Economic & Market Commentary

Market Update – May 2019

Global stocks fell 6.0% during May which resulted in year-to-date returns now standing at 9.1%. China (-13.1%) was among the worst performing markets during the month amid escalating trade tensions. Bonds were broadly positive with short-term (+0.4%), intermediate-term (+1.3%), TIPS (+1.7%), and international bonds (+1.5%) all posting gains for the month. Alternatives were down during May with commodities (-3.4%) struggling the most.

Economy

- The Consumer Price Index rose to 2.0% in the latest report, while unemployment fell further to 3.6%.
- The Consumer Confidence Index jumped five points in May which is the second consecutive month with a meaningful rise.
- Treasury yields fell which caused portions of the yield curve to further invert.

Stocks

- The S&P 500 lost 6.4% while U.S. small stocks struggled even more with a -7.8% return. Energy was the worst performing sector, down 11.1% during May.
- Returns across international stock markets varied widely with China (-13.1%) among the worst performing markets. Russia (+3.6%) was one of the few markets with a positive month.

Bonds

- Bond returns were modestly positive in May, with TIPS (+1.7%) and international bonds (+1.5%) leading the way.
- Corporate high-yield bonds (-1.2%) were the lone weak spot during the month. The 10-year U.S. Treasury yield ended the month at 2.2%, a substantial decline from the month before.

Alternatives

- REITs, commodities, and reinsurance all struggled during May. Commodities (-3.4%) were the worst performers while REITs (-0.2%) were just barely negative. Managed futures (+0.7%) were the lone positive.

Putting Earnings Season Under a Microscope

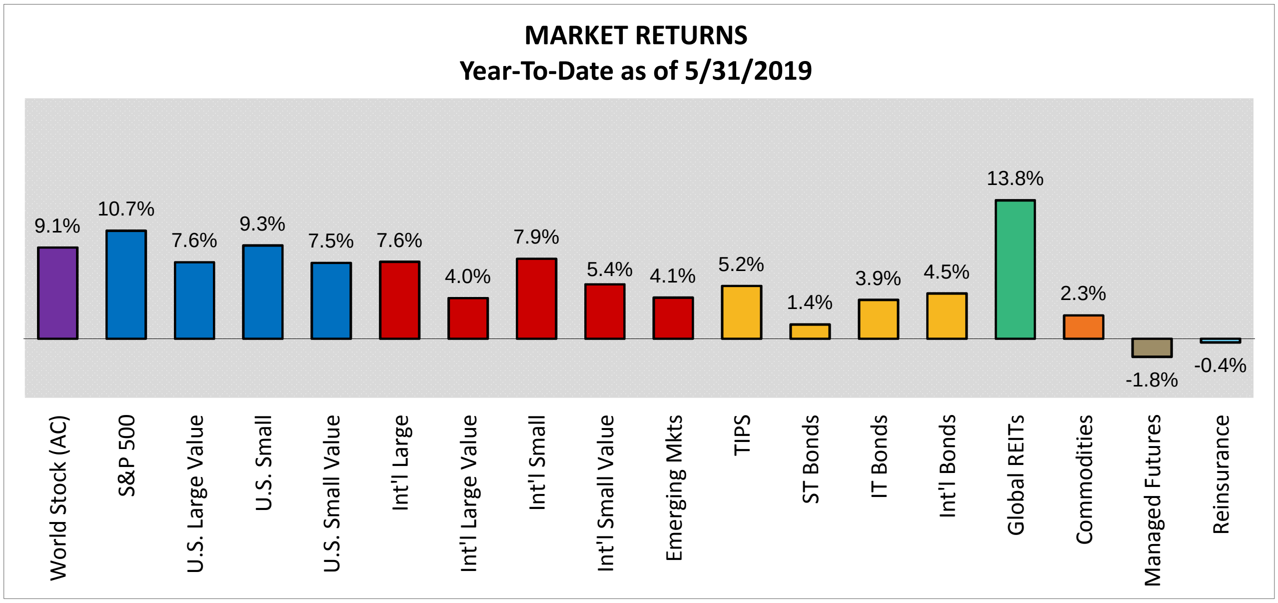
First quarter earnings for 2019 were inevitably going to draw a lot of attention in the wake of increased market volatility, ongoing trade tensions, and growing discussions about a potential earnings recession. Now that the results are in, let's take a closer look at what the data shows.

The good news is that an earnings recession has been avoided for now, with S&P 500 companies posting year-over-year earnings growth of 1.5% which beat expectations. At the individual company level, more than 80% of S&P 500 companies beat or met earnings estimates for the quarter. Meanwhile, companies in international developed markets reported a more modest, but still positive, 0.5% year-over-year earnings growth. Although these headline numbers are encouraging, drilling down further reveals that causes for concern still remain.

Within the S&P 500, just six of 11 sectors reported positive year-over-year earnings growth, which suggests the slowdown in global growth and ongoing trade tensions may be beginning to have an impact on certain industries. Furthermore, of the S&P 500 companies which issue EPS guidance, 76% have guided lower than consensus analyst estimates for second quarter earnings. Although EPS guidance must always be taken with a grain of salt, the fact that corporate management teams are less optimistic on their short-term prospects than analysts is not encouraging.

So what should be made of this earnings season? First quarter earnings were broadly positive, especially when considering the expectations going into the quarter. Despite this positivity, the outlook for the rest of 2019 remains in question due to weaker guidance and lingering political uncertainty. Ultimately, it is important to remember that no single quarter of results is overly significant in the long run, particularly for a diversified portfolio. Although the market may swing one way or another based on earnings, the results will quickly fade and be replaced by the next quarter. For long-term investors, we believe the noise of quarterly earnings is largely irrelevant and should be viewed in that context.

Sources: FactSet, St. Louis Federal Reserve, Bloomberg, Credit Suisse, Morningstar



MARKET RETURNS - Longer Term Annualized as of 5/31/2019

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	-6.4%	10.7%	3.8%	11.7%	9.7%	13.9%	8.4%
U.S. Large Value	-6.6%	7.6%	2.2%	8.7%	7.2%	12.4%	7.7%
U.S. Small	-7.8%	9.3%	-9.1%	9.8%	6.7%	12.8%	8.0%
U.S. Small Value	-8.1%	7.5%	-9.3%	6.8%	5.4%	12.5%	8.0%
Int'l Large	-4.8%	7.6%	-5.7%	5.8%	1.3%	6.2%	5.1%
Int'l Large Value	-5.8%	4.0%	-8.2%	4.8%	-0.7%	4.8%	4.3%
Int'l Small	-4.9%	7.9%	-12.1%	5.7%	3.9%	9.3%	7.8%
Int'l Small Value	-5.4%	5.4%	-13.9%	4.4%	2.7%	9.0%	7.9%
Emerging Mkts	-7.3%	4.1%	-8.7%	9.9%	1.8%	5.0%	8.3%
World Stock (AC)	-6.0%	9.1%	-2.3%	8.9%	5.2%	9.6%	6.9%
BONDS							
TIPS	1.7%	5.2%	4.4%	2.5%	1.6%	3.6%	4.0%
Short-Term Bonds	0.4%	1.4%	2.5%	1.2%	0.7%	0.5%	1.5%
Interm-Term Bonds	1.3%	3.9%	5.7%	2.1%	2.2%	3.2%	3.6%
International Bonds	1.5%	4.5%	7.0%	3.5%	4.6%	4.5%	4.7%
ALTERNATIVES							
Global REITs	-0.2%	13.8%	10.4%	5.5%	6.4%	13.2%	8.1%
Commodities	-3.4%	2.3%	-12.4%	-1.7%	-9.5%	-4.2%	-3.0%
Managed Futures	0.7%	-1.8%	3.2%	-2.2%	3.7%	1.4%	5.1%
Reinsurance	-1.2%	-0.4%	-0.6%	2.4%	3.5%	6.6%	6.9%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.

Economic Indicators

Leading Economic Index Year over Year Change (%)

(-0.1)

Low High

2.6

-20.2 14.4

Unemployment (%)

(-0.2)

Low High

3.6

2.5 10.8

Inflation CPI (YOY %)

(+0.1)

Low High

2.0

-3.0 14.6

Real GDP Growth (%)

(+1.0)

Low High

3.2

-10.0 16.7

Consumer Confidence

(+4.9)

Low High

134.1

25.3 144.7

VIX - Market Volatility

(+5.7)

Low High

18.7

10.1 62.6

Housing Starts (000s)

(+96)

Low High

1235

478 2494

10-year Treasury Yield (%)

(-0.31)

Low High

2.22

1.5 15.3

Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

**See appendix for sources and data ranges*

Appendix

Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*