, there is a growing sentiment among Committee members to lower rates in the near future, as projections released by the FOMC in June show the federal funds rate range at between 1.9% and 2.4% by the end of 2019.
- GDP/budget:** The third and final estimate of the first-quarter gross domestic product showed the economy grew at an annualized rate of 3.1%. The GDP expanded at a rate of 2.2% for the fourth quarter of 2018. Driving the growth rate increase was an upturn in nonresidential (business) fixed investment, state and local government spending, and exports, coupled with a smaller decrease in residential investment. These movements were partly offset by decelerations in consumer spending (0.9% in the first quarter compared to 2.5% in the fourth quarter). The federal budget deficit was \$207.8 billion in May after enjoying a surplus of \$160.3 billion in April (\$146.8 billion in May 2018). Through the first eight months of the fiscal year, the government deficit sits at \$738.6 billion. Over the same period for fiscal year 2018, the deficit was \$532.2 billion.
- Inflation/consumer spending:** Inflationary pressures remain weak as consumer prices are up 1.5% over the last 12 months ended in May. Consumer prices excluding food and energy are up 1.6% over the same 12-month period. For the month, consumer prices rose 0.2% over April, when prices increased 0.3%. In May, consumer spending rose 0.4% (0.6% in April). Personal income and disposable (after-tax) personal income climbed 0.5% in May, respectively, matching the same increases as in April.
- The Consumer Price Index increased 0.1% in May after rising 0.3% in April and 0.4% in March. Over the 12 months ended in May, the CPI rose 1.8%. The food index rose 0.3% in May after declining in April, with the food index accounting for nearly half of the May CPI monthly increase. The energy index fell 0.6% in May, with the gasoline index falling 0.5%. Core prices, less food and energy, also inched up 0.1% in May for the fourth consecutive month. Core prices have risen 2.0% over the 12 months ended in May.
- According to the Producer Price Index, the prices companies received for goods and services rose 0.1% in May after climbing 0.2% in April. The index increased 1.8% for the 12 months ended in May. The index less foods, energy, and trade services moved up 0.4% in May, the same increase as in April, and has increased 2.3% over the last 12 months.
- Housing:** Activity in the housing market can be described as erratic at best. Existing home sales rose 2.5% in May after registering no change in April from the prior month. Year-over-year, existing home sales remain down 1.1% (4.4% for the 12 months ended in April). Existing home prices continue to rise, as the May median price for existing homes was \$277,700, up from \$267,300 the prior

month. Existing home prices were up 4.8% from May 2018. Total housing inventory for existing homes for sale in May increased to 1.92 million, up from 1.83 million existing homes available for sale in April and 2.7% ahead of sales a year ago. Sales of new single-family houses fell a whopping 7.8% in May following an April dip of 3.8% (revised). New home sales are now 3.7% below their May 2018 estimate. The median sales price of new houses sold in May was \$308,000 (\$342,200 in April). The average sales price was \$377,200 (\$393,700 in April). Inventory at the end of May was at a supply of 6.4 months (5.9 months in April).

- Manufacturing:** According to the Federal Reserve, industrial production rebounded in May, rising 0.4%, after falling 0.4% in April. In May, the indexes for manufacturing and mining gained 0.2% and 0.1%, respectively, while the index for utilities climbed 2.1%. Total industrial production was 2.0% higher in May than it was a year earlier. After showing signs of life during the first quarter, durable goods orders fell 1.3% in May after dropping 2.8% (revised) in April. New orders for transportation equipment drove the decrease, plummeting 4.6% for the month.
- Imports and exports:** In another sign that inflationary pressures are weak, import prices fell 0.3% in May after advancing 0.1% in April. This is the first monthly decline since a 1.4% decline in December. Import fuel prices declined 1.0% in May, after rising 25.4% over the previous four months. Nonfuel import prices were also down, falling 0.3% in May. Year-to-date, import prices are down 1.5% — the largest year-over-year decline since August 2016. Prices for exports dropped 0.2% in May following a 0.1% bump in April. Export prices have fallen 0.7% since May 2018. The latest information on international trade in goods and services, out June 6, is for April and shows that the goods and services deficit was \$50.8 billion, down from the \$51.9 billion deficit in March. April exports were \$206.8 billion, \$4.6 billion less than March exports. April imports were \$257.6 billion, \$5.7 billion less than March imports. Year-to-date, the goods and services deficit increased \$4.1 billion, or 2.0%, from the same period in 2018. Exports increased \$8.3 billion, or 1.0%. Imports increased \$12.4 billion, or 1.2%. The advance report on international trade in goods (excluding services) revealed the trade deficit to be \$74.5 billion in May, up from the \$70.6 billion deficit in April. Goods exports in May were \$4.1 billion more than the prior month, while imports of goods were \$7.8 billion more than April's goods imports.
- International markets:** Escalating tensions between the United States and Iran have added to the already nervous world economy. In response to another round of tariffs imposed by the United States, China is lowering tariffs on imports it receives from other countries, while raising duties on imports received from America. The United Kingdom's gross domestic product fell sharply in April, down 0.4%, which marks the steepest drop since March 2016.
- Consumer confidence:** The Conference Board Consumer Confidence Index® fell to 121.5 in June, down from May's index of 131.3. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — decreased from 170.7 to 162.6. The Expectations Index — based on consumers' short-term outlook for income, business and labor market conditions — decreased from 105.0 last month to 94.1 in June.

Eye on the Month Ahead

The third quarter of the year will likely bring much of the same tumult as was found in the second quarter. Employment should remain strong, although wage growth has been relatively slow. It is worth noting that the Federal Open Market Committee has scaled back its views on economic growth and inflationary trends. In response, interest rates are not likely to increase in the foreseeable future and actually may be reduced. In any case, it appears that the ongoing trade war with China, coupled with tensions between the United States and Iran, will continue to impact the world economy and the U.S. stock

market.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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