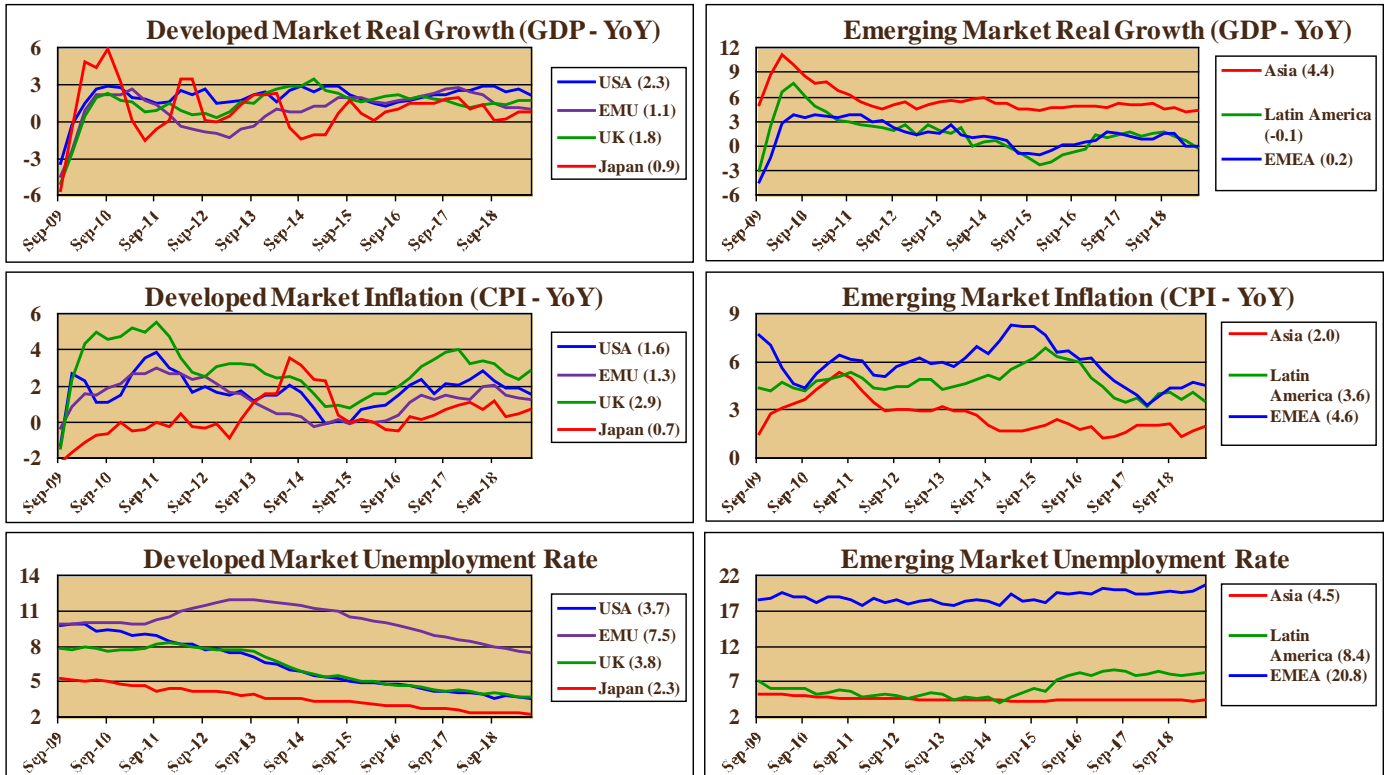


Second Quarter 2019

Global Market and Economic Perspective

Global Economic Commentary

- ❖ **GDP growth in the US slowed again in the second quarter, although it remained above 2.0%. This slowing can be at least partially attributed to the disappearance of the one-off tax cut stimulus. In addition, agriculture and manufacturing suffered from a lack of progress in settling the trade and tariff conflicts. The labor market continued to show strength, with the unemployment rate around 50-year lows and unfilled job openings running at a high level.**
- ❖ **Growth in other developed countries continued to underperform the US. Europe and Japan seem unable to get their economies growing strongly. And in the UK, Brexit woes worsened, as Boris Johnson was set to take over as Prime Minister on a platform of leaving the EU with or without a deal.**
- ❖ **Emerging market economies also remained soft. The slowdown in trade has had an adverse impact on many countries' exports, although China's domestic consumption has picked up.**
- ❖ **Inflation in most countries was subdued. Consumer price inflation in the US, which had been above 2.0% last year, was closer to 1.5% in the second quarter.**



Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

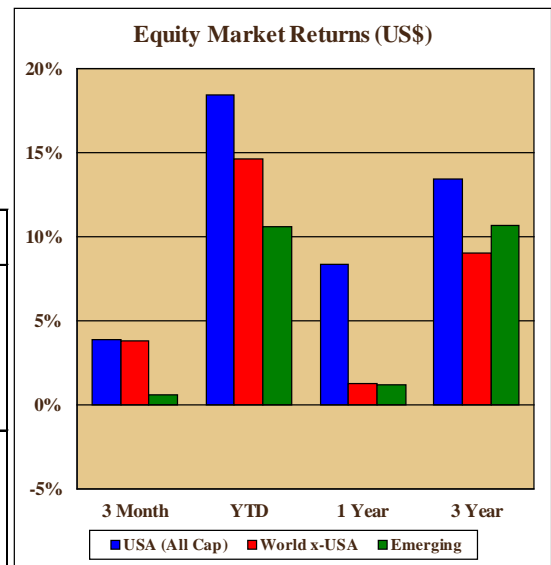
Global Market and Economic Perspective – Q2 2019

Global Equity and Currency Commentary

- ❖ The second quarter saw US equity market indexes sustain the momentum of the first quarter, leading them to hit all-time highs. This occurred despite signs that the earnings picture was turning weak, particularly for companies generating much of their revenue outside the US. In fact, quarterly earnings growth is expected to turn negative, although we will only know in hindsight if this is correct.
- ❖ Given the small amount of weakness in the US dollar against a number of foreign developed-market currencies, the return to US investors in the second quarter from holding developed equities was almost identical to the US market return.
- ❖ Equities in Asian emerging markets lagged returns in other emerging markets, as the US-China trade dispute seemed to finally be taking a toll on investor optimism. Non-Asian emerging market currencies strengthened against the US dollar, mirroring developed-market currencies, which modestly improved returns to US investors.

Global Equity Market Returns (MSCI)

6/30/2019	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
United States								
USA (All Cap)	3.9%	18.4%	8.3%	13.4%				
USA Growth	5.3%	22.5%	11.1%	17.4%				
USA Value	2.9%	14.4%	8.2%	9.7%				
USA SC Growth	4.2%	23.0%	5.4%	16.2%				
USA SC Value	0.0%	13.7%	-5.5%	8.1%				
Foreign Developed								
World x-USA	3.8%	14.6%	1.3%	9.0%	2.8%	13.9%	2.2%	9.7%
Europe	4.5%	15.8%	1.9%	9.1%	4.0%	16.1%	4.3%	9.3%
Far East	1.3%	9.2%	-1.8%	9.0%	-1.0%	7.5%	-4.1%	10.5%
Australia	7.3%	19.5%	6.5%	11.1%	8.6%	19.9%	12.2%	13.3%
Canada	4.9%	21.0%	3.3%	8.0%	2.6%	15.8%	2.6%	8.2%
Emerging Markets								
Emerging	0.6%	10.6%	1.2%	10.7%	0.2%	10.1%	1.8%	11.1%
Asia	-1.2%	9.7%	-2.3%	11.2%	-1.2%	10.0%	-1.7%	11.1%
Latin America	4.4%	12.6%	18.4%	10.8%	3.2%	10.9%	18.1%	15.2%
EMEA	7.2%	13.1%	6.7%	8.3%	5.1%	10.3%	9.3%	9.0%

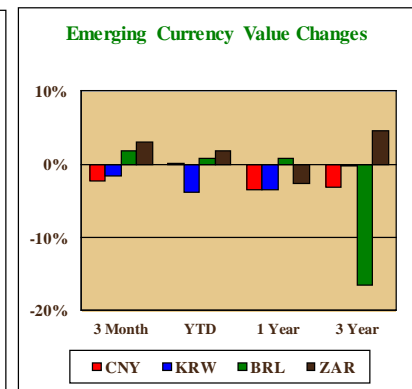
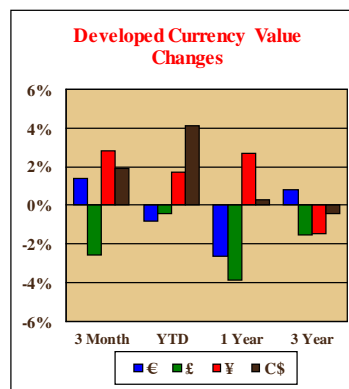


Annualized if greater than one year

Foreign Exchange Rate History (Bloomberg)

6/30/2019	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	1.14	1.4%	-0.8%	-2.7%	0.8%
British Pound (£)	1.27	-2.6%	-0.5%	-3.9%	-1.6%
Japanese Yen (¥)	108	2.8%	1.7%	2.7%	-1.5%
Canadian Dollar (C\$)	1.31	1.9%	4.1%	0.3%	-0.4%
Emerging					
Chinese Renminbi (CNY)	6.87	-2.3%	0.2%	-3.6%	-3.2%
Korean Won (KRW)	1155	-1.7%	-3.8%	-3.5%	-0.3%
Brazilian Real (BRL)	3.85	1.9%	0.8%	0.7%	-16.5%
South African Rand (ZAR)	14.09	2.9%	1.8%	-2.6%	4.5%

Annualized if greater than one year



Global Market and Economic Perspective – Q2 2019

US Fixed Income and Fed Commentary

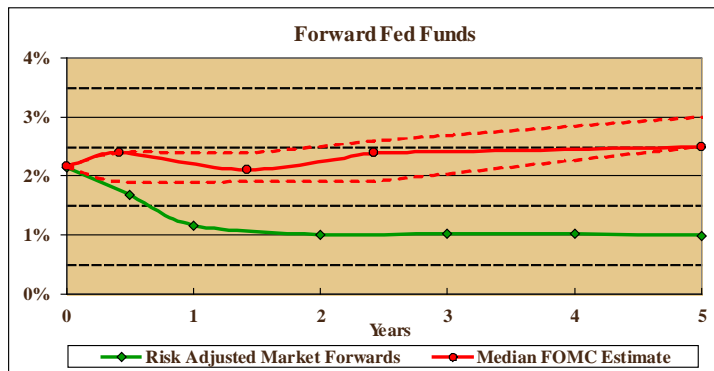
- ❖ Despite the fact that economic growth remained moderately positive, inflation was closer to 2.0% than zero, and labor market tightness continued, the Fed signaled that a cut in interest rates could be expected in the second half of 2019. Market participants initially reacted by pricing in a decline in the short-term policy rate by three-quarters of a percentage point (75 basis points). At their end-of-July meeting, the Fed did indeed lower the Fed funds rate by one-quarter of a point.
- ❖ As expectations of future interest rate decreases developed, longer-term interest rates fell in tandem. Falling yields resulted in strong returns to fixed income investments, particularly in longer-term bonds.
- ❖ With the equity market making new highs, high yield and other credit-sensitive bonds produced good returns. They benefitted from both the decline in the Treasury yield curve and the narrowing of spreads over Treasuries.

	Current	Dec-19	Dec-20	Dec-21	Dec-21	Long Run
Upper	2.16%	1.90%	1.90%	1.90%	1.90%	2.50%
Median	2.16%	2.40%	2.10%	2.40%	2.40%	2.50%
Lower	2.16%	2.40%	2.40%	2.60%	2.60%	3.00%

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
2.15%	1.68%	1.17%	1.01%	1.03%	1.02%	0.99%

Notes

Upper and lower bands show central tendency for FOMC projections.
Market implied Fed Funds rates are risk adjusted.



US Bond Yield and Spread History (Barclays)

	Current Level	Change Through June 2019			
		3 Month	YTD	1 Year	3 Year
US Treasury					
Short	1.77%	-0.51%	-0.74%	-0.83%	1.04%
Intermediate	1.87%	-0.46%	-0.73%	-0.93%	0.60%
Long	2.47%	-0.30%	-0.52%	-0.50%	0.31%
US High Yield					
Yield	5.87%	-0.56%	-2.08%	-0.63%	-1.40%
Spread	3.77%	-0.14%	-1.49%	0.14%	-2.17%
Tax-Exempt Muni.					
Short	1.30%	-0.27%	-0.58%	-0.51%	0.49%
Intermediate	1.67%	-0.27%	-0.67%	-0.70%	0.33%
Long	2.23%	-0.30%	-0.76%	-0.73%	0.31%

