



Economic Summary

The equity markets are off to their strongest start since 1997, with the S&P 500® ending the first half of the year up 18.54% (CHART 1). Geopolitical concerns dominated the news feed with the China trade conflict consuming most of the headlines. Regardless of the noise, the overall economy looks to be in good shape. Unemployment remains very low at 3.6% and has consistently remained low even as additional participants have entered the job market. Leading economic indicators are robust but are showing modest signs of flagging (CHART 2). As inflation remains below the Fed (FEDERAL RESERVE) target of 2%, there is a likelihood of one or more rate cuts starting in July 2019.

Corporate profit margins look healthy (CHART 3) and revenue growth is forecasted to increase 4%, according to FactSet. With lower tax rates, reduced bureaucratic regulation, and low interest rates, corporate profits are expected to increase 3-4% for the year, following a 20% increase in 2018.

Central banks around the globe are taking a more dovish stance on monetary policy and will likely push interest rates even lower, and in some cases, push negative rates even more negative. Currently, there are roughly \$13 trillion in sovereign bonds that trade with negative yields to maturity. It's hard to believe that anyone would lend money with the certainty of getting less than their principal in return. We live in historic times.

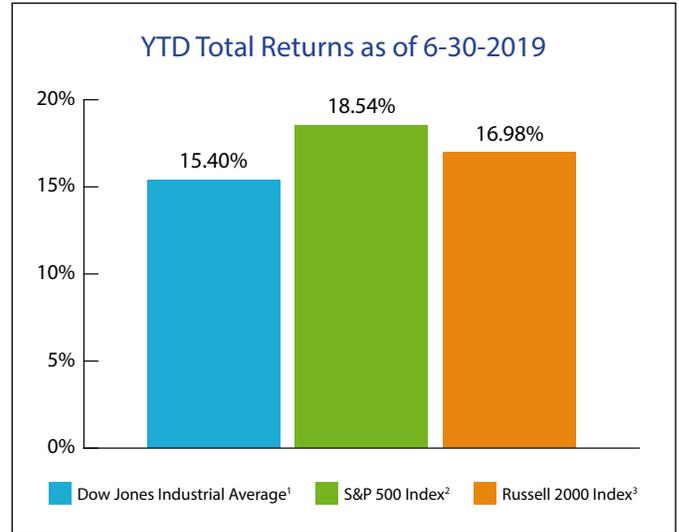


Chart 1

SOURCE: MORNINGSTAR DIRECT

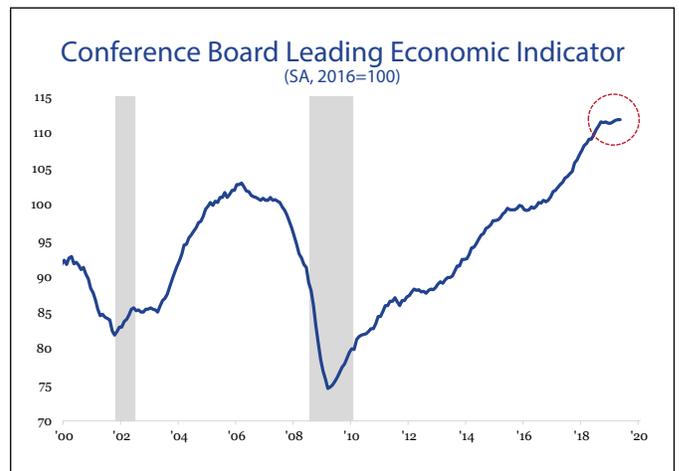


Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" - JULY 1, 2019

Past performance does not guarantee future results. You cannot invest directly in an index.

¹ The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

² The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

³ The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

The Bond Market

When the year started, interest rates seemed poised to move higher. The Fed was indicating two increases in the Fed Funds rate. The government was expanding the national debt at roughly \$1 trillion per year, and inflation was forecasted north of 2% with very low unemployment figures. What has transpired so far in 2019 is the complete opposite. Yields on U.S. Treasuries have decreased and spreads on corporate bonds have narrowed.

Corporate credit spreads have compressed in 2019 and investors should be particularly cautious of corporate bonds that are teetering on the brink of junk. They could see a downgrade, even if the economy just slows modestly.



Chart 3

SOURCE: JP MORGAN ASSET MANAGEMENT
 "GUIDE TO THE MARKETS" - 3Q 2019

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The Stock Market

Growth stocks continued their outperformance as the Russell 1000® Growth index posted a total return of 21.5% vs. 16.2% by the Russell 1000® Value index (CHART 4). The growth heavy sectors (TECHNOLOGY AND CONSUMER DISCRETIONARY) outperformed the overall market, while the value heavy sectors (UTILITIES AND ENERGY) underperformed. The impact of passive investing (INDEXING) on the general market has been that of letting the winners (GROWTH STOCKS) run longer and the losers (VALUE STOCKS) continue to trail.

Equity valuations are currently in line with historical averages. S&P 500® profit margins remain strong, and corporate America continues to contribute mightily to unprecedented prosperity in the U.S.

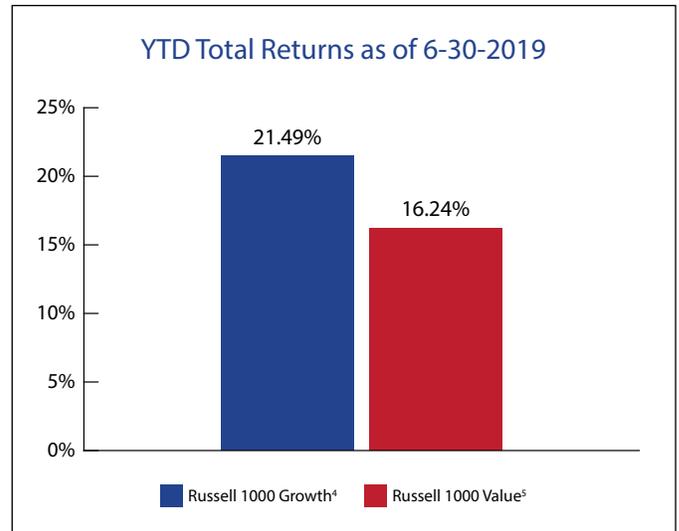


Chart 4

SOURCE: MORNINGSTAR DIRECT

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⁴ The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

⁵ The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

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