

Macroeconomic Environment

Must all good things come to an end?

Economists are fond of saying that bulls don't die of old age; they must be killed. Though just like the recent running in Pamplona, it appears the bulls are winning this one. As we enter the 121st month of economic expansion since the Great Recession, it seems investors everywhere are peaking behind them to see what's coming next, but perhaps the best thing to do, (just like the running of the bulls) is to just keep running. While, this has been the longest expansion period in history, it has not proven to be the greatest. In fact, compared to all other expansionary periods, this "bull run" has added incrementally less to the nation's Gross Domestic Product ("GDP"), making it more akin to a steer than a bull. The good news is, steers are better for steaks than bulls, when this expansion finally peaks and the barbeque is lit. And instead of rushing into the slaughter, this steer is happy to slowly fatten over time. And speaking of bbq, as we celebrated the end of the 2nd quarter and the July 4th holiday with our hamburgers and hot dogs, Federal Reserve Chairman Powell gave us yet another reason to rejoice, when he announced a relatively new policy objective—to "sustain the expansion"—sending U.S. Treasury yields to all-time lows and the stock market soaring to all-time highs. So, perhaps the punch bowl is getting low, but another batch may be waiting in the kitchen.

Outside of the U.S., global growth continues to decelerate but remained positive for the quarter, as central banks generally expressed a willingness to engage in further stimulus measures as needed. European Central Bank (ECB) President Mario Draghi also emboldened investors with his comments that rates could be cut and/or asset purchase programs restarted if inflation does not reach the bank's target. Following those remarks, the German 10-year government bond yield hit a new record low and continued to trend lower into quarter-end, closing the quarter at -0.33%. Away from data, trade talks with several countries are fluid; a no-deal Brexit this October is no longer a remote possibility; and tensions with Iran are mounting. All of these issues, added to the distractions associated with the 2020 election in the U.S., pose additional variables for investors to untangle.

The U.S. economic picture continues to be mixed bag with some bright spots, and others still persistently challenging. A strong labor market, increased wages, and rising personal income have supported consumer spending, which accounts for roughly 70% of GDP. The strength of the consumer helped first quarter GDP numbers surprise to the upside with a posting of +3.1% (y-o-y). Household debt has come way down since the housing crisis, however, student debt continues to mount at a rapid pace. While unemployment hovers at a five-year low at 3.6%, we must remind ourselves that this number does not include incarcerated individuals, and we live in one of the most incarcerated countries in the world. Meanwhile, manufacturing continues to be a point of weakness; the most recent (June) Purchasing Managers' Index continued to signal expansion (above 50), but only barely so with a reading of 51.7, which is sharply off its August 2018 peak of 60.8. Finally, inflation is the real conundrum, not only here but abroad as well. The headline Consumer Price Index (CPI) was up 1.8% in May (y-o-y) and Core (excluding food and energy) was up 2.0%, while the Fed's preferred inflation gauge, the Core PCE Deflator, is still falling short of its 2% target and rose only 1.6% over the trailing year.

But why 2%, and why aren't we getting there? First, we haven't seen wage growth for over a decade, and are just starting to turn the corner on that. Technological improvements are inherently deflationary, as well as our changing demographics (yes, the millennials again), consumption habits, (Amazon, Uber, Airbnb, Netflix, etc.), and subscription based service models have altered our lives, and have given us the power to control costs, while wage growth has been stagnant. The good news is Millennials are finally getting hired and their consumption will grow over time, as one of the largest generations to exist...and guess what, they'll live longer too.

Needless to say, this pesky inflation number, along with slowing global growth has made the Fed more dovish, and many have interpreted recent comments to imply that cuts are imminent. As of quarter-end, markets had priced in a 100% probability of a rate cut in July, and the probability of three additional 25 bps cuts in 2019 was greater than 50%. However, there appears to be room for disappointment if the economic data does not justify these moves. The old, "good news is bad news", adage. Inflation continues to be almost non-existent in Japan; +0.8% y-o-y in May. As in the U.S., manufacturing remained a key source of weakness in Europe and Asia with trade tariffs and tepid global demand being key drivers.

Equity Markets

U.S. equity markets approached record levels as investors were heartened by the potential for imminent Fed rate cuts. The S&P 500 Index rose 4.3%, bringing its year-to-date ("ytd") return to 18.5%. Financials (+8.0%) were the best performers while Energy (-2.8%) was the only sector with a negative return. Small cap stocks (R2000: 2.1%) underperformed large (R1000: 4.2%) and growth continued its trend of outperformance across the capitalization spectrum, albeit only modestly in Q2. In a reversal from Q1, quality factors such as operating margin and return on equity contributed to performance. Value factors (P/B, P/E trailing, and yield) were mixed while growth factors (EPS growth, sales growth) were positive.

Developed markets were also buoyed by optimism for rate cuts. The MSCI ACWI ex-USA Index rose 3.0%, with Canada (+4.9%), Pacific ex-Japan (+5.2%) and Europe ex-UK (+5.8%) leading the way. Japan (+1.0%) and the UK (+0.9%), at the lower end of the group, were able to eke out small positive returns. The Canadian dollar, yen and euro appreciated versus the U.S. dollar while the British pound and Australian dollar lost ground. Emerging markets (MSCI Emg Mkts: +0.6%) underperformed developed but returns across countries varied. Russia (+16.9%) was at the top while China (-4.0%) was among the few countries with negative returns for the quarter. Also worth mentioning are BRIC countries Brazil (+7.2%) and India (+0.5%). The U.S. dollar weakened versus most emerging market currencies as the prospect for rate cuts in the U.S. loomed large.

Fixed Income Markets

In the U.S., the Bloomberg Barclays US Aggregate Bond Index rose 3.1% for the quarter, nearly mirroring its Q1 result (+2.9%). U.S. Treasury yields hit multi-year lows in June, and the 10-year closed the quarter at 2.0% (lowest since 11/2016). The curve remained inverted between the 90-day T-bill and the 10-year U.S. Treasury, but the more widely watched spread between the 2- and 10-year widened during the quarter to 25 bps. Investment grade corporate bonds performed best (+4.5%). Agency mortgages underperformed (+2.0%) as lower rates raised concerns around prepayment risk. TIPS (Bloomberg Barclays TIPS: +2.9%) underperformed as inflation expectations fell; the 10-year breakeven spread was only 1.69% as of quarter-end versus 1.88% as of 3/31/2019.

The high yield corporate bond market (Bloomberg Barclays High Yield: +2.5%) underperformed investment grade but is up nearly 10% ytd. Leveraged loans (S&P LSTA: +1.7%) held their own in spite of negative press and falling rates. Municipal bonds (Bloomberg Barclays Municipal Bond: +2.1%) underperformed U.S. Treasuries in Q2.

Overseas, yields across developed markets generally fell. The Bloomberg Barclays Global Aggregate Index rose 3.3% for the quarter on an unhedged basis. Hedged into dollars, the Index gained 2.9%. In a reversal from Q1, the dollar lost ground vs. most currencies, with the pound being a notable exception. In Germany, the yield on the 10-year government bond hit an all-time low and closed the quarter at -0.33%.

Negative yielding debt globally hit a new high of nearly \$13 trillion and is now roughly 25% of the Global Aggregate Index. Emerging market debt performed well; the U.S. dollar-denominated JPM EMBI Global Diversified Index gained 4.1%. Local currency emerging market debt, as measured by the JPM GBI-EM Global Diversified Index, rose 5.6%.

Real Assets

The Bloomberg Commodity Index fell 1.2% in Q2. Both the Precious Metals (+7.2%) and Agriculture (+4.5%) commodity sectors were positive performers, driven by strong individual returns for Gold (+9%) as well as Corn, Wheat, and Coffee, respectively. Meanwhile, Livestock, Energy and Industrial Metals commodity sectors all posted negative quarterly results. Oil pulled back but was roughly flat for the quarter, ending at \$58/barrel (WTI), while Natural Gas within the Bloomberg Energy Sub-index declined a precipitous -16.2%. Elsewhere, MLPs (Alerian MLP Index: +0.1%) were flat and REITs saw modest gains (FTSE Nareit Equity: +1.2%) but lagged listed infrastructure assets (DJ Brookfield Global Infra: +4.3%).

Closing Thoughts

With such a torrid start to the year for broad asset classes following an almost equally disappointing end to 2018, more periodic bouts of volatility seem inevitable. Central bank policies that portend lower rates have fueled gains in bonds and stocks globally, but much optimism in the way of stimulus has already been priced into asset prices. Valuations are elevated, the certainty and timing of a U.S. recession are unknown, and numerous geopolitical events continue to loom. Thus, just as we have stated in the past, adherence to an appropriate and well-defined long-term asset allocation policy remains the best course of action to manage the path to successful attainment of long-term investment goals.

Regards,



John P. Ulrich, CFP®
President



Whitney E. Solcher, CFA
Chief Investment Officer

▶ MAJOR MARKET INDICES (AS OF 6/30/2019)

Domestic Equity	2019		Annualized			P/E Ratio
	Q2	YTD	1 Year	5 Year	10 Year	Trailing
S&P 500	4.3%	18.5%	10.4%	10.7%	14.7%	17.8%
Russell 3000	4.1%	18.7%	9.0%	10.2%	14.7%	17.1%
Russell 1000 Value	3.8%	16.2%	8.5%	7.5%	13.2%	14.9%
Russell 1000 Growth	4.6%	21.5%	11.6%	13.4%	16.3%	21.8%
Russell 1000	4.3%	18.8%	10.0%	10.5%	14.8%	17.8%
Russell 2000	2.1%	17.0%	-3.3%	7.1%	13.4%	16.2%
Russell 2500	3.0%	19.2%	1.8%	7.7%	14.4%	18.1%

International Equity	2019		Annualized			P/E Ratio
	Q2	YTD	1 Year	5 Year	10 Year	Current
MSCI ACWI Ex US	3.2%	14.0%	1.8%	2.2%	2.7%	13.2%
MSCI EAFE	3.7%	14.0%	1.1%	2.2%	6.9%	15.4%
Emerging Markets	0.6%	10.6%	1.2%	2.5%	5.8%	13.0%

Fixed Income	2019		Annualized			Yield
	Q2	YTD	1 Year	5 Year	10 Year	
Barclays Aggregate	3.0%	6.1%	7.8%	2.9%	3.9%	3.1%
Barclays Universal	3.1%	6.5%	8.1%	3.2%	4.4%	3.4%

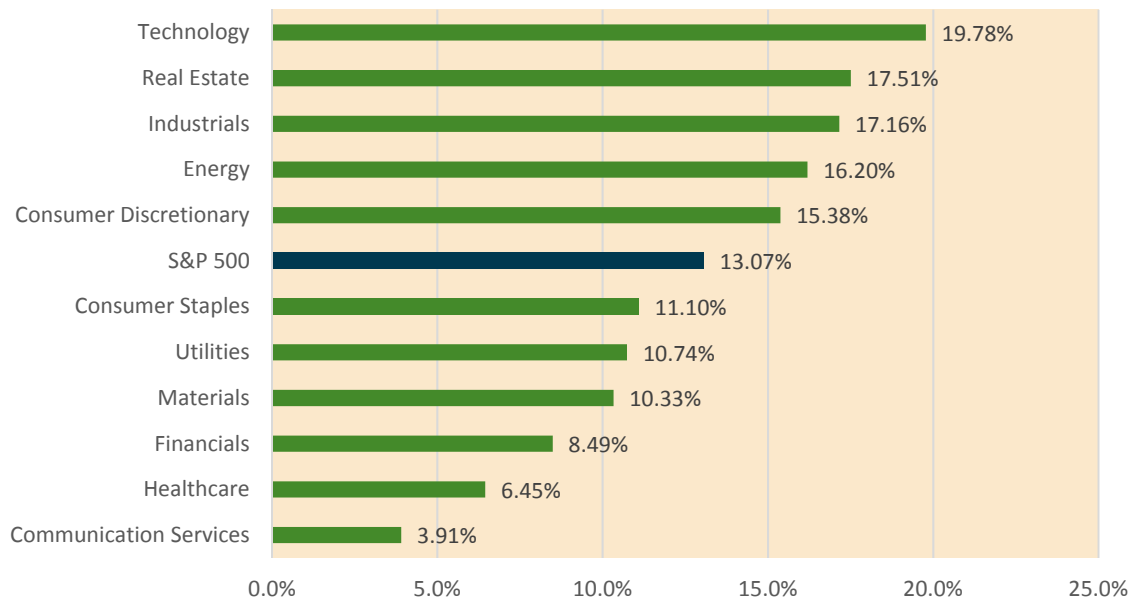
Other	2019		Annualized			Value
	Q2	YTD	1 Year	5 Year	10 Year	
US Dollar	-1.0%	0.1%	1.7%	3.8%	1.8%	\$96.26
WTI	-1.7%	29.6%	-19.8%	-10.8%	-1.6%	\$59.46
Gold	9.1%	9.9%	12.5%	1.2%	4.3%	\$1,410.06

- US markets continue to outperform their international counterparts, however, developed markets were helped by optimism for rate cuts in the 2nd quarter
- Growth continues to outperform value and large cap has dominated smaller cap companies
- Emerging markets were mixed, but overall underperformed their developed country counterparts
- Bonds have rallied across geographies as interest rates continue to fall
- Commodities have rallied year to date as the dollar has softened

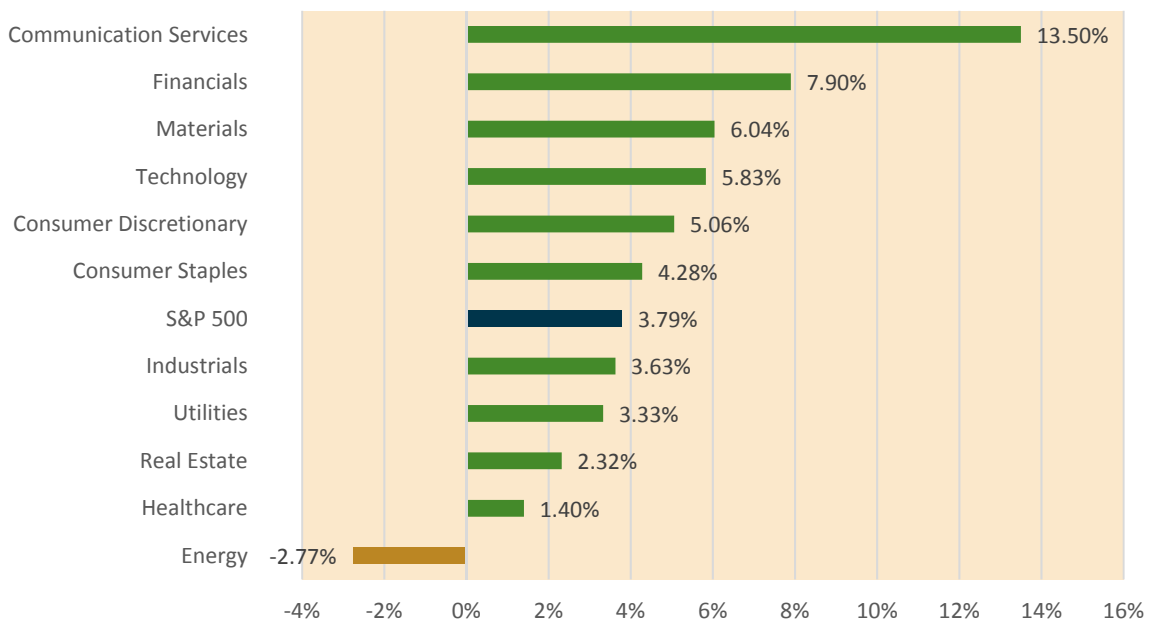
Source: Koyfin, Morningstar, JP Morgan

SECTOR PERFORMANCE

Q1 2019 - Sector Performance



Q2 2019 - Sector Performance

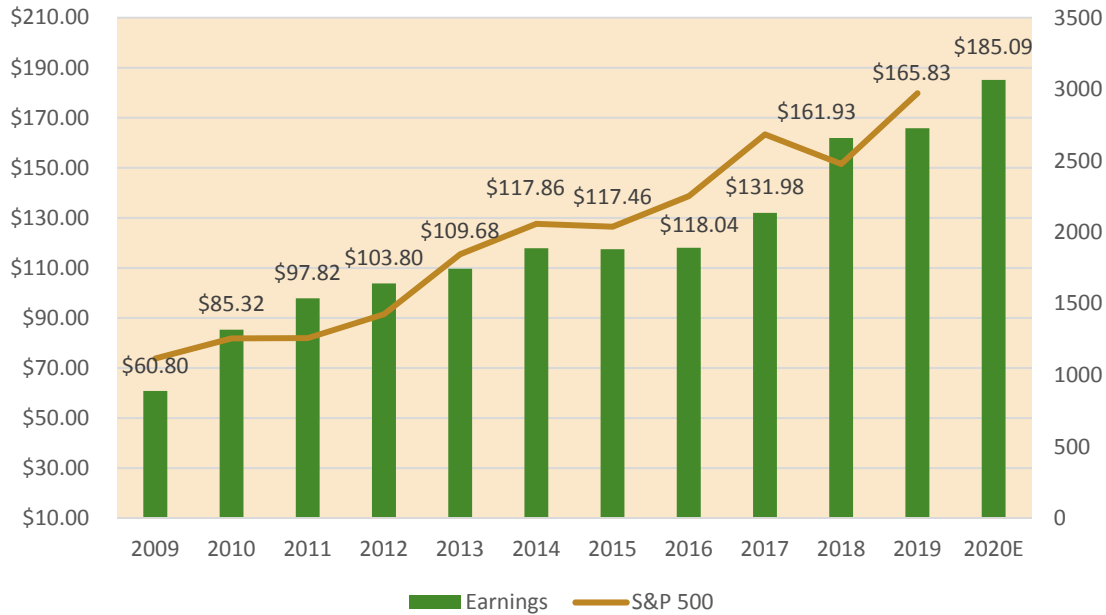


- The S&P 500 rebounded from its May sell off, with Communication Services and Financials leading the 2nd quarter
- Energy was the worst performer during the 2nd quarter, and the only sector in the negative due to fears of a global slow down and continued trade tariff threats

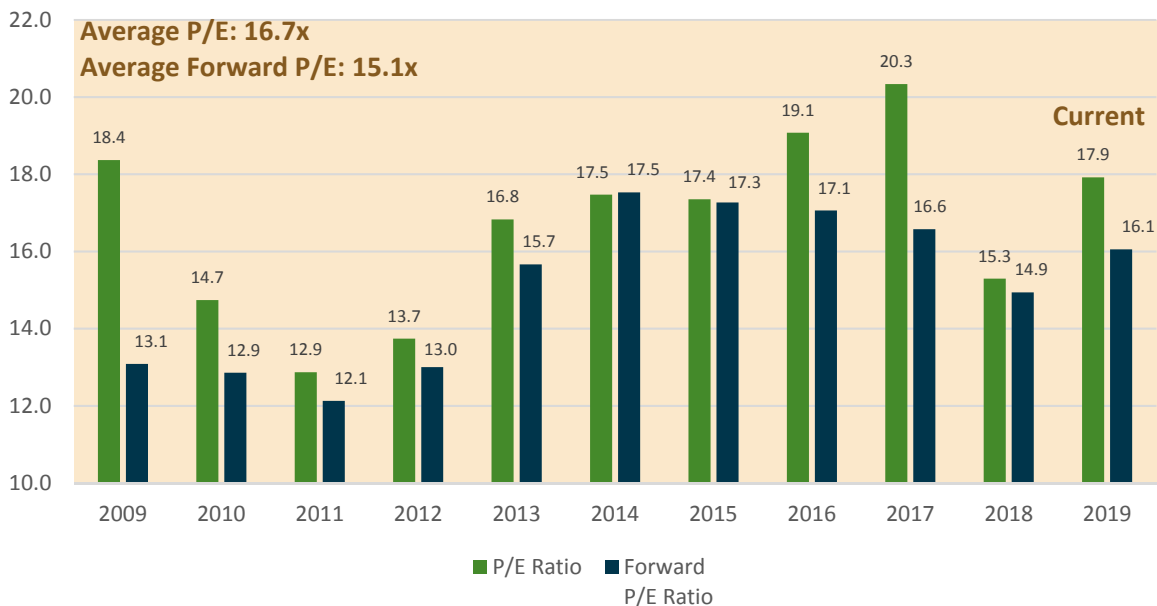
Source: Koyfin, Ulrich Investment Consultants

EARNINGS AND VALUATION

S&P 500 P/E Ratios



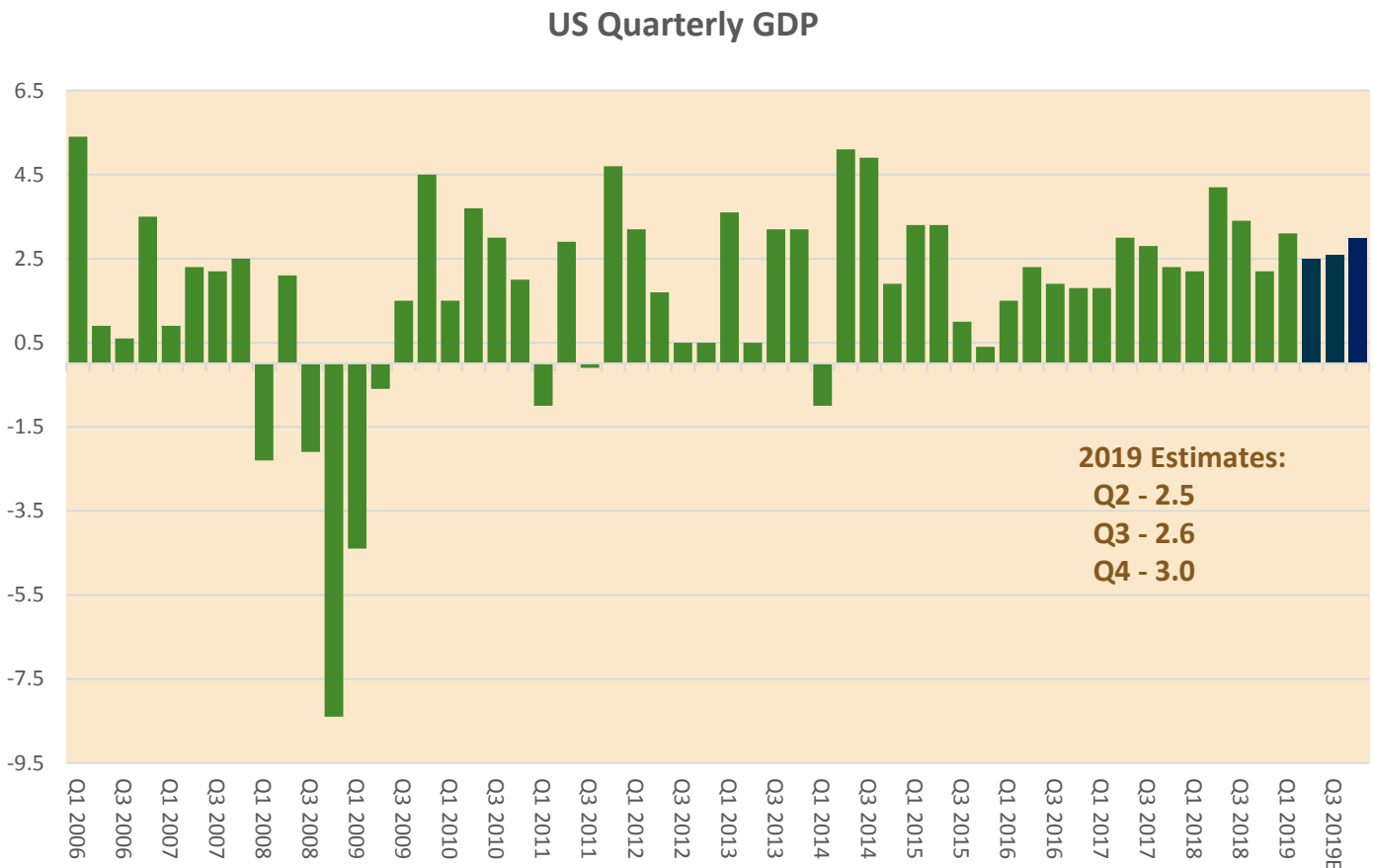
S&P 500 P/E Ratios



- Quality of earnings and revenue growth will be carefully watched as wage increases continue to cut into margins
- While current valuations are above long-term averages, they do not appear lofty as long as earnings can continue to grow

Source: Yardeni Research, Ulrich Investment Consultants

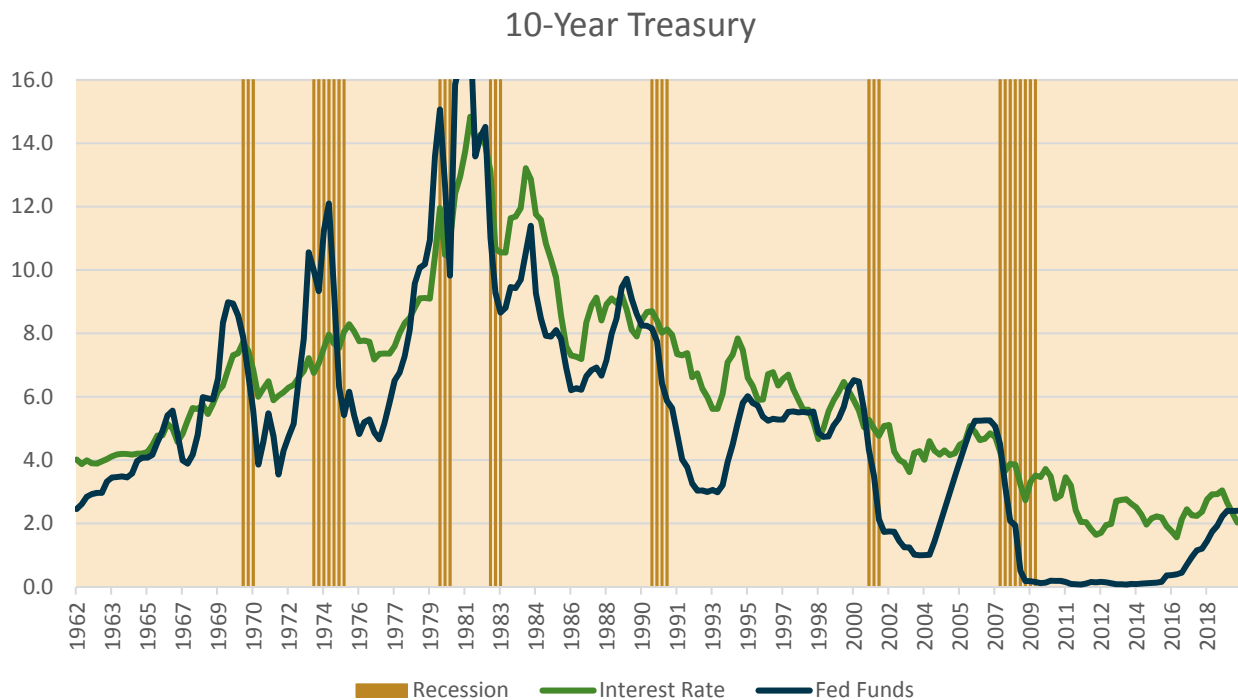
GROSS DOMESTIC PRODUCT



- US GDP surprised to the upside in Q1 with a reading of +3.1%, although the US Economic picture appears to be mixed
- While wages and consumption, which comprises roughly 70% of US GDP, appear to be rising, manufacturing has shown signs of weakness
 - The June Purchasing Manager's Index (PMI) fell to 51.7, far from its August 2018 peak of 60.8
 - While still above the 50 point level signaling expansion, trade talks continue to befuddle supply chains
- Overseas, global growth continues to deteriorate, however, the ECB has continued to be supportive in their dovish commentary

Source: Federal Reserve Economic Database, Yardeni Research, Ulrich Investment Consultants

BOND YIELDS & THE FED

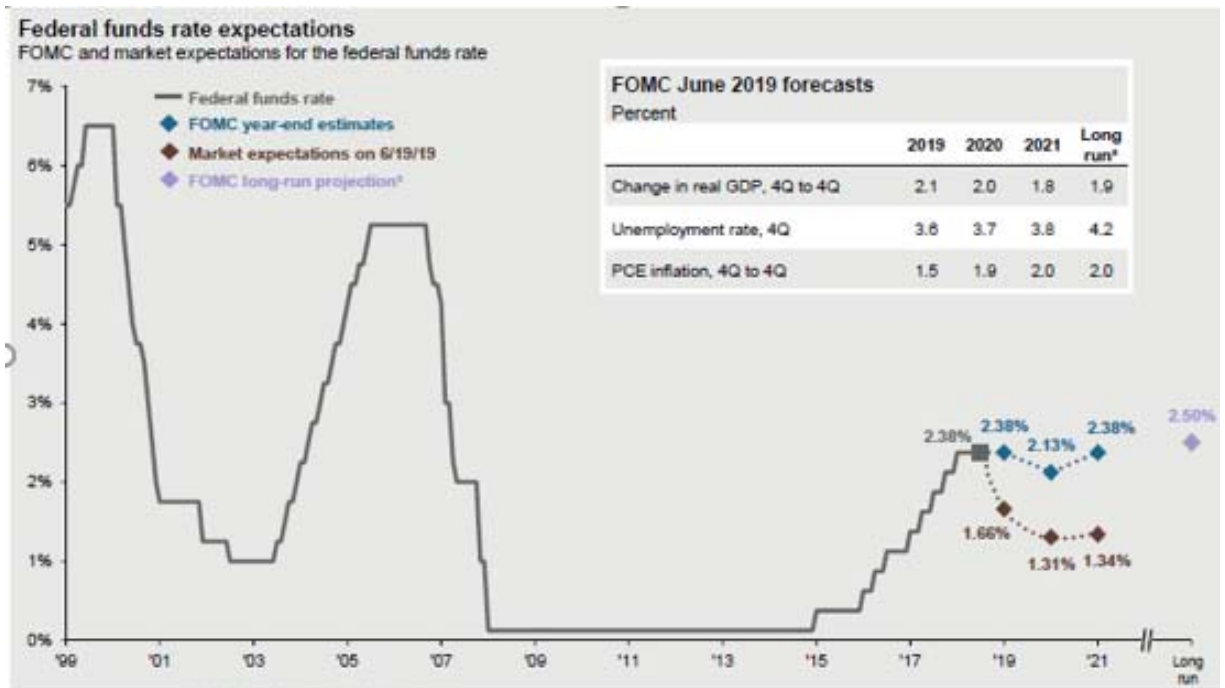


Term	USA	Canada	Great Britain	Germany	France	Italy	Japan	Australia	China	India
1 Year	1.99%	1.73%	0.63%	-0.68%	-0.63%	-0.08%	-0.19%	1.01%	2.58%	6.05%
2 Year	1.87%	1.62%	-	-0.75%	-0.66%	0.09%	-0.21%	0.99%	2.79%	6.17%
3 Year	1.83%	1.80%	0.51%	-0.78%	-0.68%	0.47%	-0.22%	0.99%	2.89%	6.43%
5 Year	1.84%	1.53%	0.55%	-0.68%	-0.56%	0.91%	-0.25%	1.04%	3.01%	6.63%
7 Year	1.93%	1.56%	0.60%	-0.59%	-0.36%	1.28%	-2.60%	1.18%	3.22%	6.76%
10 Year	2.04%	1.57%	0.74%	-0.36%	-0.08%	1.74%	-0.16%	1.35%	3.19%	6.70%
30 Year	2.55%	1.74%	1.36%	0.24%	0.83%	2.66%	0.33%	2.00%	3.81%	6.96%

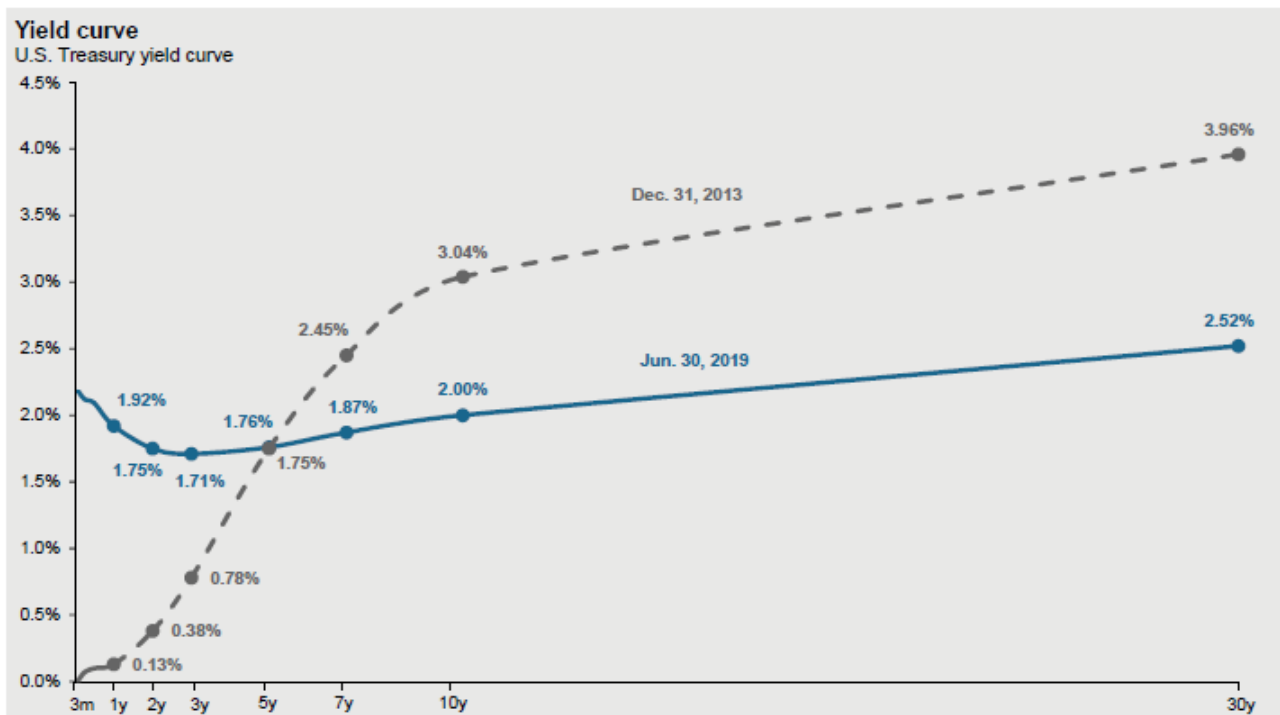
- Interest rates remain persistently low, as inflation (a key mandate of the Fed) remains elusive at 1.6%
- Equity and bond markets have both rallied on commentary from the Fed stating it would like to “sustain the expansion,” and as of quarter-end, the market had priced in a 100% probability of a 25 basis point rate cut in July
- Global bond yields abroad remain far lower, putting further pressure on US Treasury yields, as growth and inflation languish
- Currently there is more than \$13 Trillion in sovereign debt with negative yields

Source: Federal Reserve Economic Database, Koyfin, Ulrich Investment Consultants

FORWARD EXPECTATIONS



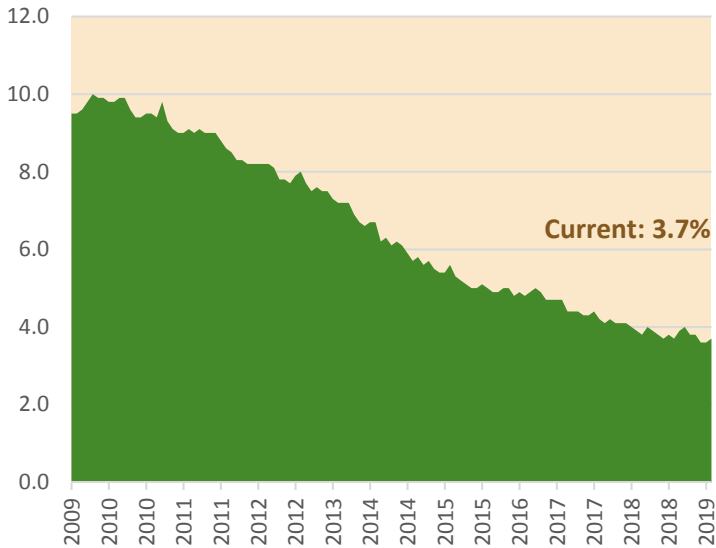
- Despite low interest rates, and accommodative language from the Fed, the market has priced in even lower expectations, and the short end of the curve has now officially inverted



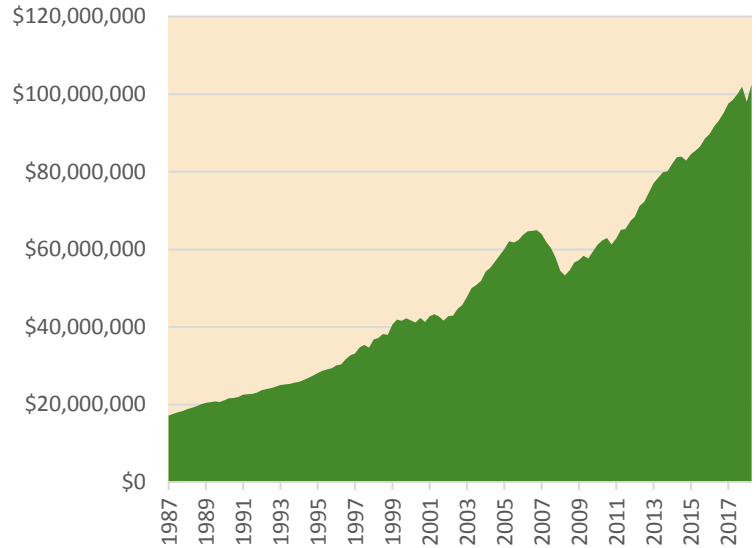
Source: JP Morgan

THE STATE OF THE CONSUMER

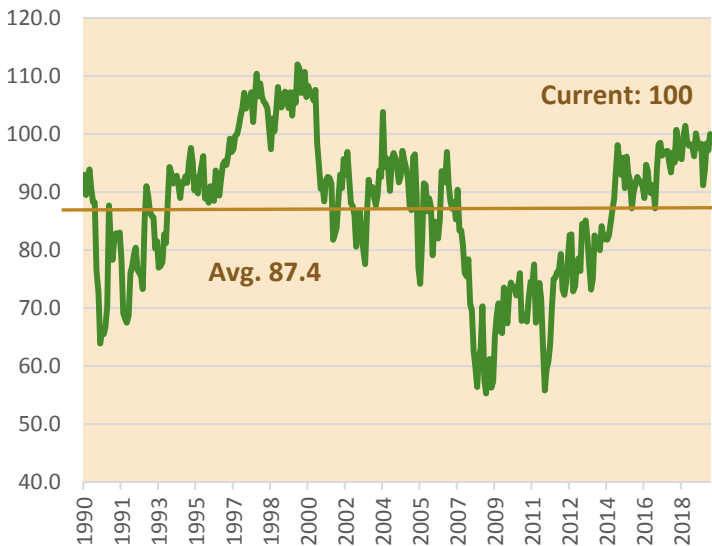
Unemployment Rate



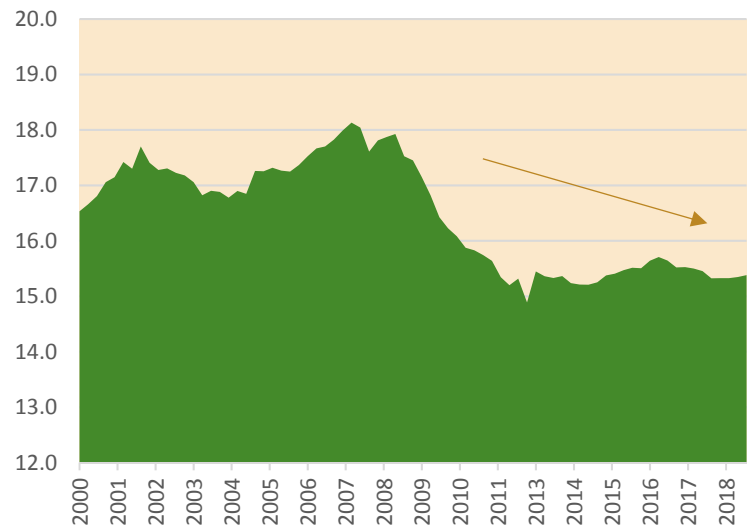
Household Net Worth (Millions)



Consumer Confidence



Household Financial Obligations as a % of Disposable Income

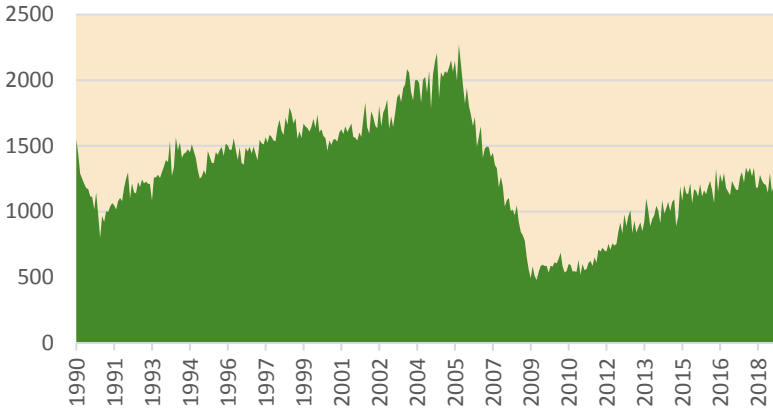


- Real wage growth, housing price recovery and the resurgence of the stock market, have created a much healthier consumer
- While mortgage obligations and credit card debt has fallen significantly, student debt still remains a persistent and growing problem

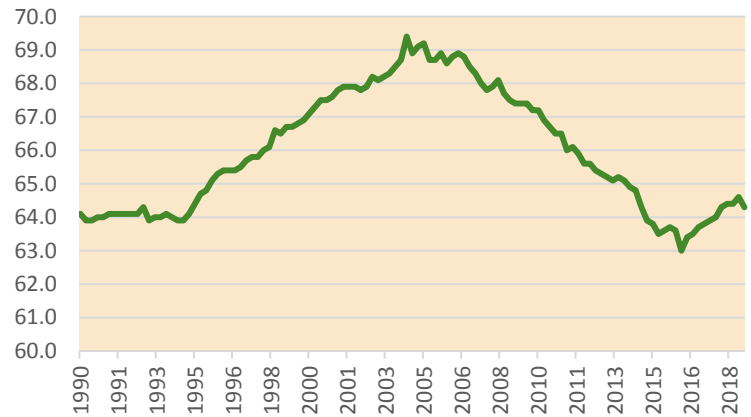
Source: Federal Reserve Economic Database, Ulrich Investment Consultants

▶ BUT WHAT ABOUT INFLATION?

Housing Starts

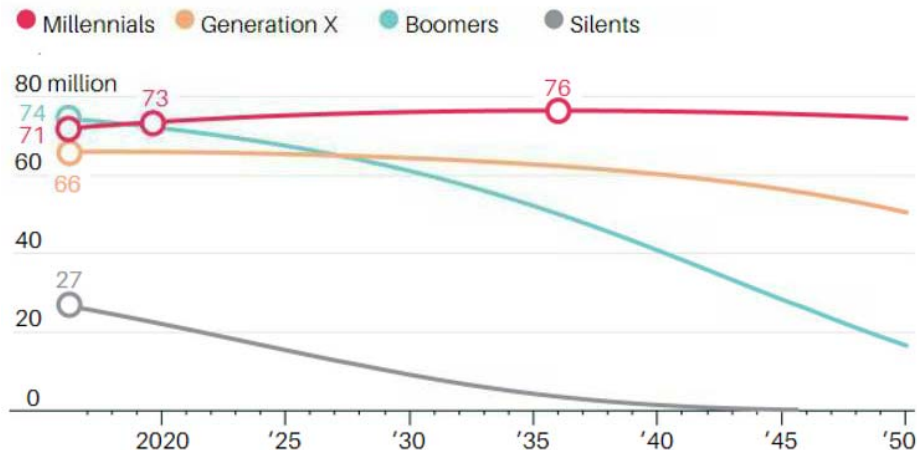


Homeownership Rate



Talkin' 'Bout Our Generations

How the populations of the generational cohorts will rank over the next 20 years.



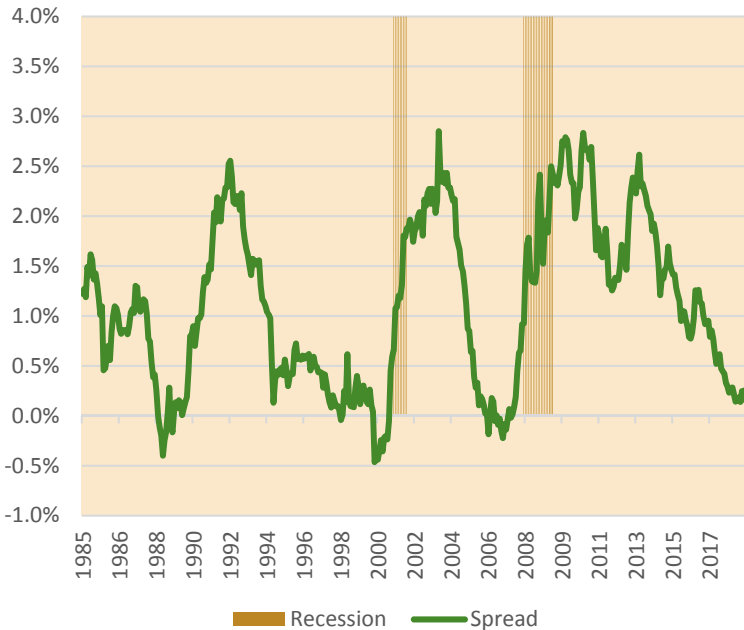
Source: Pew Research Center

- While consumption has recovered, it has also evolved, and is dominated by online shopping and subscription based spending (ex. Amazon Prime, Netflix, Hulu, Dollar Shave Club)
- Additionally, enhancements in technology and changing travel and transportation habits (ex. Uber, AirBnB) has been inherently deflationary
- This combined with a growing population of Millennials entering the workforce, who are bypassing home ownership in exchange for renting, coupled with downsizing baby boomers has dampened demand for tradition housing.

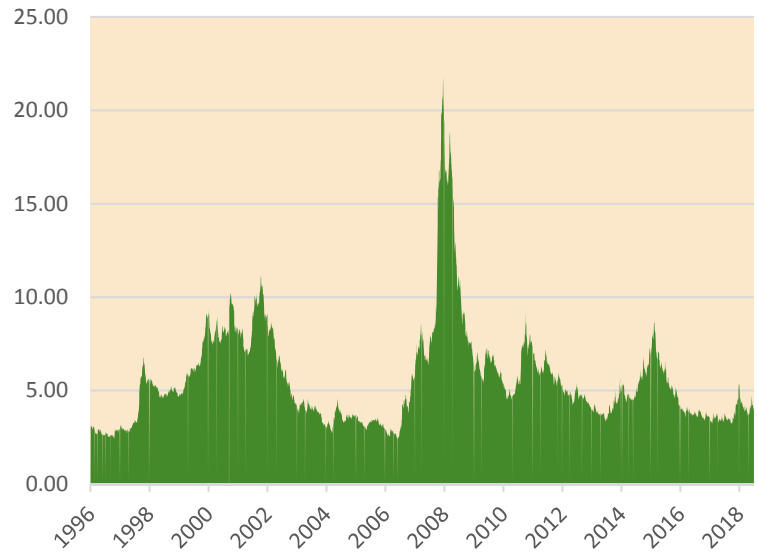
Source: Federal Reserve Economic Database, Ulrich Investment Consultants

ECONOMIC INDICATORS

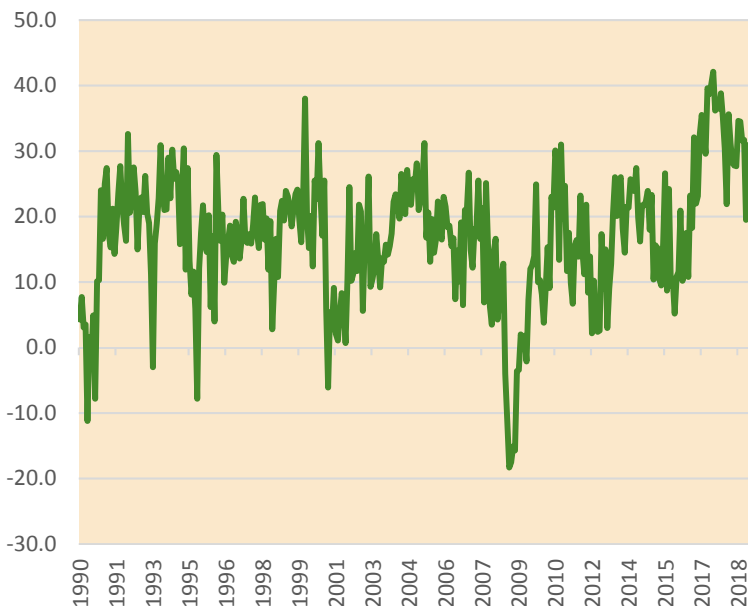
10 Year Less 2 Year UST



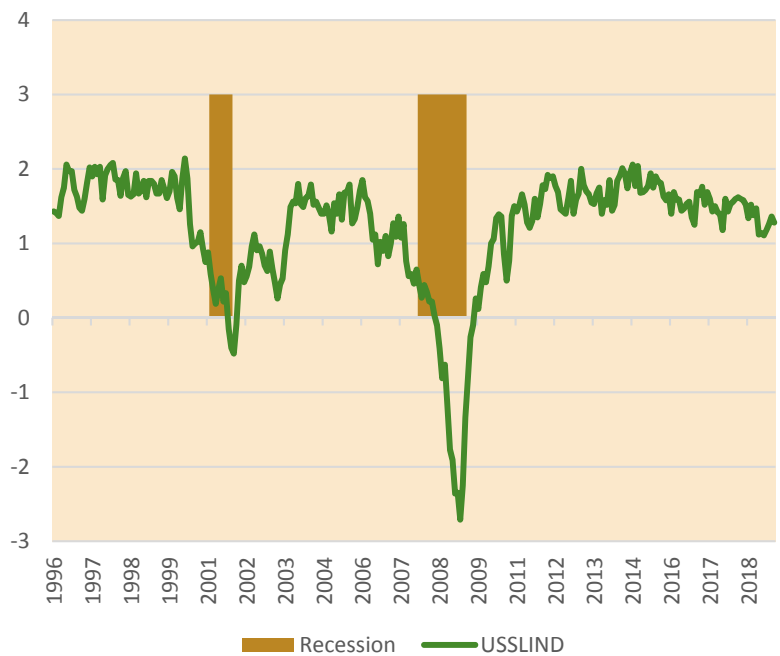
High Yield Spreads



Future Capital Expenditures



Leading Economic Indicators

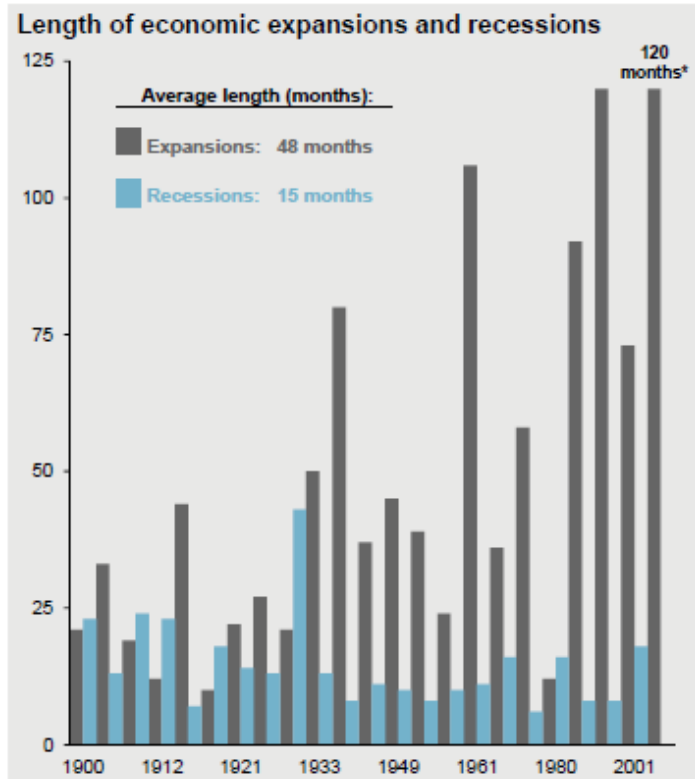


- Overall, the commonly looked at economic indicators still suggest economic expansion, though be it at a slower rate.

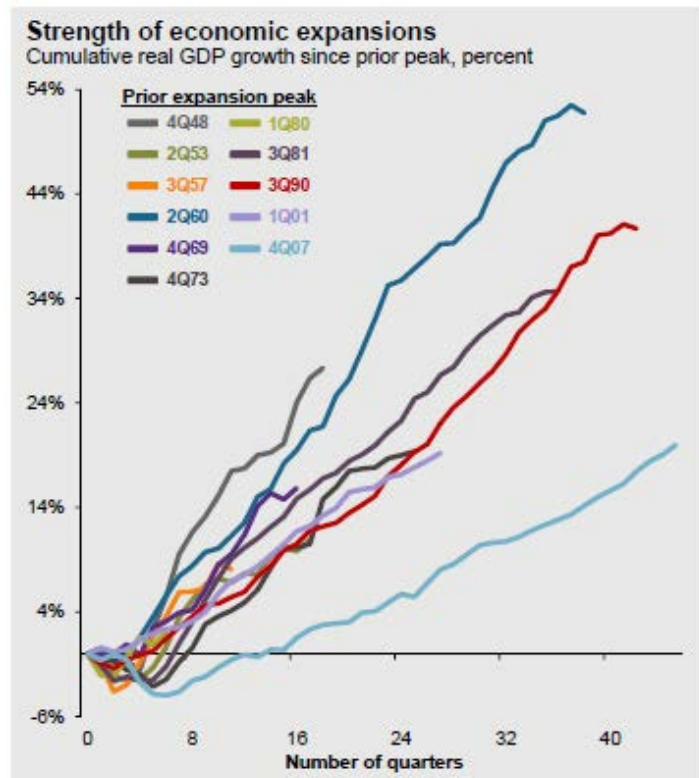
Source: Federal Reserve Economic Database, Ulrich Investment Consultants

MARKET DRIVERS & CATALYSTS

- The Current economic expansion has lasted nearly 2.5x longer than the average expansion following a recession



- However, while the length of this expansion may be long, it has added incrementally less to GDP than any other prior expansion period



Source: JP Morgan

► SUMMARY AND OUTLOOK

- The US still remains the most attractive equity market despite the recent run-up, and while valuations are at the higher end, they are not irrational given the low interest rate environment
 - We remain overweight to US equity over international, and overweight equities to bonds
 - Lower rates and a weakening US dollar should also favor emerging markets
- While global interest rates and inflation remain depressed, “real” yields in the non-bank market offer attractive sources of yield
 - We continue to diversify our income producing assets to incorporate a broader range of asset classes with less duration and interest rate risk
- Trade issues should continue to create short-term volatility in the markets, but longer term effects should be minimal
- While growth remains low, it is still positive and even if the US dips into a recession, a recession does not necessarily equate to a bear market
 - We expect stock performance will become much more earnings driven, and active managers should outperform
- We expect technology and consumer services to continue to put downward pressure on inflation, keeping the consumer fairly comfortable with lower wage increases
 - We continue to invest in areas of innovation and transformation and changing consumption demographics

PERIODIC TABLE OF RETURNS

Annual Returns						Monthly Returns						
2013	2014	2015	2016	2017	2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	YTD 2019
Small Cap Equity	Real Estate	Large Cap Equity	Small Cap Equity	Emerging Market Equity	U.S. Fixed Income	Small Cap Equity	Small Cap Equity	Real Estate	Large Cap Equity	U.S. Fixed Income	Small Cap Equity	Large Cap Equity
38.82%	15.02%	1.38%	21.31%	37.28%	0.01%	11.25%	5.20%	3.51%	4.05%	1.78%	7.07%	18.54%
Large Cap Equity	Large Cap Equity	U.S. Fixed Income	High Yield	Non-U.S. Equity	High Yield	Real Estate	Large Cap Equity	Large Cap Equity	Small Cap Equity	Non-U.S. Fixed Income	Large Cap Equity	Small Cap Equity
32.39%	13.69%	0.55%	17.13%	24.21%	-2.08%	10.87%	3.21%	1.94%	3.40%	1.04%	7.05%	16.98%
Non-U.S. Equity	U.S. Fixed Income	Real Estate	Large Cap Equity	Large Cap Equity	Non-U.S. Fixed Income	Emerging Market Equity	Non-U.S. Equity	U.S. Fixed Income	Non-U.S. Equity	Real Estate	Emerging Market Equity	Non-U.S. Equity
21.02%	5.97%	-0.79%	11.96%	21.83%	-2.15%	8.77%	2.57%	1.92%	2.83%	-0.29%	6.24%	14.64%
High Yield	Small Cap Equity	Non-U.S. Equity	Emerging Market Equity	Small Cap Equity	Large Cap Equity	Large Cap Equity	High Yield	High Yield	Emerging Market Equity	High Yield	Non-U.S. Equity	Real Estate
7.44%	4.89%	-3.04%	11.19%	14.65%	-4.38%	8.01%	1.66%	0.94%	2.11%	-1.19%	5.94%	14.51%
Real Estate	High Yield	Small Cap Equity	Real Estate	Non-U.S. Fixed Income	Real Estate	Non-U.S. Equity	Emerging Market Equity	Emerging Market Equity	High Yield	Non-U.S. Equity	Non-U.S. Fixed Income	Emerging Market Equity
3.67%	2.45%	-4.41%	4.06%	10.51%	-5.63%	7.14%	0.22%	0.84%	1.42%	-4.73%	2.98%	10.59%
U.S. Fixed Income	Emerging Market Equity	High Yield	Non-U.S. Equity	Real Estate	Small Cap Equity	High Yield	U.S. Fixed Income	Non-U.S. Fixed Income	U.S. Fixed Income	Large Cap Equity	High Yield	High Yield
-2.02%	-2.19%	-4.47%	2.75%	10.36%	-11.01%	4.52%	-0.06%	0.71%	0.03%	-6.35%	2.28%	9.94%
Emerging Market Equity	Non-U.S. Fixed Income	Non-U.S. Fixed Income	U.S. Fixed Income	High Yield	Non-U.S. Equity	Non-U.S. Fixed Income	Real Estate	Non-U.S. Equity	Non-U.S. Fixed Income	Emerging Market Equity	Real Estate	U.S. Fixed Income
-2.60%	-3.08%	-6.02%	2.65%	7.50%	-14.09%	1.86%	-0.15%	0.51%	-0.61%	-7.26%	1.56%	6.11%
Non-U.S. Fixed Income	Non-U.S. Equity	Emerging Market Equity	Non-U.S. Fixed Income	U.S. Fixed Income	Emerging Market Equity	U.S. Fixed Income	Non-U.S. Fixed Income	Small Cap Equity	Real Estate	Small Cap Equity	U.S. Fixed Income	Non-U.S. Fixed Income
-3.08%	-4.32%	-14.92%	1.49%	3.54%	-14.57%	1.06%	-1.04%	-2.09%	-1.32%	-7.78%	1.26%	4.99%

Sources: ● Bloomberg Barclays Aggregate ● Bloomberg Barclays Corp High Yield ● Bloomberg Barclays Global Aggregate ex US
 ● EPRA/NAREIT Developed ● MSCI World ex USA ● MSCI Emerging Markets ● Russell 2000 ● S&P 500