

Notable 2Q 2019 Market Performance

	S&P 500	MSCI EAFE	MSCI Emerging Markets	Barclays Aggregate	10-Year Treasury	HFRI Hedge Fund Composite	USD	WTI Crude Oil
2Q Return	4.30%	3.97%	0.74%	3.08%	4.22%	2.02%	-1.19%	-2.83%
YTD Return	18.54%	14.49%	10.78%	6.11%	7.44%	7.58%	-0.04%	26.47%

Source: Bloomberg, Morningstar.

2Q 2019 Market Commentary

During the 2nd quarter, equity markets continued their bounce back from the sharp selloff of late 2018, aided by a perceived shift in the Federal Reserve's appetite for rate cuts. Global stocks rose 3.8% despite mounting fears of an economic slowdown that have pushed bond yields down. Year-to-date through June 30, the MSCI World Index has appreciated 17%.

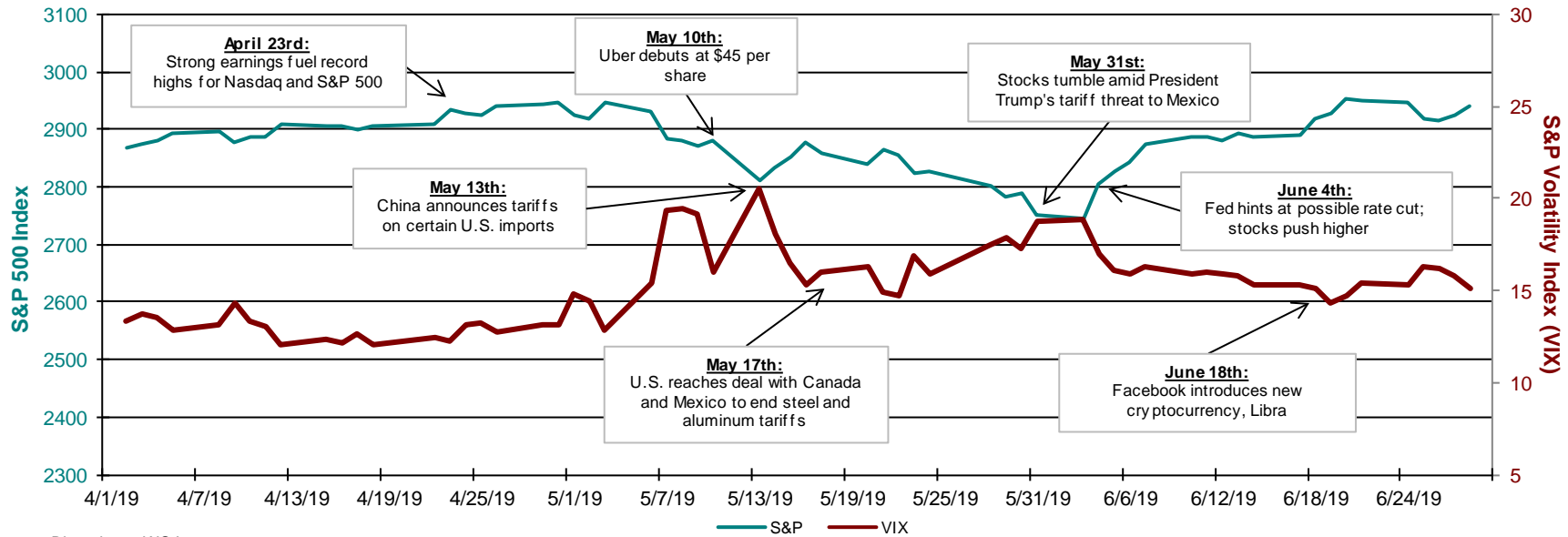
How quickly bond market sentiment changes. Six months ago the overwhelming consensus was that the Federal Reserve would hike rates twice in 2019. Seemingly no one foresaw the nearly 70 basis points drop in the 10-year Treasury bond that occurred over the first half of the year. Nor did they envision the inversion of the yield curve at the short end, which suggests a heightened risk of recession in the next 12-18 months. Today the market is pricing in four rate cuts by late 2020.

Clearly the stock and bond markets are signaling differing views. Bullish equity investors have shrugged off disquieting developments on the trade front, deceleration of capital spending and manufacturing activity, and a grinding down of the outlook for corporate margins and profits. Meanwhile, wary bond investors point to some deterioration on the economic front, the unprecedented level of global debt "paying" negative yields and the lack of adequate liquidity in the fixed income market.

We believe that the sobering signals from the bond market deserve our careful attention. In anticipation of escalated trade tensions, inventories have been built up over the past several quarters and these will take time to work down. This, in turn, will likely lead to a reduction in investment spending. In each of the next two or three quarters the cost of working down excess factory goods could be as high as 1% of GDP, which would sop up much of the economy's cushion against slipping into a stall.

Notwithstanding the inventory headwind described above, at least domestically the combination of continued job growth and the Fed's dovish policy stance suggests there remains some upside to holding equity and high yielding credit assets. But, given the elevated level of risk, we would recommend moderating exposure to market beta either by increasing cash, reducing cyclically sensitive sectors, or embracing hedged investments.

S&P 500 and VIX Performance – 2Q 2019



Source: Bloomberg, WSJ.com.

Global Capital Markets Performance – 2Q 2019

Top Sectors

Bottom Sectors

U.S. Equity

	Value	Blend	Growth
Large Cap	3.84	4.25	4.64
Mid Cap	3.19	4.13	5.40
Small Cap	1.37	2.10	2.75

U.S. Fixed Income

	Short Term	Intermediate	Long Term
Treasuries	1.47	2.36	6.03
Corporate	1.54	2.99	7.02
High Yield	N/A	2.40	4.58

Global Equity

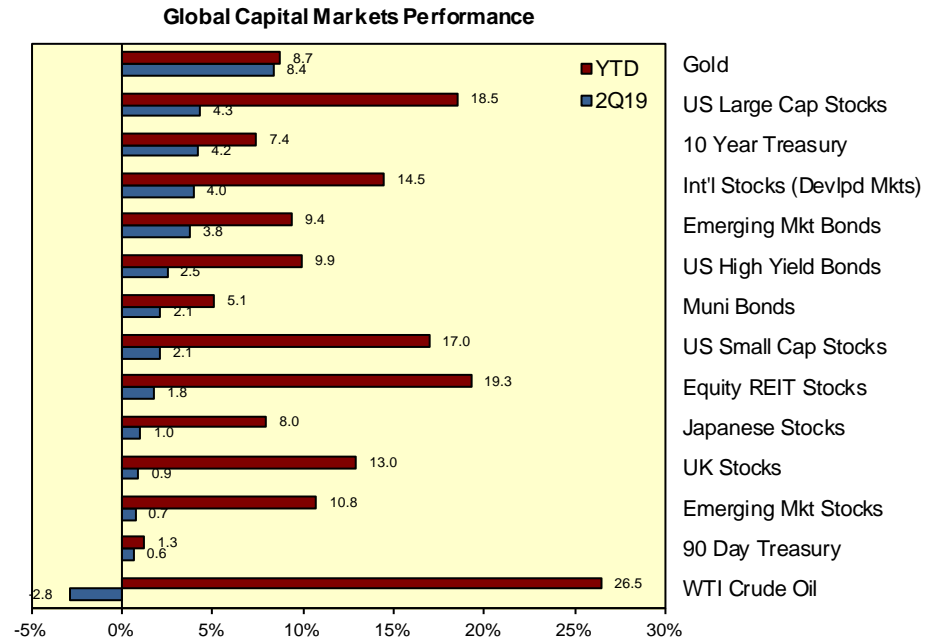
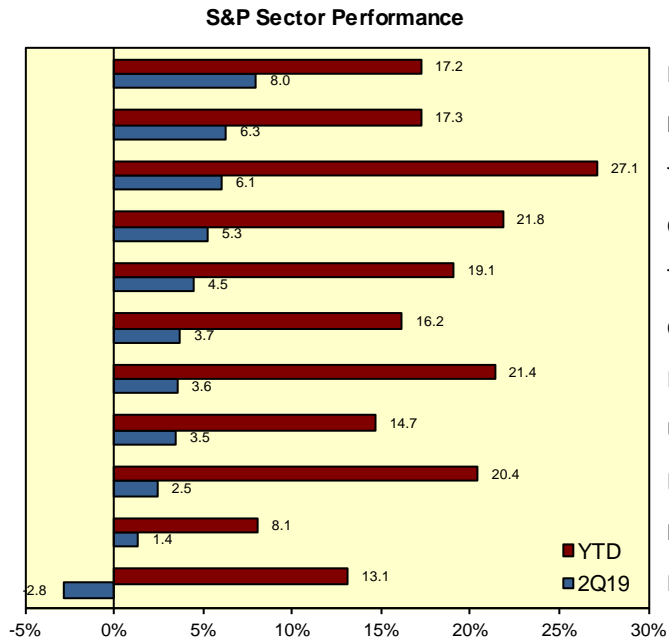
	Value	Blend	Growth
U.S.	3.68	4.10	4.50
EAFE	1.89	3.97	5.96
Emrg Mkt	1.12	0.74	0.37

Global Fixed Income

	Intermediate
Sovereign	4.82
Corporates	3.93
High Yield	2.97

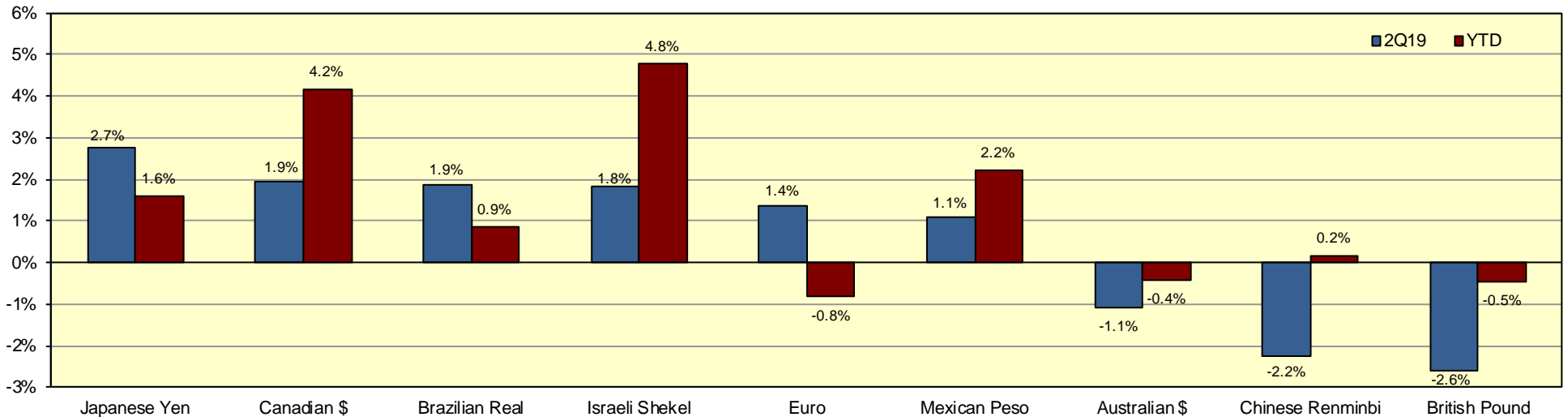
Source: Bloomberg.

Global Capital Markets and Sector Performance – 2Q 2019 and YTD



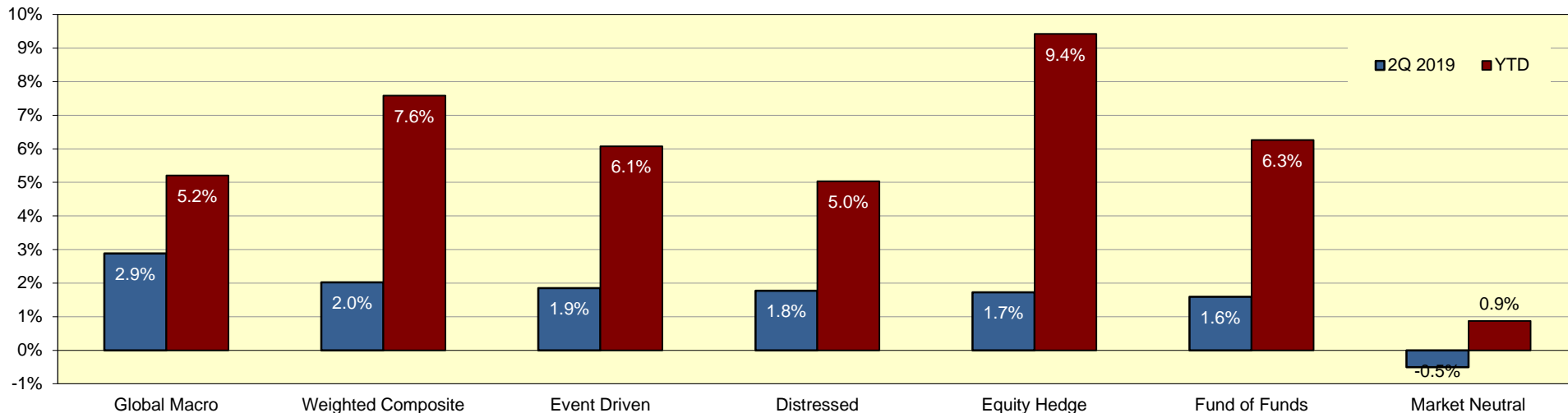
Source: Bloomberg.

Global Currency Performance – 2Q 2019 and YTD



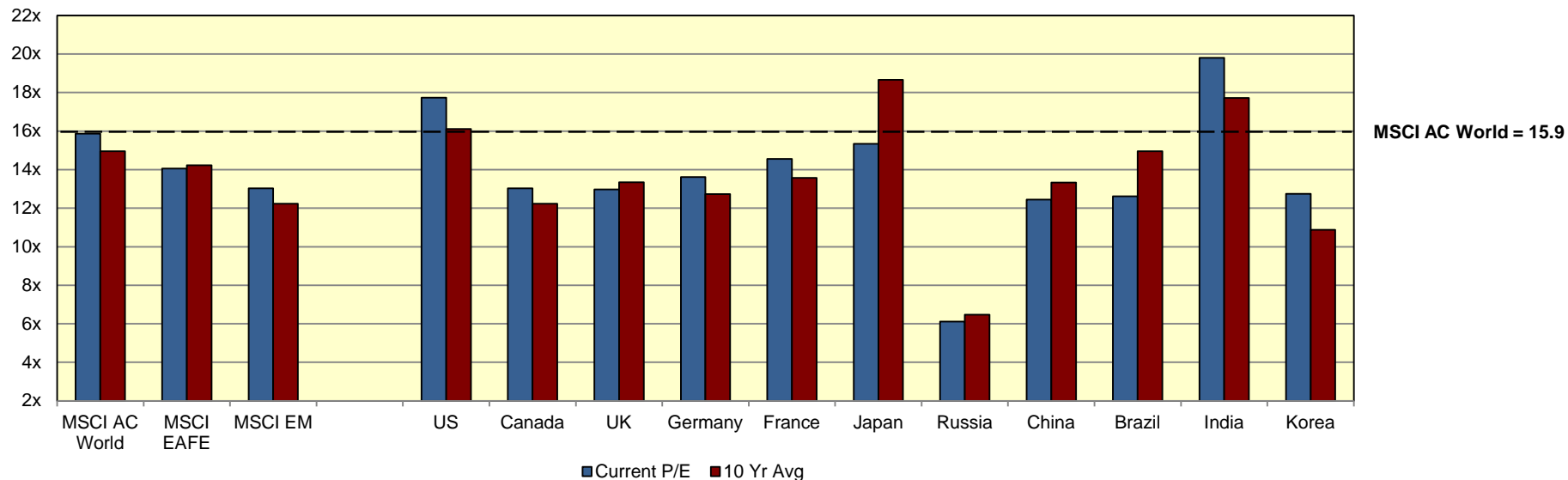
Source: Bloomberg.

Global Hedge Fund Performance By Strategy – 2Q19 and YTD



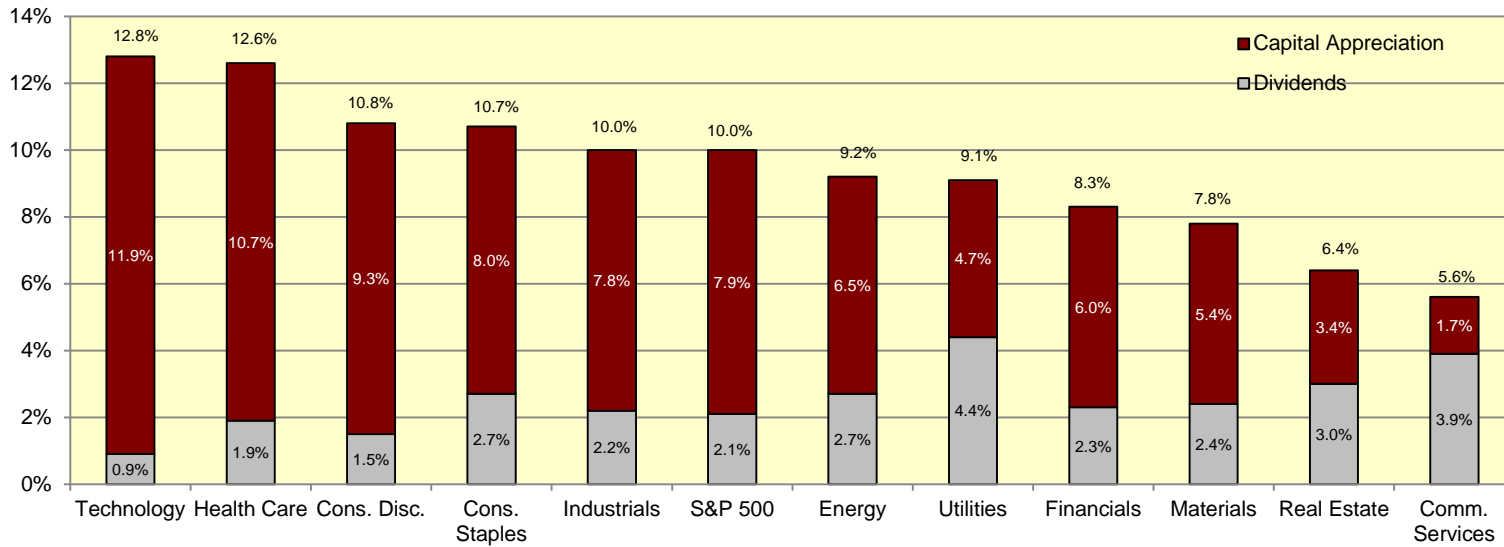
Source: HFRI Hedge Fund Indices.

Global Current Price / Earnings Ratio vs. 10 Year Average



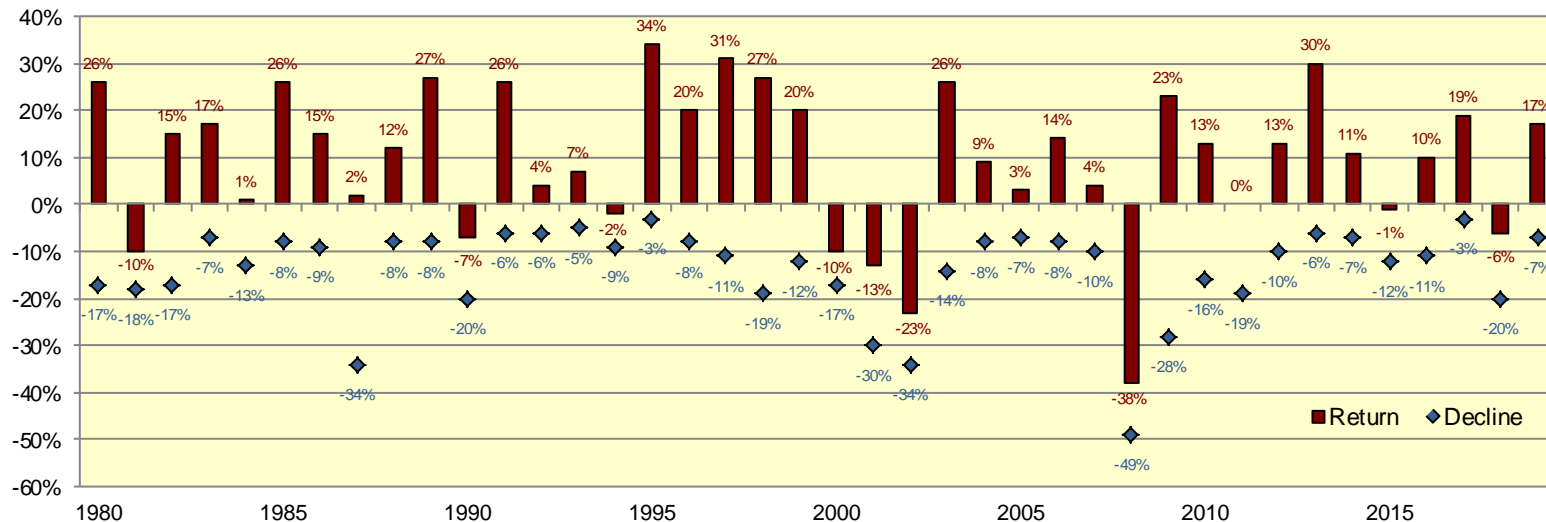
Source: Bloomberg. Price to earnings is price divided by Bloomberg consensus forward 12 month earnings estimate

S&P Sector Returns: Capital Appreciation vs. Dividends (25-Year Annualized Returns)



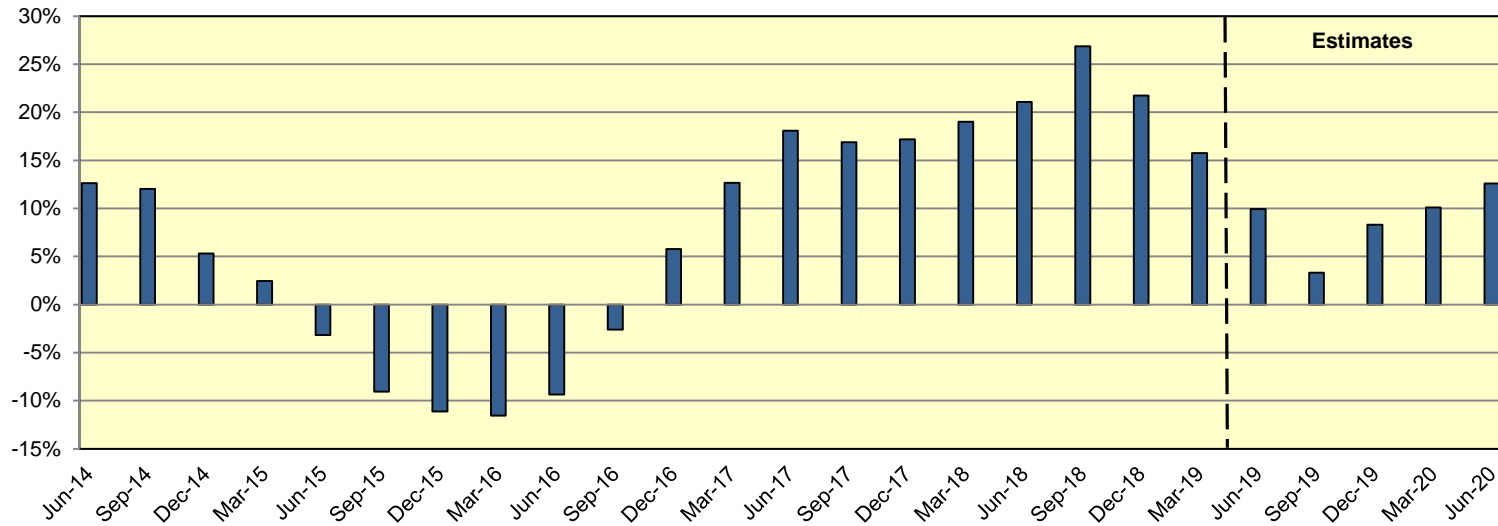
Source: JP Morgan.

S&P 500 Returns and Intra-Year Declines



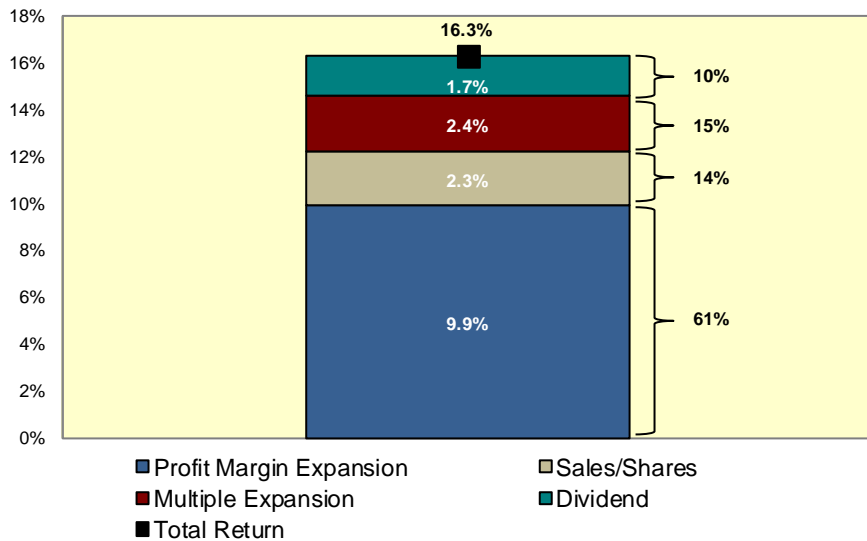
Source: JP Morgan.

S&P 500 Operating Earnings Growth (YoY Percentage Change)



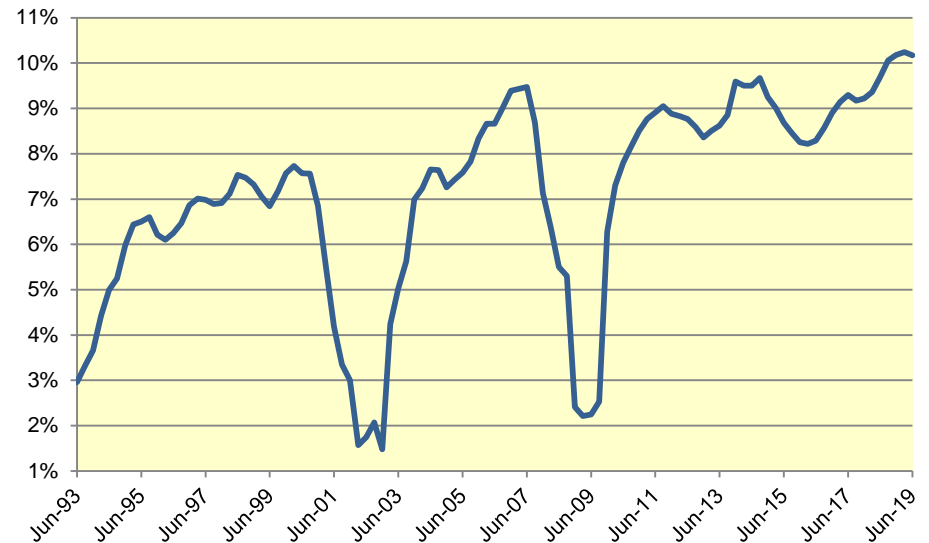
Source: S&P Dow Jones Indices.

S&P 500 Return Decomposition: March 2009 – February 2019



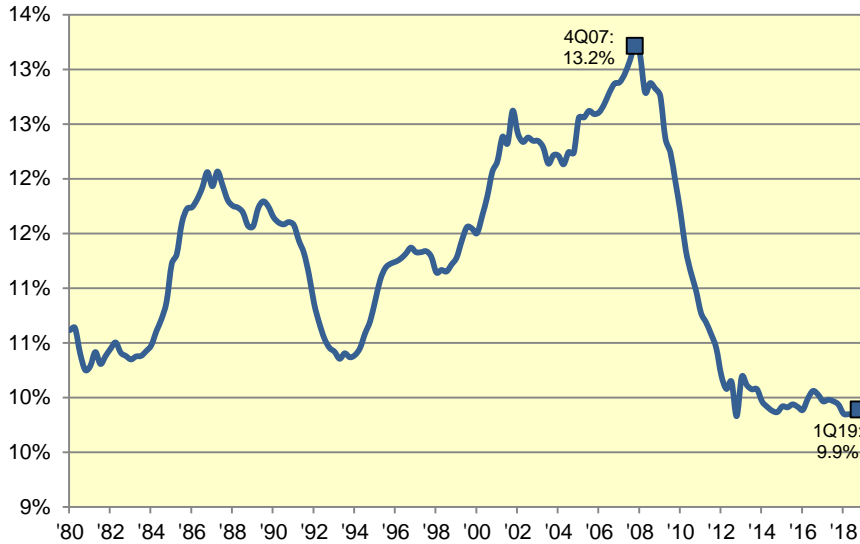
Source: Touchstone Investments, Bloomberg, S&P Dow Jones Indices.

S&P 500 Profit Margin



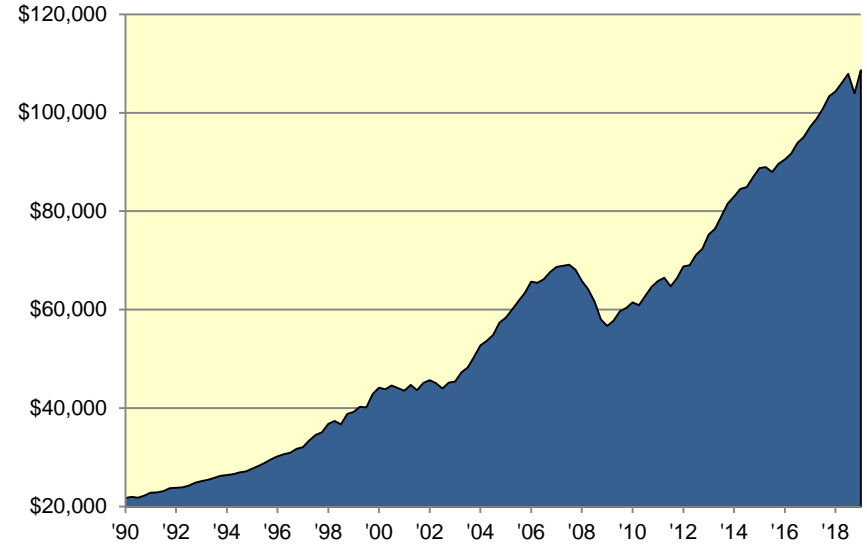
Source: Bloomberg.

Household Debt Payments as % of Personal Disposable Income



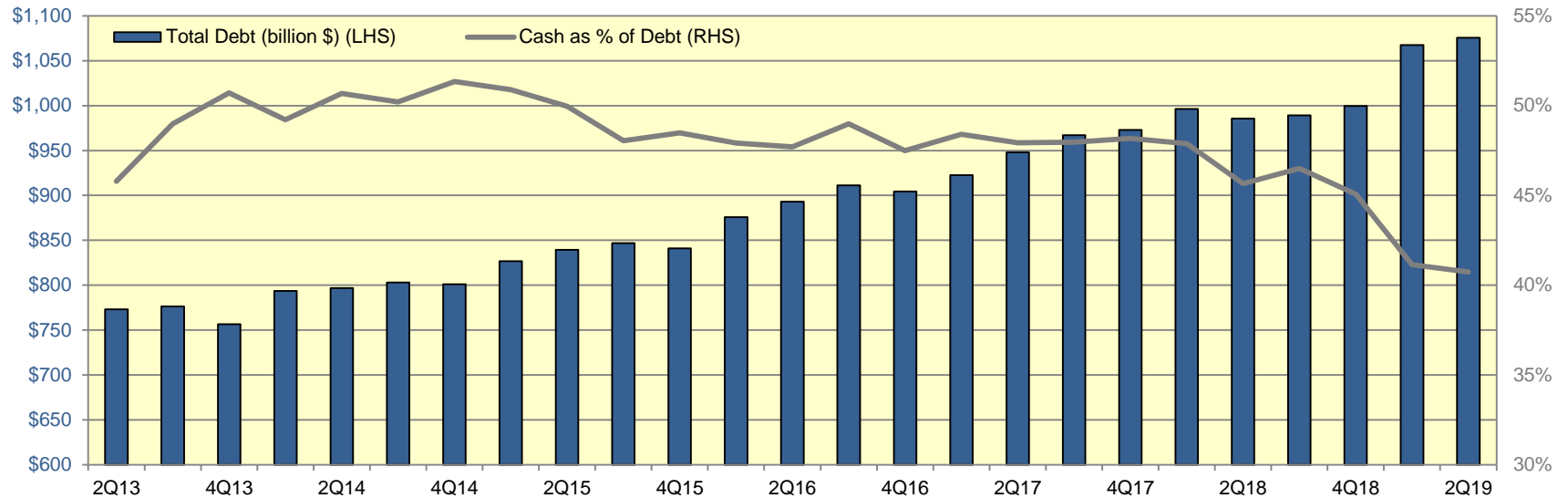
Source: Federal Reserve Bank of St. Louis, JP Morgan.

Household Net Worth (Billion \$)



Source: Federal Reserve Bank of St. Louis, JP Morgan.

S&P 500 Balance Sheet



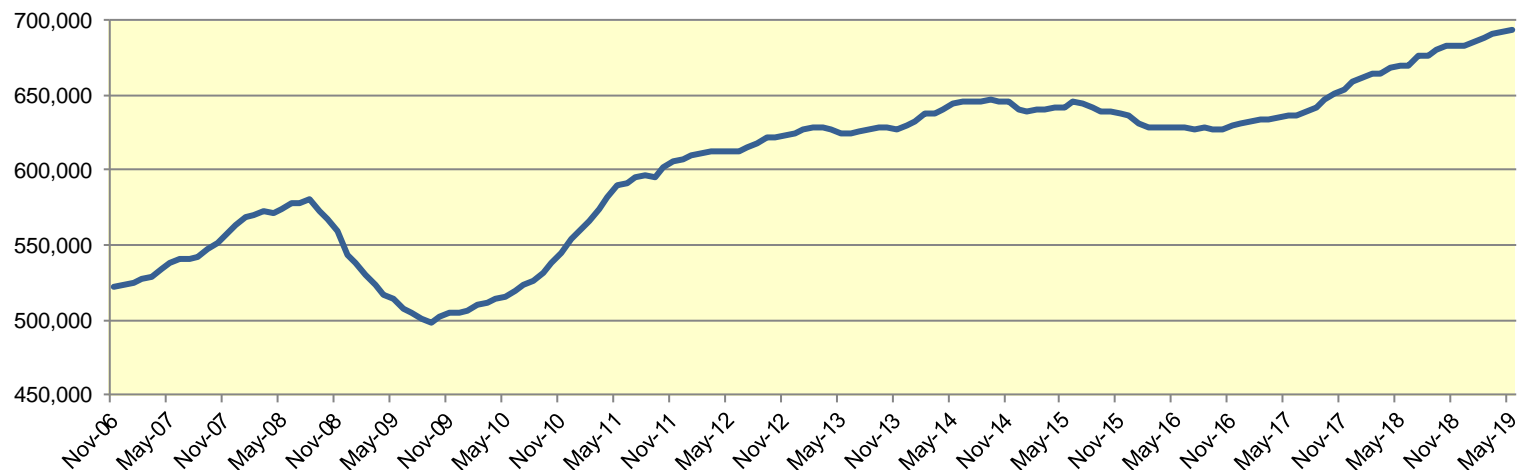
Source: Bloomberg.

Global Manufacturing PMI Heatmap

	2016				2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Global	50.5	50.2	51.0	52.3	52.9	52.6	53.1	54.0	53.8	53.1	52.4	51.8	50.6	49.9	
Developed	51.3	50.7	51.4	53.1	54.1	54.0	54.3	55.8	55.6	54.7	53.8	52.8	50.7	49.4	
Emerging	49.5	49.4	50.2	50.9	51.2	50.8	51.4	51.7	51.7	51.2	50.7	50.5	50.4	50.3	
Developed	US	51.7	50.9	52.1	53.9	54.2	52.5	53.1	54.5	55.5	56.1	55.2	54.9	53.4	51.2
	Canada	50.1	52.0	51.1	51.5	54.6	55.2	55.0	54.5	55.7	56.3	56.2	54.1	52.0	49.3
	Japan	50.5	48.0	49.7	51.7	52.8	52.7	52.4	53.5	54.0	53.2	52.4	52.6	49.5	49.8
	UK	51.5	51.0	52.4	54.3	54.8	55.9	56.1	56.9	55.1	54.0	53.5	52.9	53.3	50.2
	Euro Area	51.7	52.0	52.1	54.0	55.6	57.0	57.4	59.7	58.3	55.5	54.3	51.7	49.1	47.7
	Germany	51.2	52.8	53.9	55.0	57.2	59.1	59.3	62.1	60.0	57.0	55.5	51.8	47.1	44.6
	France	49.9	48.2	48.9	52.3	53.0	54.6	55.6	57.5	56.0	53.6	53.1	50.6	50.8	50.8
	Italy	53.0	53.3	50.7	52.1	54.6	55.5	55.9	57.8	57.0	53.2	50.5	49.0	47.6	49.1
	Spain	54.3	52.5	51.4	54.4	54.8	54.9	53.6	55.9	55.3	53.7	52.4	51.8	51.1	49.9
	Greece	49.1	49.5	49.4	48.7	47.0	49.4	51.8	52.5	55.4	53.5	53.7	53.6	54.2	54.4
Emerging	China	48.7	49.1	50.2	51.3	51.3	50.1	51.2	51.1	51.4	51.1	50.5	50.0	49.7	49.9
	Indonesia	49.4	51.1	49.9	49.1	50.1	50.4	49.9	49.9	50.7	51.2	51.0	50.7	50.4	50.9
	Korea	49.2	50.2	48.8	48.5	48.9	49.6	49.9	50.4	50.0	49.0	49.8	49.8	48.1	48.7
	Taiwan	50.4	49.6	51.7	54.5	55.4	53.6	54.0	55.5	56.1	54.2	52.3	48.3	47.6	47.4
	India	51.5	51.0	52.2	52.1	51.2	51.7	50.1	52.5	51.8	52.0	52.1	53.4	53.6	52.2
	Brazil	46.0	42.5	45.9	45.9	46.8	50.9	50.6	52.4	52.6	50.9	50.8	52.1	53.0	50.9
	Mexico	52.8	52.4	51.1	51.0	51.0	51.4	52.1	51.1	52.2	51.6	51.5	50.0	51.1	49.8
	Russia	49.1	49.7	50.5	53.2	53.2	51.2	52.1	51.5	51.0	50.2	49.0	51.9	51.3	50.1

Source: Bloomberg, JP Morgan, Markit.

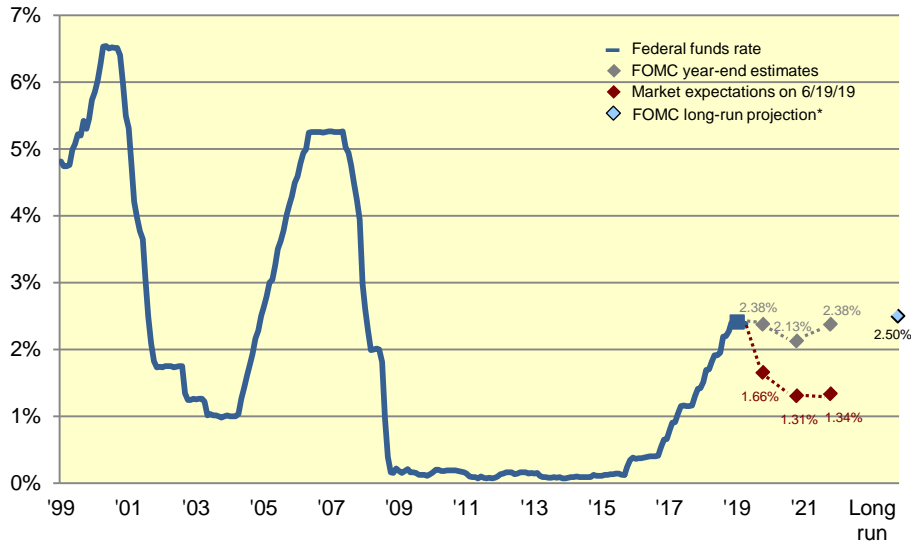
Industrial/Manufacturing Inventory Levels



Note: Value in \$ millions. Industrial or manufacturing inventories (also often referred to as inventories of finished goods) consist of goods ready for sale or shipment that are still being held by the producer. This concept tracks the value of inventories held.

Source: Bloomberg.

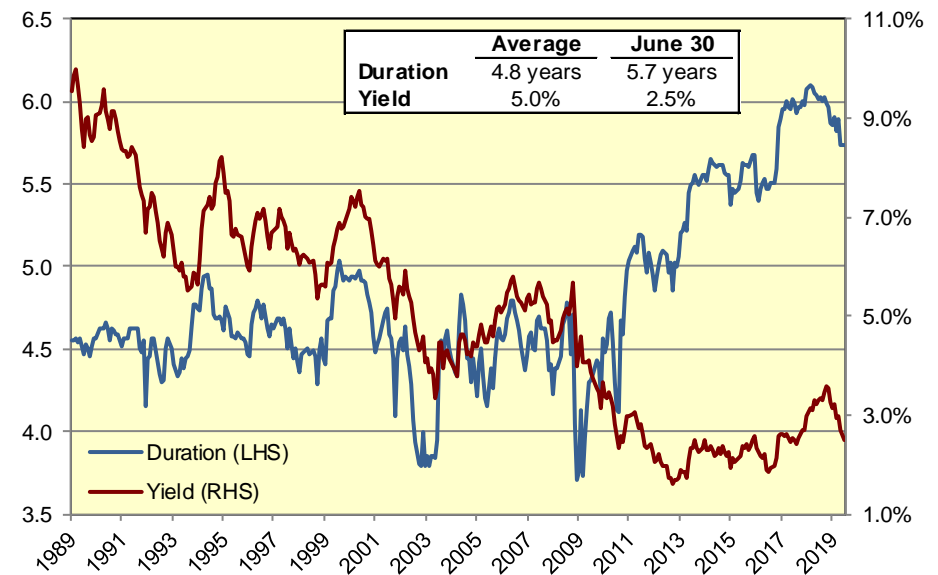
The Fed and Interest Rates



*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in the absence of further shocks and under appropriate monetary policy.

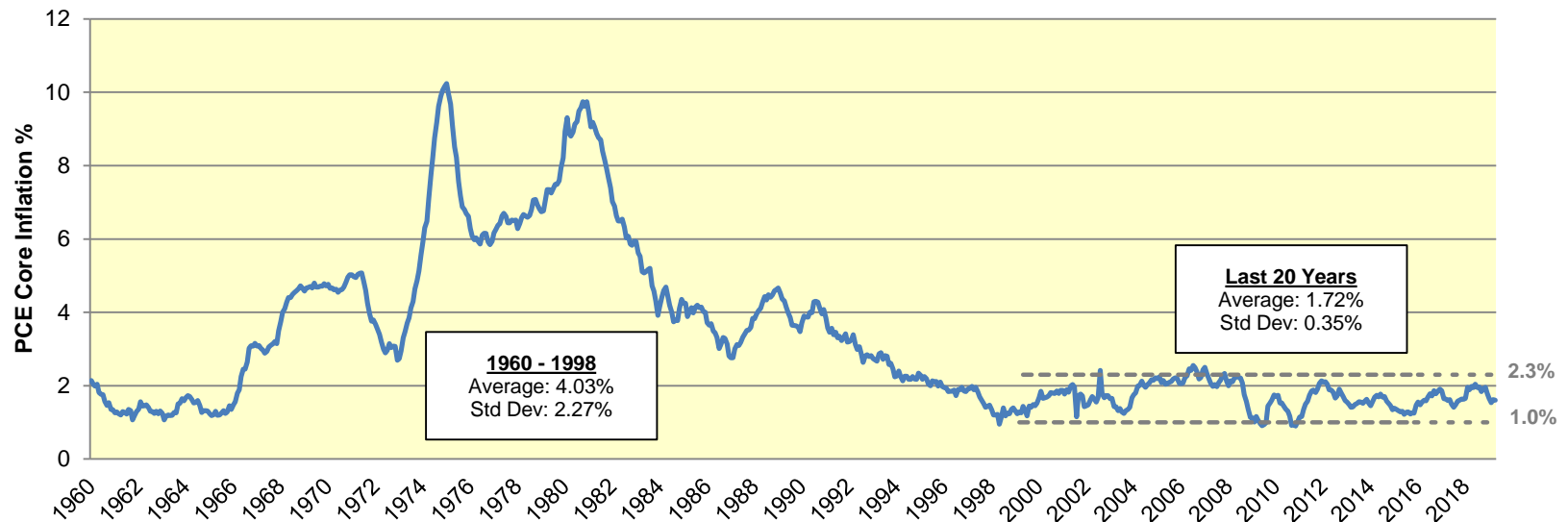
Source: Bloomberg, JP Morgan.

Duration of Barclays U.S. Aggregate



Source: Bloomberg, JP Morgan.

Inflation Since 1960



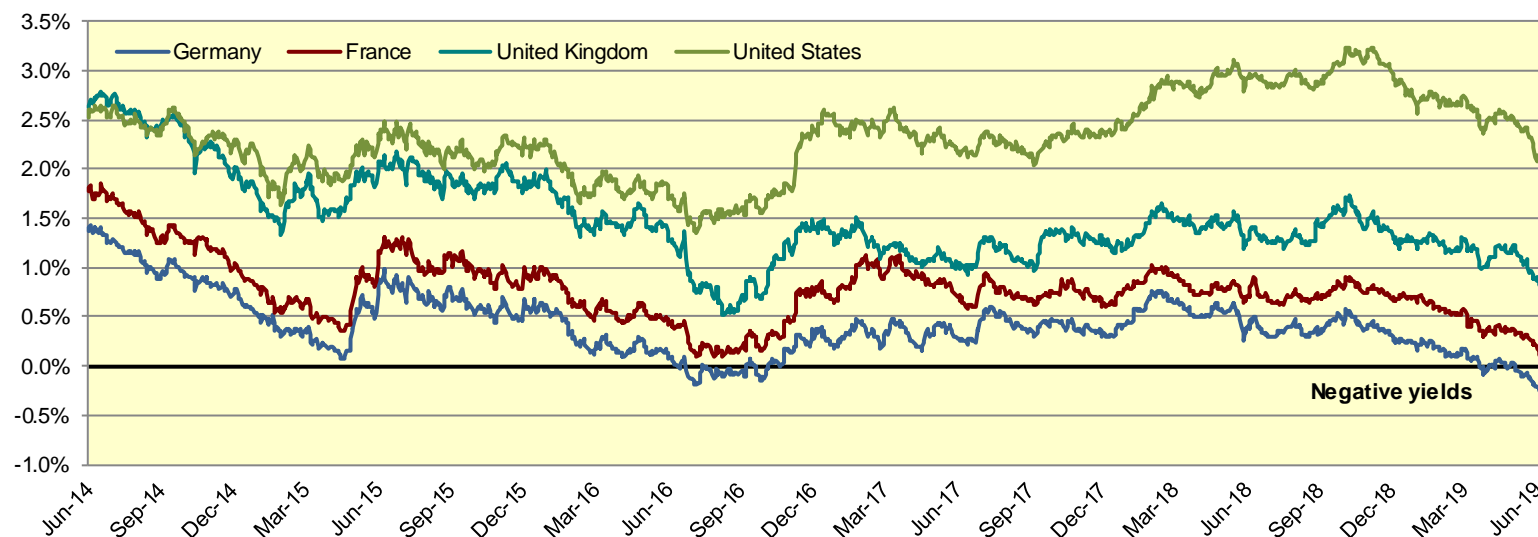
Source: Bloomberg, WSJ.

G7 Yield Matrix

	3-Month	1-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Canada	1.65%	1.69%	1.42%	1.39%	1.43%	1.46%	1.68%
France	-0.57%	-0.62%	-0.69%	-0.52%	-0.31%	-0.01%	0.93%
Germany	-0.60%	-0.68%	-0.77%	-0.67%	-0.57%	-0.33%	0.26%
Italy	-0.20%	-0.04%	0.81%	1.35%	1.58%	2.10%	3.09%
Japan	-0.13%	-0.21%	-0.23%	-0.26%	-0.26%	-0.16%	0.35%
United Kingdom	0.74%	0.69%	0.56%	0.63%	0.68%	0.83%	1.47%
United States	2.09%	1.93%	1.71%	1.77%	1.88%	2.01%	2.53%

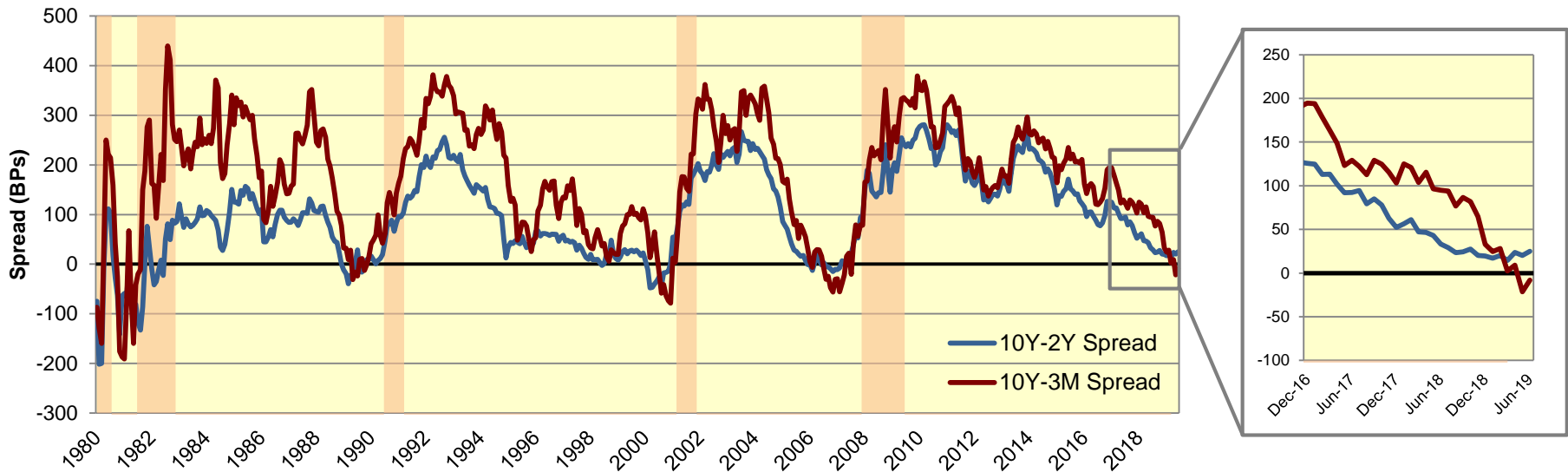
Source: Bloomberg. Data as of June 28, 2019.

10-Year Government Bond Yields



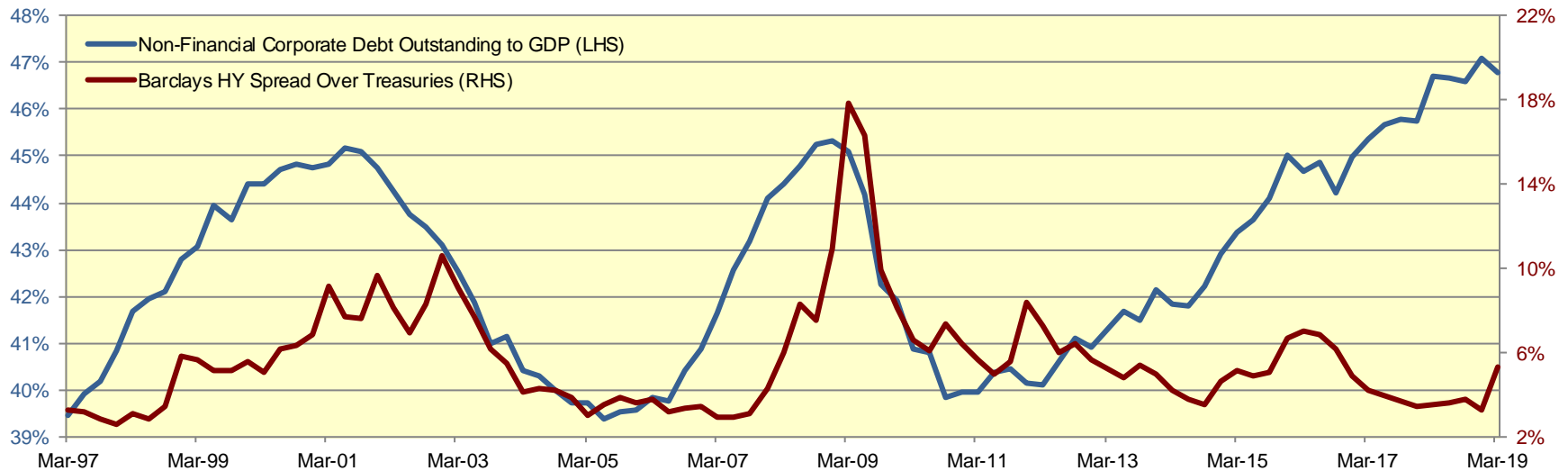
Source: Bloomberg.

US Treasury Spreads



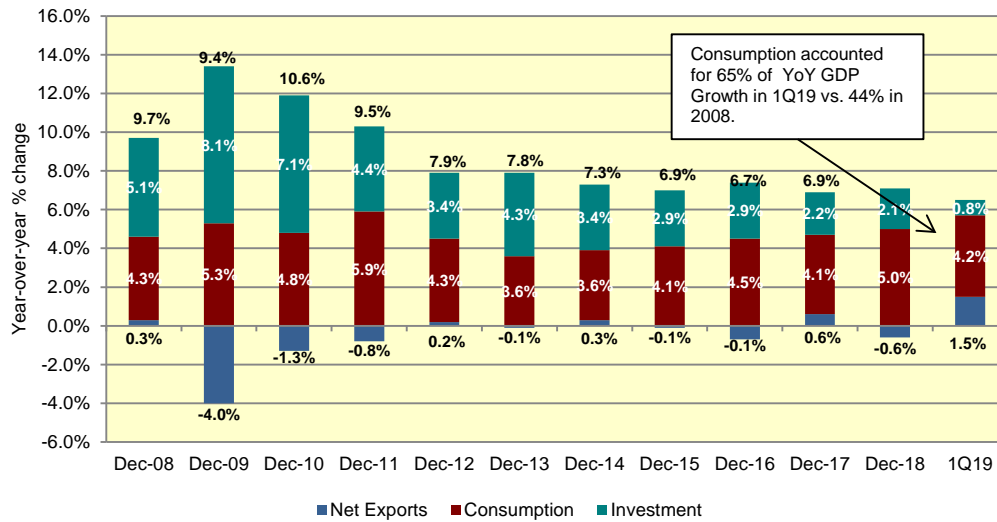
Source: Bloomberg, JP Morgan.

Credit Spread and Corporate Debt Burden



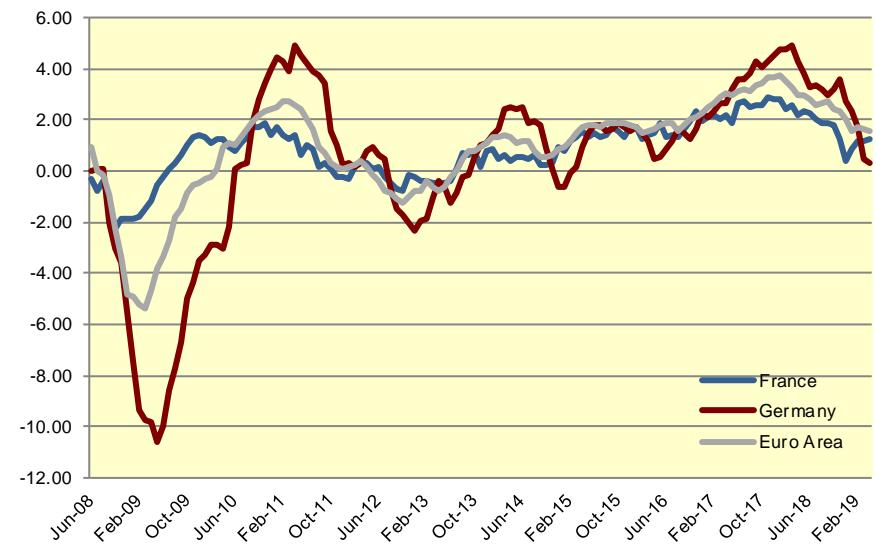
Source: Touchstone Investments, Bloomberg, Federal Reserve Bank of St. Louis.

China Real GDP Growth Contribution



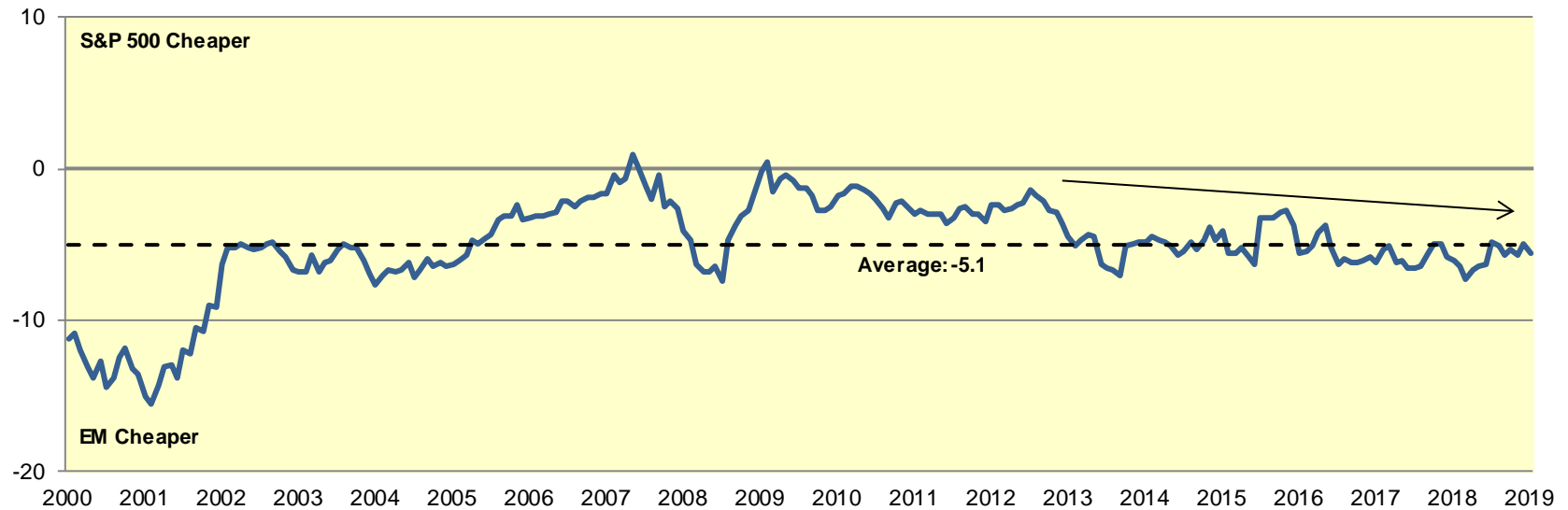
Source: JP Morgan, Factset.

GDP in Europe



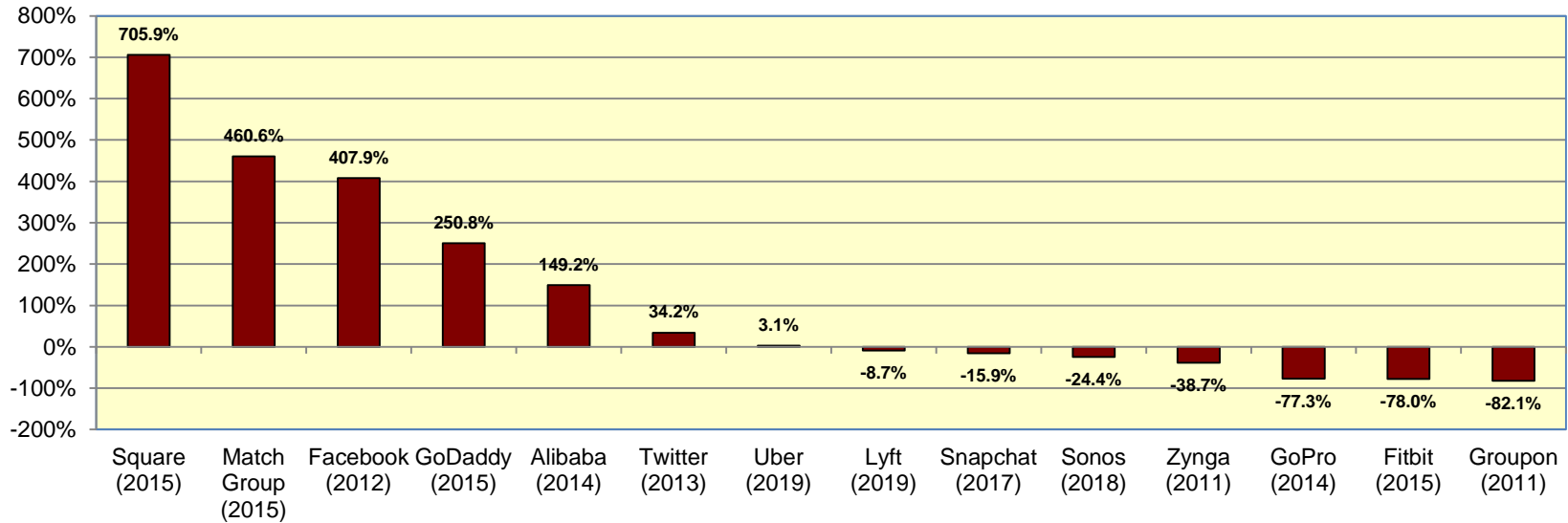
Source: Bloomberg.

P/E Spread Between Emerging Markets and S&P 500



Source: Bloomberg.

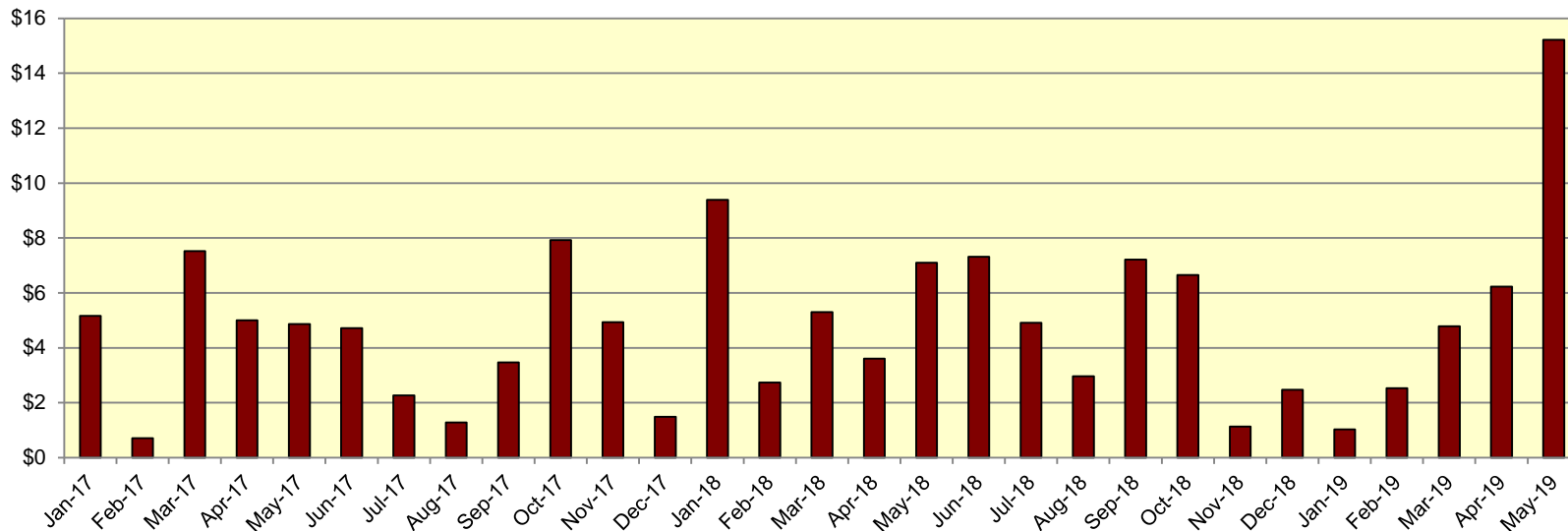
Cumulative Returns Since IPOs of Select Tech Companies



Data as of June 30, 2019.

Source: Bloomberg, Statista.

Amount Raised in US Initial Public Offerings (Billion \$)



Source: WSJ.

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