



IN THIS ISSUE

SPOTLIGHT	2
ECONOMY	3
EQUITIES	5
FIXED INCOME	7
OUTLOOK	9
DISCLOSURES	12

QUARTERLY MARKET INSIGHTS  
2ND QUARTER 2019



## SPOTLIGHT

### IS BREAKING UP HARD TO DO?

Are the biggest U.S. technology firms getting too big? In recent years, some of the most high profile Silicon Valley giants have increasingly found themselves in the crosshairs of lawmakers, public sentiment and federal regulators on the grounds of anticompetitive behavior. In early June, the U.S. Department of Justice (DOJ) and Federal Trade Commission (FTC) announced plans to divide jurisdiction of antitrust probes of four U.S. technology giants between the two bodies. The DOJ will oversee Apple Inc. and Alphabet Inc.'s Google, while the FTC will oversee Facebook and Amazon.com. The coordinated announcement caused these four firms to lose a combined \$130 billion of market capitalization on Monday, June 3. Also in June, the House Judiciary's antitrust subcommittee launched a broad antitrust investigation into the technology industry with a hearing on Google and Facebook's effects on the news industry. President Donald Trump and many congressional Republicans argue that Facebook, Google and Twitter suppress conservative opinions. Meanwhile, several progressive-leaning Democratic presidential candidates castigate "Big Tech" for profiting from private consumer information, stifling competition and hurting small businesses.

Although the four firms mentioned above are no strangers to governmental probes examining potentially anticompetitive behavior, Google has had the most experience of late. Since 2017, the European Commission's antitrust case against Google has resulted in approximately \$9 billion of fines. A large part of these penalties are related to Google's role as an online advertising broker serving as a middleman connecting publishers of online content with advertisers looking to place digital ads. During the Obama administration, the FTC investigated Google for manipulating search results towards its own products and services, and thus harming competition. The case was closed in 2013 without FTC action.

A common opinion held by some legal experts and many equity analysts is that it is too early to assume potential investigations will have major negative outcomes.

One of the factors cited by analysts for not being pessimistic yet is the possibility for investigations and trials to last much longer than expected. Historical examples of antitrust lawsuits including AT&T in the 1970s-1980s, IBM in the 1970s-1980s, Microsoft in the 1990s-2000s, and the ongoing investigation of Google in Europe demonstrate these situations can last several years, even over a decade.

The investigations focus on whether these companies violated antitrust law through unlawful monopolization and harmful behavior against consumers and the competitive process. Proving these criteria were violated may be a difficult task because having a dominant market share and engaging in behavior that harms competitors does not automatically mean the companies violated antitrust law. The FTC's Guide to Antitrust Laws states, "Obtaining a monopoly by superior products, innovation, or business acumen is legal." Regarding harm to competitors, Bloomberg's Senior Litigation Analyst Jennifer Rie stated in recent commentary that business behavior can harm competitors yet still be legal under antitrust law. A unique dilemma that lawyers encounter with Google and Facebook is that their main products are free. Antitrust lawyers typically investigate monopolistic behavior in order to prevent consumers from being harmed by higher prices. Providing valuable products at no cost may make it more difficult to prove these companies harmed consumers. One strategy lawyers may pursue is arguing that customers pay intangible costs through the value placed on their data by advertisers on digital platforms.

Some politicians have advocated for breaking up the companies. Many industry analysts believe this is an unlikely outcome since the DOJ and FTC do not have the authority to break up a company. Forcing a break up requires a judge's ruling following a trial. Microsoft's successful appeal in 2001 to overturn a judge's ruling to break up the company may provide legal precedent that breaking up a company is not an appropriate response. Bloomberg's Rie noted the investigations may follow a path similar to how the European Commission pursued Google which included large fines and modest behavioral changes. Due to the potential for a drawn out multi-year process and tough burden of proof, some analysts believe the technology companies do not face a major near-term risk to their business, and that regulatory risks are now priced into their stock prices.

## ECONOMY

### SLOWER GROWTH AND TRADE UNCERTAINTIES WEIGH ON OUTLOOK

The final reading of U.S. GDP for the first quarter of 2019 was released in June and was unrevised from previous estimates. The report showed a solid 3.1% growth rate for the U.S. economy during the first three months of the year. Consumer spending was a larger contributor than previously estimated, along with increased government spending and stronger business investment. U.S. consumer spending increased moderately in May and prices rose slightly, pointing to slowing economic growth and benign inflation pressures. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, rose 0.4% as households boosted purchases of motor vehicles and spent more at restaurants. Signs of recent labor market strength caused market participants to reevaluate the case for multiple quarter-point rate cuts by the Fed's policy-setting body in the second half of 2019. According to the fed fund futures market, the probability of a 0.25% cut in the Fed's benchmark rate at its upcoming July meeting remains almost certain at 98.5%. Yet the probability of 0.50% of cuts by the FOMC's September meeting declined from 81.0% on June 30 to 73.2% after the June non-farm payrolls report was released.

At the G20 Summit in Japan, the U.S. and China agreed to hold off imposing new tariffs and to open up negotiations. The U.S. agreed to continue selling components to Huawei, while China indicated it would continue to buy U.S. agricultural products. President Trump stated the current 25% tariffs on \$250 billion of Chinese products will not be reduced. There is no time frame set for further talks, and with U.S.-China trade issues being structural in nature and little resolution in sight, trade uncertainty should continue to be a headwind for economic markets.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	3.1%	2.2%	▲
TRADE BALANCE	-55.5	-50.0	▼
UNEMPLOYMENT RATE	3.7%	3.8%	▲
NON-FARM PAYROLLS	224K	153K	▲
ISM MANUFACTURING	51.7	55.3	▼
ISM NON-MANUFACTURING	55.1	56.1	▼
RETAIL SALES (LESS AUTOS)	0.5%	-1.0%	▲
INDUSTRIAL PRODUCTION	0.4%	-0.6%	▲
HOUSING STARTS	1269M	1149M	▲
CONSUMER PRICE INDEX (YoY)	1.8%	1.5%	▼
CONSUMER CONFIDENCE	121.5	124.2	▼
EXISTING HOME SALES	5.34M	5.48M	▼
CONSUMER CREDIT	17.08B	15.5B	▲
CRUDE OIL PRICE	58.47	60.14	▲

Source: Bloomberg. Past performance does not guarantee future results. \*The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

### EMPLOYMENT AND MANUFACTURING

The June non-farm payrolls report showed a resilient U.S. economy added 224,000 jobs with broad-based gains across all major industries except retail. Following a disappointing revised May number of 72,000 net jobs, the June report exceeded the top end of the forecast range based on a Bloomberg survey of economists.

## ECONOMY CONTINUED

The June report brought the three-month average job gains figure to 171,000, compared to a three-month average of 243,000 for the April, May and June 2018 time period. The unemployment rate edged up to 3.7% from 3.6%, nudged higher by an increase in the labor force participation rate to 62.9% from 62.8% in May. Hourly wages for private sector workers increased by 0.2% to 3.1% on a year-over-year basis, remaining below the cycle peak of 3.4% which was reached in February.

Domestic manufacturing continued to slow as the ISM Manufacturing Index level for June came in at 51.7, down from 52.1 in the prior month, marking its lowest level since October 2016. Growth in output and employment was offset by a decrease in new orders. A reading over 50 is considered expansionary, while a reading under 50 is contractionary. Of the 18 manufacturing industries, 12 reported growth in June reflecting continued expanding business strength, but at soft levels.

### HOUSING AND RETAIL SALES

U.S. home construction slipped in May as a sharp drop in single-family construction was only partially offset by a rise in apartment building. The Commerce Department reported that construction was started at a seasonally adjusted annual rate of 1.27 million homes and apartments, a decline of 0.9% from April when construction starts had risen a strong 6.8%. Applications for building permits, a sign of future activity, edged up 0.3% in May to an annual rate of 1.29 million. Construction of single-family homes fell 6.4% in April while construction of apartments rose 10.9%. Residential construction has been a drag on the economy over the past year. Yet, some economists forecast that falling mortgage rates will help turn homebuilding around in the coming months and provide a boost to growth in the second half of 2019.

U.S. retail sales increased in May and sales for the prior month were revised higher, suggesting a pick-up in consumer spending that eased fears the economy was slowing down sharply in the second quarter. Excluding automobiles, gasoline, building materials and food services, retail sales climbed 0.5% last month after an upwardly revised 0.4% rise in April. These so-called core retail sales correspond most closely with the consumer spending component of GDP.

U.S. ANNUAL WAGE GROWTH AND UNEMPLOYMENT  
1980 THROUGH JUNE 2019



Source: Bloomberg. Past performance does not guarantee future results.

## EQUITY

### SELL IN MAY AND ... BUY IN JUNE

Domestic equities made their mark on the history books in the second quarter. The S&P 500 index rose to a new record level, and its 17.4% year-to-date price return was the strongest first half of a year since 1997 and the tenth best first half since the 1920s. Most of this year's gain came from the first quarter's 13.1% return. The second quarter added another 3.8%, but gave investors a bumpy ride. Strong equity performance in April was followed by one of the worst months of history for the S&P 500, giving way to its best June performance since the Eisenhower Administration.

The main factors supporting the S&P 500's 3.9% advance in April were better-than-feared first quarter earnings and optimism about trade negotiation progress between the U.S. and China. An abrupt escalation in the Sino-American trade war, that included a breakdown in trade negotiations in early May and new tariffs from both sides, weighed on equities. As a result, the S&P 500 fell 6.6% in May, its seventh worst May performance on record. Equities made a sharp recovery in June after the Federal Reserve indicated it is open to reducing interest rates if the economic outlook weakens. The S&P 500 achieved another notable feat in June with its 6.9% gain, which was the index's strongest June since 1955 and the seventh best June performance in history.

The S&P 500 was led higher in the quarter by the financials sector. Most of this group's 8.0% quarterly gain came in April, as bank stocks benefitted from a steepening of the U.S. government bond yield curve. Additionally, first quarter earnings among bank stocks were better than expected.

The S&P 500 energy sector's 2.8% quarterly decline made it the only sector with a loss as lower oil prices once again weighed on this group. Health care was the second worst performing sector amid concerns about the threat of tighter health care regulation including the proposed "Medicare for All" policy.

U.S. equities outperformed foreign equities for a second consecutive quarter; domestic stocks generated superior returns in six of the last seven quarters.

#### A TALE OF TWO MONTHS

##### SELECTED S&P 500 MONTHLY RETURNS

RANK	WORST MAY		BEST JUNE	
1	1940	-23.95%	1938	24.70%
2	1932	-23.33%	1931	13.90%
3	1931	-13.72%	1933	13.17%
4	1962	-8.60%	1929	10.39%
5	2010	-8.20%	1955	8.23%
6	1934	-8.13%	1940	7.66%
7	2019	-6.58%	2019	6.89%
8	1956	-6.57%	1935	6.89%
9	2012	-6.27%	1999	5.44%
10	1970	-6.10%	1947	5.26%

Source: Bloomberg. Past performance does not guarantee future results.

## EQUITY CONTINUED

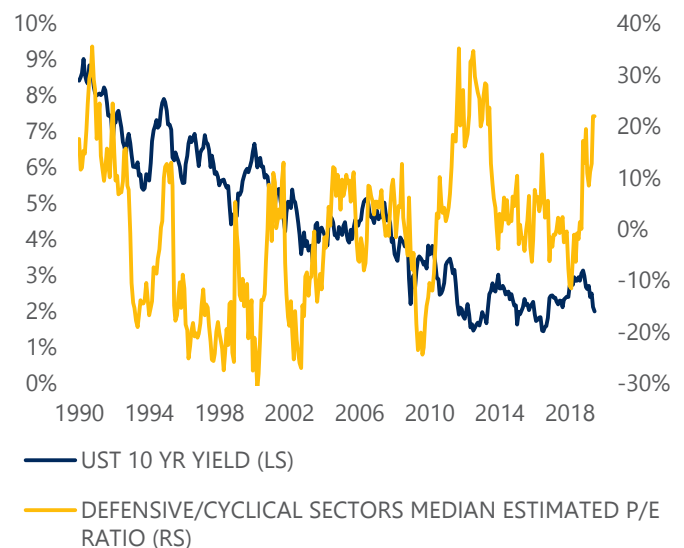
Emerging markets were especially weak as the MSCI Emerging Market (EM) index gained 0.7%. China and South Korea, which account for 42% of the MSCI EM index, were the only major countries with negative returns in the quarter. The trade war escalation led to the MSCI China index falling 13.1% in May and 3.9% in the quarter. South Korean equities were also hit due to their high exposure to trade-sensitive technology exports to China and the U.S.

The first half of 2019 was characterized by a strong rebound in several cyclical areas of the U.S. equity market including the consumer discretionary and industrial sectors. Yet, if we look back a bit further, more defensive groups, including utilities and consumer staples, are the market leaders. Using simple average calculations, for the twelve-month period ending June, 30, the S&P 500 utilities and consumer staples sector indexes outperformed on a total return basis the S&P 500 industrials, materials and energy sector indexes by approximately 16.3%.

Part of this wide performance gap can be attributed to the tendency for areas of the market perceived by investors as stable and defensive to outperform sectors more closely tied to the economic cycle. Yet, market participants also seemed to bid up shares of electric utilities and consumer packaged goods companies without expectations of much future earnings growth. A likely driver of this development is the current combination of muted growth, low interest rates and tame inflation across the domestic (and global) economic landscape. The precipitous drop in yields on the benchmark U.S. 10-year government bond from 3.24% on November 8, 2018 to 2.01% on June 30, 2019 underscores the idea that this market is defined best by subdued expectations for economic activity, market interest rates and price pressures.

As seen in the chart below, significant movements in the ratio of defensive sector valuation multiples relative to cyclical sector valuation multiples have often exhibited an inverse relationship to the direction of the U.S. 10-year government bond yield. This relationship has held true over the last twelve months, as a nearly 1.25% decline in yields coincided with a shift in the defensive sector versus cyclical sector valuation ratio from roughly -10% to 20%.

TREASURY YIELDS AND DEFENSIVE SECTOR VALUATIONS  
1990 THROUGH JUNE 2019



Source: Bloomberg. Past performance does not guarantee future results.

### CUTTING REMARKS

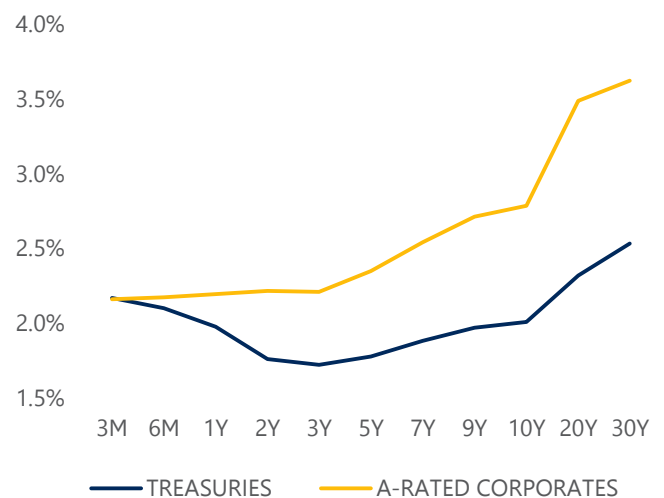
The sharp increase in trade tension between the U.S. and China, coupled with a weak May non-farm payroll report out of the U.S. Bureau of Labor Statistics resulted in a shift in the Federal Reserve’s Federal Open Market Committee (FOMC) outlook on interest rate policy. The June 19, 2019 FOMC meeting statement marked a significant change from its statements earlier in the year. While the policy-setting body did not raise interest rates in the first quarter, the FOMC’s statements indicated they were merely pausing and expected at least one additional rate hike in 2019. The June meeting saw the FOMC shift to a bias towards a cut as the next interest rate move, as eight members anticipated one or more rate cuts in 2019. The market followed suit, as the fed funds futures market began to project a greater than 90% chance the FOMC cuts interest rates by at least 0.25% in July.

The market impact from the FOMC’s interest rate shift was dramatic as yields on U.S. Treasury bonds dropped across the yield curve. The reduced yields were less pronounced at the ends of the yield curve with 1-month Treasury bill yields dropping 25 basis points (bps) and 30-year Treasury bond yields dropping 29 bps for the quarter. The biggest yield moves were in the middle of the curve where 2-year Treasury yields dropped 52 bps and the 3-year dropped 50 bps. The end result was an unusual yield curve shape. At quarter end, 1-month, 3-month, and 6-month Treasuries all yielded in excess of 10 bps more than 10-year Treasury bonds. This yield curve inversion, which first occurred for a few days in the first quarter, has persisted for much of the second quarter.

The dilemma the yield curve inversion presents for investors is whether this portends a U.S. recession or if it merely reflects transitory economic weakness due to trade problems between the U.S. and the rest of the world.

A recession would push investors into long maturity Treasuries, whereas transitory economic weakness would have investors gobbling up Treasuries with under 1-year maturities. The stakes are high for investors as to what outcome they anticipate. Those betting on a domestic recession could see significant principal loss if the economic weakness is transitory and yields on long maturity Treasuries jump higher.

U.S. TREASURY AND CORPORATE BOND YIELD CURVES AS OF JUNE 30, 2019



Source: Bloomberg. Past performance does not guarantee future results.

## FIXED INCOME CONTINUED

Meanwhile, short-maturity Treasury investors could suffer reinvestment risk if the U.S. economy enters a recession and rates fall further across the curve.

The current investment environment likely reflects transitory weakness in the U.S. due to the outside shock of trade problems, with several similarities between today's market and the 1998 Asian currency crisis. At that time, an outside shock sent longer term interest rates lower than short-maturity Treasury bills. Like 1998, the 10-year is inverted to 6-month and shorter Treasury bills, but the 2-year Treasury out to the 30-year Treasury portion of the yield curve retains the normal steepness a bond investor would expect. While yield curve inversion is often associated with U.S. recessions, we look more to a negative 10-year and 2-year Treasury yield spread as a better inversion predictor of recessions. As of June 30, the 10-year Treasury yields 25 bps more than the 2-year Treasury. Based on these factors, we recommend remaining below benchmark duration in portfolios as we anticipate better economic data coming in the second half of the year and possibly a jump in longer term interest rates. It should be noted, however, that a significant escalation in trade tariffs between the U.S. and its trading partners could push the global economy into a recession.

In addition to yield curve comparisons to 1998, we also see benign changes in credit spreads as an indicator of transitory economic weakness in the U.S. Recession fears typically lead to a sudden widening in credit spreads. For example, the Bloomberg Barclays U.S. Corporate High Yield Index spread jumped from 280 bps at the start of 2007 to 569 bps by the end of 2007, a move well before the start of the 2008 recession. We currently do not hear any alarm bells going off in the credit markets as both investment grade and high yield spreads remain slightly below their 20-year averages.

This period of neither too high nor too low spreads suggests that credit investments should be constructive for portfolios over the next quarter, if not longer.

The drop in Treasury yields over the second quarter outpaced those seen in the tax-exempt municipal bond markets and helped increase municipal bond attractiveness for investors in the highest tax brackets. While very short maturity municipal bonds appear expensive relative to other investment options, maturities ranging from 5 years out to 12 years out offer good value for investors with long investment horizons. We recommend AA-rated or better municipals issuing general obligation or essential services bonds.

U.S. HIGH YIELD AND INVESTMENT GRADE BOND SPREADS  
JUNE 2010 THROUGH JUNE 2019



Source: Bloomberg. Past performance does not guarantee future results.



## OUTLOOK

### SOMETHING'S GOTTA GIVE

The stock and bond markets seem to be in a struggle for the hearts and minds of investors, as they reflect expectations for two different economic outcomes. Boosted by a dovish about-face from the Federal Reserve, the three major domestic equity averages' flirtation with all-time highs during the second half of June is a far cry from the sharply negative sentiment surrounding the near 20% correction in the S&P 500 Index in the final months of 2018. Meanwhile, the Chicago Board Options Exchange Volatility Index (VIX), Wall Street's so-called "fear gauge," was mostly tame throughout the second quarter, closing above 20 only once, on May 13. For comparison purposes, the VIX's average daily closing level in the final two months of 2018 was 22.0. High yield credit spreads (often a reliable harbinger of forthcoming equity market pain) remain well contained especially compared to prior periods of market stress as seen in 2008, 2011 and 2016. The domestic labor market might be slowing from 2018's buoyant growth which saw a monthly average of 223,000 jobs created, but still appears healthy given a 3.7% unemployment rate, which is near multi-generational lows, and annual wage gains averaging around 3.0% for the last eighteen months. Finally, several widely followed consumer confidence surveys place consumer sentiment near all-time highs in a U.S. economy which derives nearly 70% of its annual GDP from consumer expenditures.

In most market environments, a largely positive picture similar to the one painted above would put upward pressure on U.S. government bond yields. Market participants would expect healthy levels of growth, if sustained, to eventually generate above-trend inflation and subsequent interest rate hikes from the Fed to cool off the economy before it overheats. Yet, with the benchmark U.S. 10-year Treasury bond yields bouncing around 2.00% in the final days of June, the bond market is behaving as if a significant economic slowdown might be just over the horizon.

What can explain this stark divergence between U.S. stock markets near record highs and U.S. government bond yields near two-and-a-half-year lows? The first place we can turn to for an answer is the world outside American borders. Bond market participants are likely expressing their expectation that substantial economic slowdowns in Europe and China will eventually metastasize into a global growth contraction which stifles the U.S. economy. Or, they at least believe that the Fed is concerned about such a development and will make a series of rate cuts as an "insurance policy" against a potential global recession.

U.S. TREASURY YIELDS AND LARGE CAP STOCK RETURNS  
JANUARY 2018 THROUGH JUNE 2019



Source: Bloomberg. Past performance does not guarantee future results.

## OUTLOOK CONTINUED

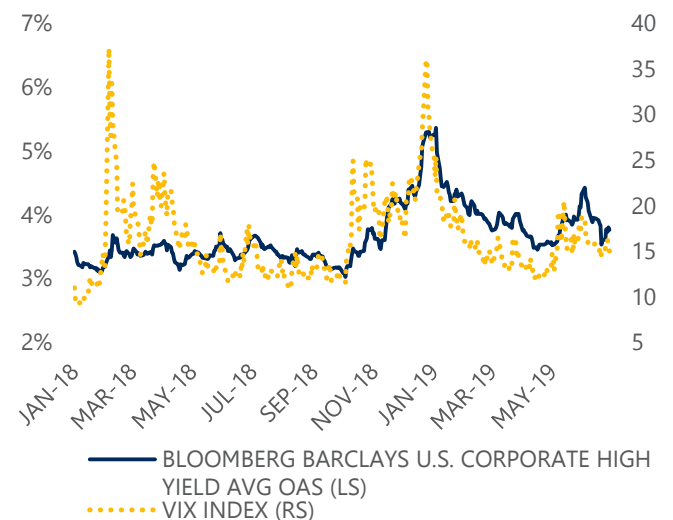
Setting aside the eccentricities of the bond market, a significant part of the recent economic stumbles in major international economies including Japan, Germany and South Korea is likely related to the simmering trade war between the U.S. and China. The uncertainty generated by the dueling sets of tariffs for global supply chains and purchasing managers of multinational companies has probably curtailed economic activity in these large, export-oriented economies. At the G20 meetings in Osaka, Japan which were held on the last weekend of the second quarter, risk markets exhaled when President Trump reached a truce with Chinese President Xi Jinping in the two nations' escalating trade dispute. Yet, this agreement amounts to only a pause in trade hostilities, as the situation clearly remains unresolved and the tariff hike from 10% to 25% on \$200 billion of Chinese imports to the U.S. remains in place.

All told, for the second half of 2019 and beyond, the bond market appears to be much more pessimistic than the stock market as it relates to the global economic growth ramifications tied to the recently paused trade policy conflict between the world's two largest economies. We feel the bond market has overreacted in its expectation for more than 0.50% of Federal Reserve rate cuts and a significant global economic slowdown. As such, we believe a moderate underweight to fixed income relative to the mid-point of our strategic range remains reasonable given our view that no clear signs of an imminent economic contraction are present, as well as the low level of yields across most of our fixed income investment universe. While it seems likely that the Federal Reserve will cut its benchmark rate by up to 0.50% in the second half of 2019, we view the slowdown in growth driving the rate cuts as most likely transitory.

Turning to equity markets, we believe a neutral allocation relative to our strategic range is appropriate, as simmering uncertainty surrounding the U.S.-China trade war and economic weakness in Asia and Europe offset reasonable valuations and accommodative central bank policy across most of the world. Given our expectations for muted returns across the fixed income asset class and elevated equity market volatility over the next six to twelve months, we believe an overweight to alternative investments designed to provide enhanced diversification for multi-asset class portfolios remains sensible.

### U.S. HIGH YIELD BOND SPREADS AND EQUITY MARKET VOLATILITY

JANUARY 2018 THROUGH JUNE 2019



Source: Bloomberg. Past performance does not guarantee future results.

# ECONOMIC OUTLOOK AND INVESTMENT POLICY

## ECONOMIC FACTORS CURRENT OUTLOOK

U.S. GDP Growth	The Atlanta Fed's GDPNow forecast for second quarter U.S. GDP growth improved from 1.17% on May 31 to 1.50% on June 30.
Federal Funds Rate	Fed funds futures markets indicate an 81% probability of at least 0.50% worth of Federal Reserve rate cuts before September 30.
Inflation	Price pressures across the economy should remain subdued for the remainder of 2019 given moderate trends in commodity prices and wage gains.
Employment	U.S. small business hiring plans have rebounded in recent months after registering significant declines in January and February.
Consumer Confidence	Recent market highs, a strong labor market and a pause in the U.S.-China trade dispute should continue to support healthy consumer sentiment.
Oil	An extension until March 2020 of OPEC and its allies' production cuts should moderate any downward oil price momentum in coming quarters.
Housing	A nearly 0.75% decline in the average U.S. 30-year fixed mortgage loan rate in the first half of 2019 could boost a sluggish housing market.
International Economies	The IMF reduced its global growth forecast for 2019 to 3.3% from 3.5% citing escalating trade policy uncertainty and unknowns surrounding Brexit.

## FIXED INCOME

	MINIMUM	NEUTRAL	MAXIMUM
		●	

### CURRENT OUTLOOK

	MINIMUM	NEUTRAL	MAXIMUM
Core Bonds		●	
TIPS			●
Non-Investment Grade		●	
International	●		

We believe a moderate underweight to fixed income relative to the mid-point of our strategic range remains reasonable given our view that no clear signs of an imminent economic contraction are present and the low level of yields across most of our fixed income investment universe. While it seems likely that the Federal Reserve will cut its benchmark rate by up to 0.50% in the second half of 2019, we view the slowdown in growth driving the rate cuts as most likely transitory. Trends in credit spreads appear benign to us as well, especially compared to periods before the beginning of the two most recent recessions. We continue to see limited appeal in the broad international fixed income asset class.

## EQUITIES

	MINIMUM	NEUTRAL	MAXIMUM
		●	

### CURRENT OUTLOOK

	MINIMUM	NEUTRAL	MAXIMUM
Large Cap		●	
Mid Cap			●
Small Cap		●	
Developed International	●		
Emerging Markets	●		

Our equity allocation warrants a neutral stance relative to the mid-point of our strategic range. Current valuations of most global equity indexes are not extended relative to historical ranges and most major global central banks currently exhibit an easing tendency. Yet, in our view, unresolved trade disputes, economic slowdowns in China and Europe and expectations for a soft patch in U.S. corporate earnings growth in the middle of 2019 justify a more cautious stance than we had in 2018. We believe a majority of our concerns would likely have a disproportionate effect on international economies. As such, an underweight to developed market international equities remains appropriate until we see durable signs of improvement in trade policy negotiations and economic momentum in both China and Europe.

## ALTERNATIVES\*

	MINIMUM	NEUTRAL	MAXIMUM
			●

### CURRENT OUTLOOK

	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate			●	●	●
Global Infrastructure		●	●	●	●
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●	●	
Strategic Income	●	●	●	●	

Elevated volatility in equity markets bookended 2018, headlined by a near 20% drawdown in the S&P 500 Index from late September to late December. A sharp pivot by the U.S. Federal Reserve to a neutral, and now an easing, bias helped propel both equity and bond prices in the first half of 2019. Yet, we anticipate a reemergence of volatility across asset classes in the second half of 2019 with limited upside in both equity and bond prices. As such, we believe an overweight to alternative investments able to provide enhanced diversification for multi-asset class portfolios remains sensible. It is our view that U.S. government bonds are fairly valued, while the broad equity asset class is increasingly exposed to trade policy uncertainty and a deceleration of economic growth outside of the U.S. As such, we have constructed diversified alternatives portfolios, as seen in the table to the left designed to decrease the risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

\*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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