



2nd Quarter 2019

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Market Returns

**Domestic Large
S&P 500**
18.54%

**Domestic Small
Russell 2000**
16.98%

**Intl Developed
MSCI EAFE**
14.03%

**Emerging Markets
MSCI EM**
10.58%

**Fixed Income
BBgBarc US
Aggregate Bond**
6.11%

**Market data is from Morningstar and is through 06/30/19. All returns are with dividends reinvested.*

Markets continued in the second quarter where they left off in the first, with further gains in both stocks and bonds. It's not often the equity and bond markets move higher together to the degree they have, but that's precisely what has happened through the first half of this year. The financial markets bounced with the Fed's expected shift to lower short-term interest rates in July. At some point though, depending on the outcome of the trade war and the economic outlook, that may change.

After a strong first quarter, US equities were again one of the top performers in the world in the second quarter. There was more volatility this quarter though, as investors grappled with increased concern over deteriorating trade negotiations between the United States and several major partners, most notably China. Overall, investor sentiment rose through the quarter as trade talks once again picked up and the Fed indicated their willingness to provide support for the current economic expansion.

Though growth has slowed recently, the US economy remains strong. Consumer confidence, employment levels and monetary policy remain supportive of continued economic growth. Financial markets continue to react favorably to these dovish policies. Ultimately, that optimism will face tests. We will continue to watch closely what happens with interest rates and the yield curve, which has flattened in some ranges in recent months.

The second half earnings outlook remains cloudy. Beyond the uncertain earnings outlook, short-term stock market performance will likely respond to trade settlement headlines. While many will cite comments from government officials to speculate on a trade settlement, ultimately, that outcome will depend on two individuals — The Presidents of the United States and China.

While we believe that equities can continue to do well in the second half of the year, we certainly don't expect markets to replicate their first half performance. If earnings can show some growth, however, there will be some hope for further gains in stocks. We came into the quarter with a negative view towards most areas of the fixed income market, and although bonds have continued to do well, our view towards them hasn't changed. In our estimation something has to give. Either bond markets are correct and we're heading for a series of rate cuts and potentially a much more difficult economic environment, or fixed income investors have become too bullish on the prospect for rate cuts and aren't correctly considering the potential for bond yields and interest rates to move higher in the months ahead.

We expect that the economy will muddle through for the remainder of the year, but markets will be subject to high levels of headline risk, particularly around trade and central bank movements. We favor high quality equities and equity managers, along with select short-term bonds and cash. Now isn't the time to take excessive risks, but we also aren't overly bearish over the short-term prospects for markets. Enjoy the summer and trust that we'll be watching things for you and making the necessary adjustments.



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