



Notable 3Q 2019 Market Performance

	S&P 500	MSCI EAFE	MSCI Emerging Markets	Barclays Aggregate	10-Year Treasury	HFRI Hedge Fund Composite	USD	WTI Crude Oil
3Q Return	1.70%	-1.00%	-4.11%	2.27%	3.19%	-0.49%	3.38%	-6.63%
YTD Return	20.55%	13.35%	6.23%	8.52%	10.86%	6.74%	3.33%	18.09%

Source: Bloomberg, Morningstar.

3Q 2019 Market Commentary

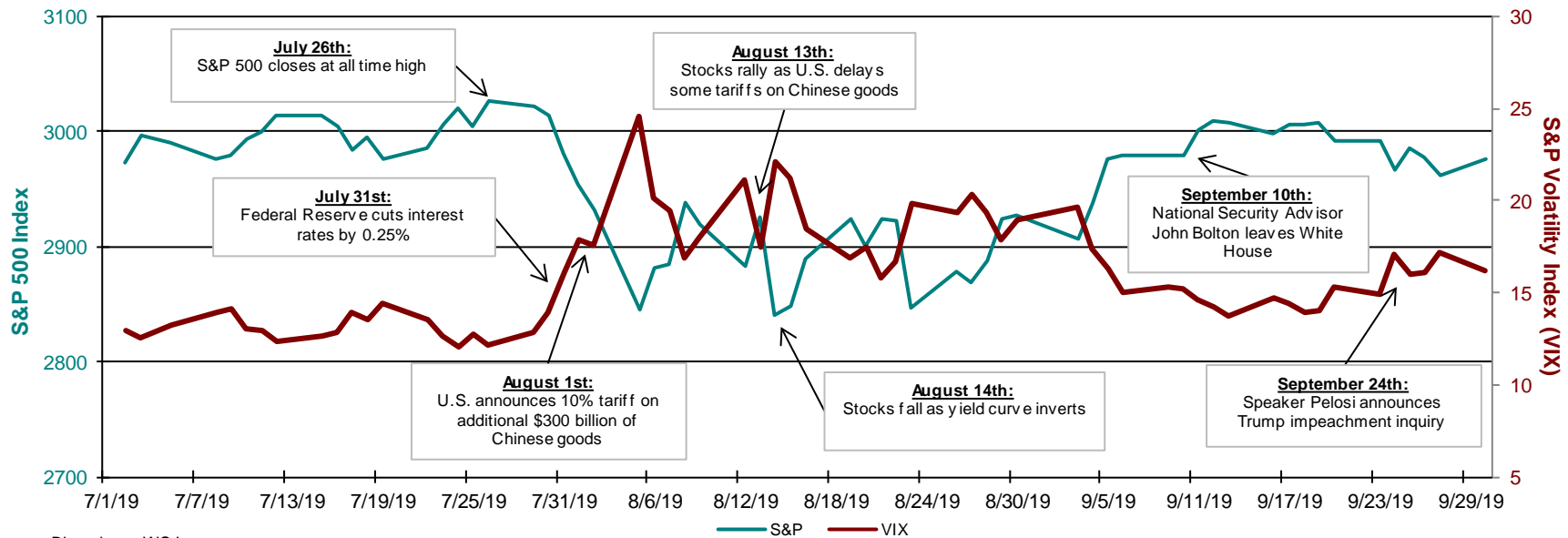
Despite the weight of looming geopolitical and trade-related threats and a marked slowdown in global economic growth, US stock and bond markets continued to post gains during the third quarter and are well above trend year-to-date. The concurrent run-up in risk assets and safe havens such as US Treasuries underlines the confusion with which investors are grappling. Further, if September is any indication, stock market leadership appears to be shifting away from momentum-oriented stocks with extreme overvaluations towards more traditional value names. In a related development, a re-pricing of the private equity market is underway, at least for many so-called “unicorns” with high rates of revenue growth but little or no profits.

Generally positive employment numbers continue to drive personal consumption which in turn is supporting the economic expansion that begun eleven years ago. Still, the global economy faces a myriad of challenges. Capital spending is weak, the manufacturing sector is posting recession-like numbers and political divisiveness both within and among countries is a growing threat. The specter of impeachment proceedings in the US as well as the bitter tone of the presidential campaign is exacerbating the sense of disunity in America. The same can be said for the ongoing heated debates in the UK around Brexit as well as the protests playing out on the streets of Hong Kong.

While the trade war could very well trigger a recession, negative GDP growth in the next year is not preordained. Unlike previous recessions, the banking system is sound, inventories are not overextended, inflation is in check, consumers are not overly indebted and the job outlook remains moderately positive. Additionally, while one can argue the efficacy of monetary policy at this point, central bankers here and abroad are clearly in a state of vigilance and ready to intervene if and when necessary. Passage of some kind of fiscal stimulus such as a one-time tax rebate, is also a possibility in the year ahead.

We continue to urge clients to maintain equity exposures within policy ranges, albeit on the lower end of their long-term operating corridor. Additionally, where equity investments are tilted meaningfully toward growth stocks, we would shift some of these assets to (theoretically) safer value-sensitive funds. Fixed income exposure should generally step up in quality, at least until credit availability becomes even more limited, leading to attractive entry points for distressed bond managers. For those clients expecting meaningful net portfolio outflows, building or adding to an existing cash and/or low risk bond reserve should be considered.

S&P 500 and VIX Performance – 3Q 2019



Source: Bloomberg, WSJ.com.

Global Capital Markets Performance – 3Q 2019

Top Sectors

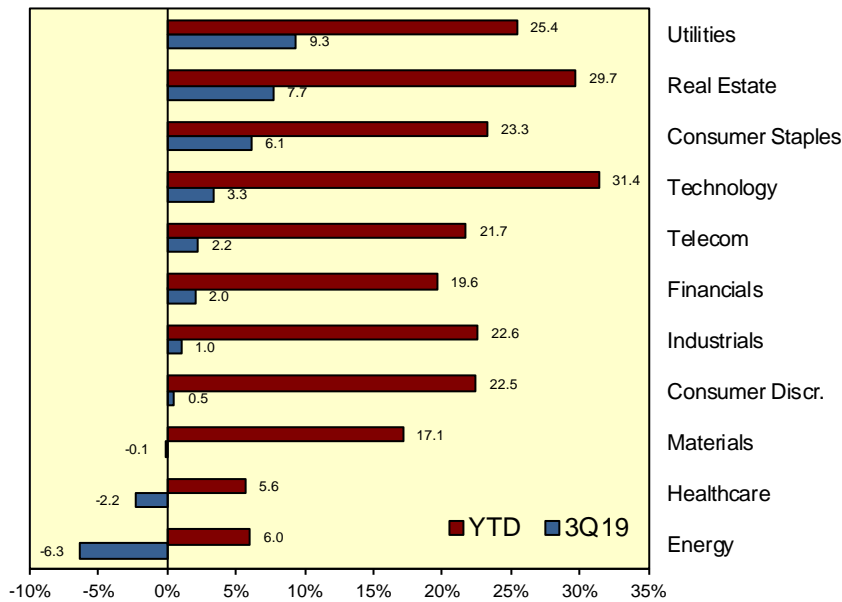
Bottom Sectors

	U.S. Equity			U.S. Fixed Income			Global Equity			Global Fixed Income
	Value	Blend	Growth	Short Term	Intermediate	Long Term	Value	Blend	Growth	Intermediate
Large Cap	1.36	1.42	1.49	0.58	1.18	7.92	1.23	1.16	1.10	2.59
Mid Cap	1.22	0.48	(0.67)	0.93	1.70	5.62	(1.64)	(1.00)	(0.40)	1.21
Small Cap	(0.57)	(2.40)	(4.17)	N/A	1.27	2.69	(6.27)	(4.11)	(1.96)	(0.67)
Treasuries										
Corporate										
High Yield										
U.S.										
EAFE										
Emerg Mkt										
Sovereign										
Corporates										
High Yield										

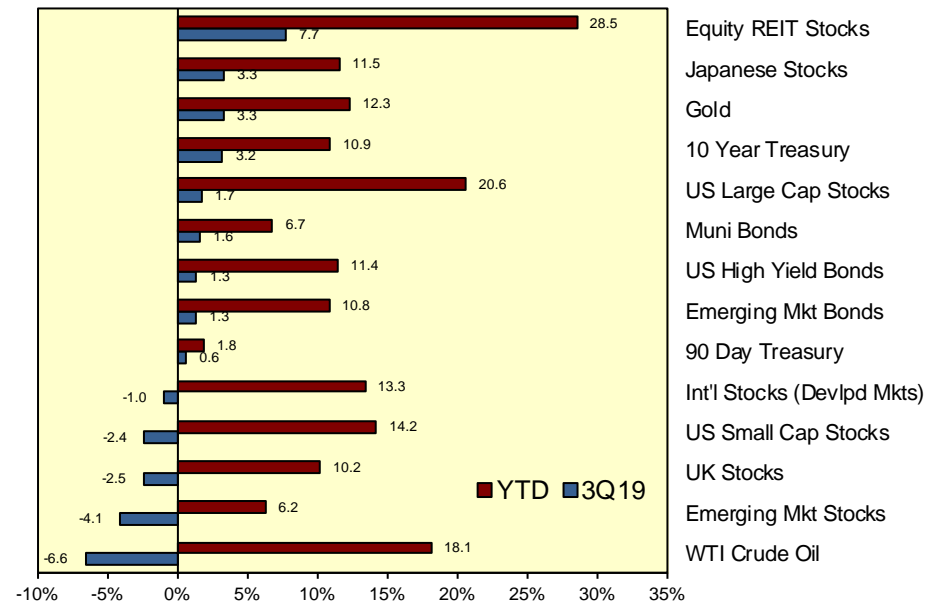
Source: Bloomberg.

Global Capital Markets and Sector Performance – 3Q 2019 and YTD

S&P Sector Performance

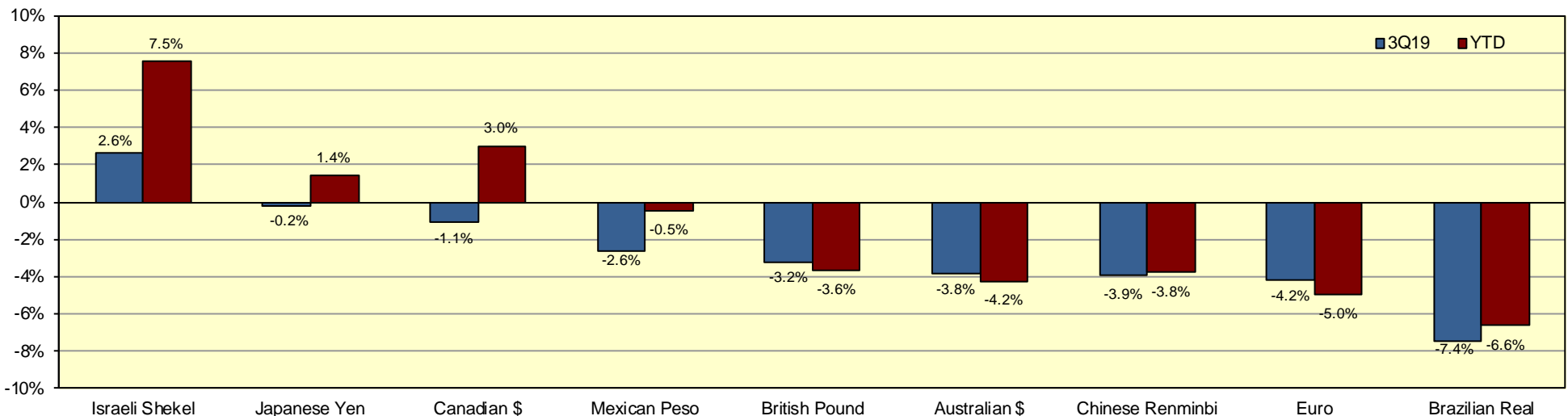


Global Capital Markets Performance



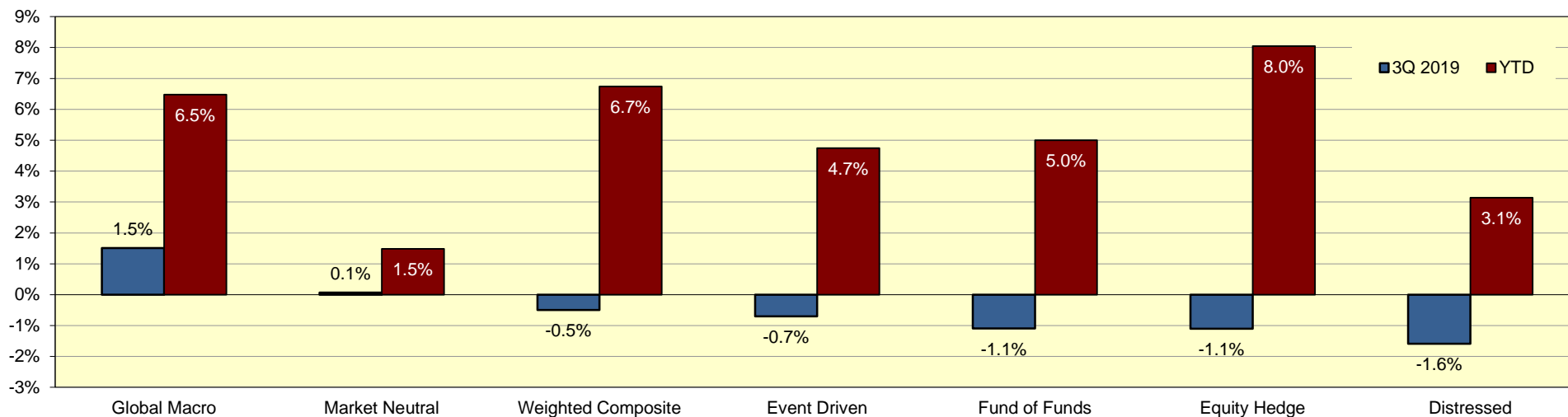
Source: Bloomberg.

Global Currency Performance – 3Q 2019 and YTD



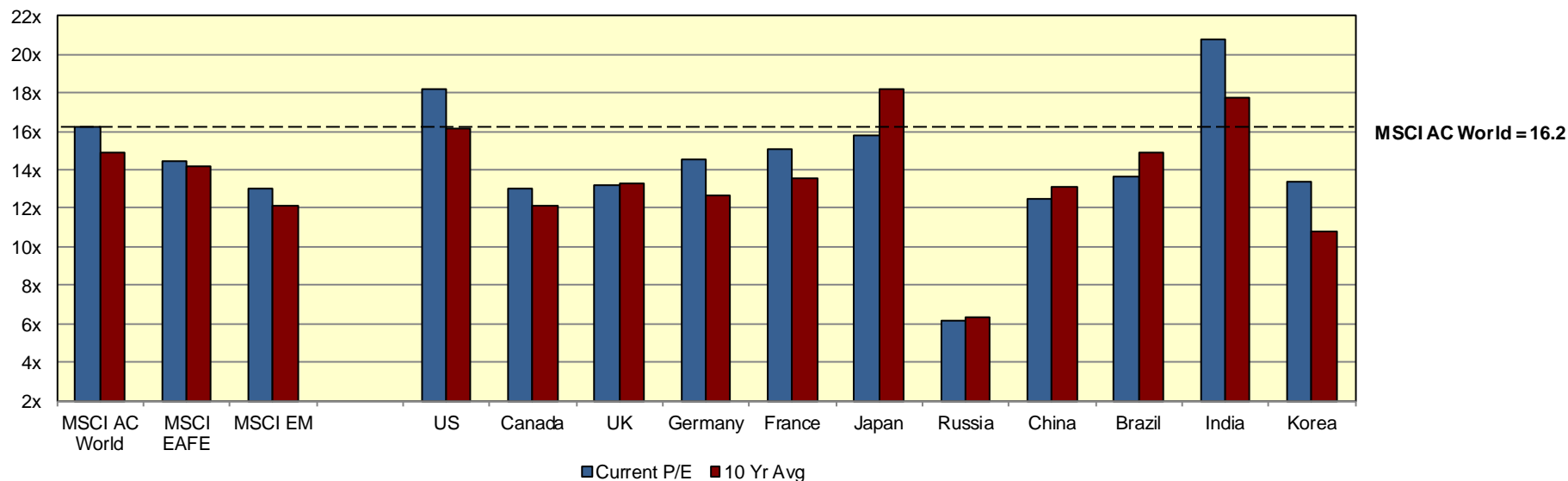
Source: Bloomberg.

Global Hedge Fund Performance By Strategy – 3Q19 and YTD



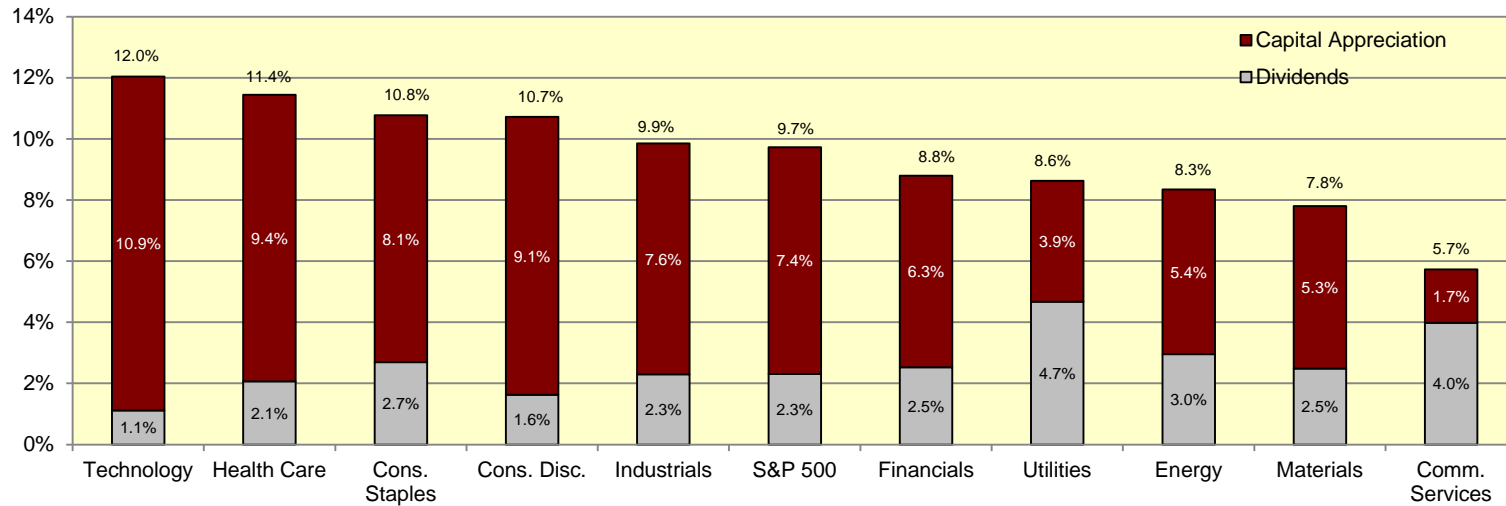
Source: HFRI Hedge Fund Indices.

Global Current Price / Earnings Ratio vs. 10 Year Average



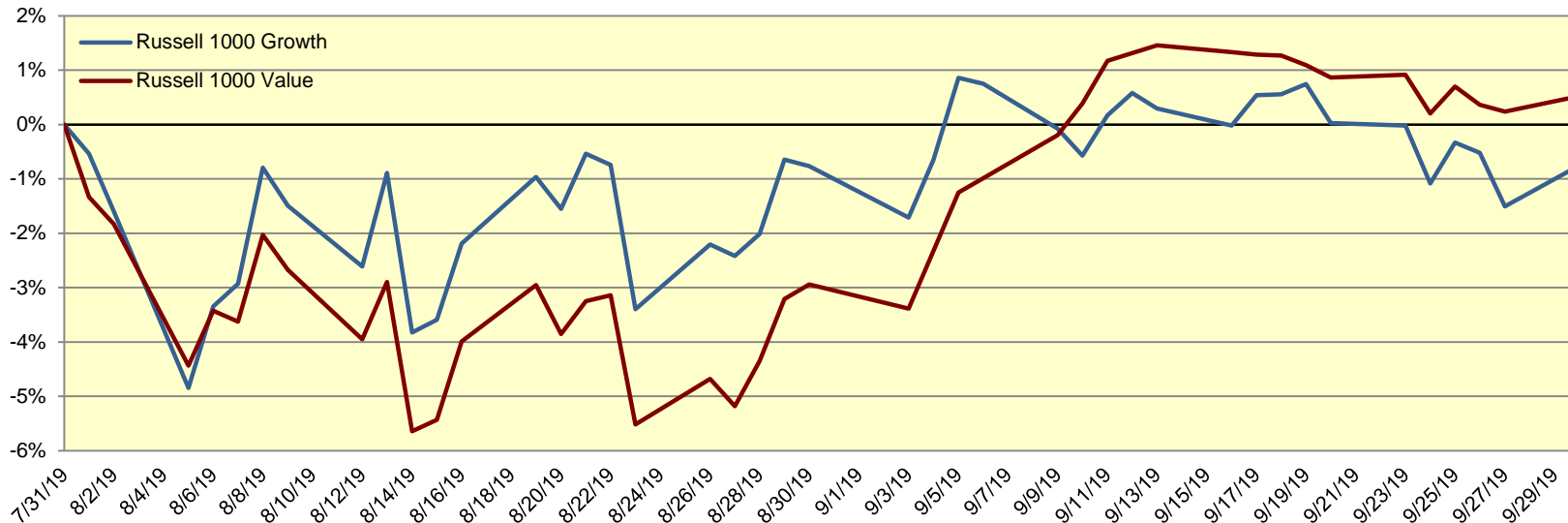
Source: Bloomberg. Price to earnings is price divided by Bloomberg consensus forward 12 month earnings estimate

S&P Sector Returns: Capital Appreciation vs. Dividends (Annualized Since 1989)



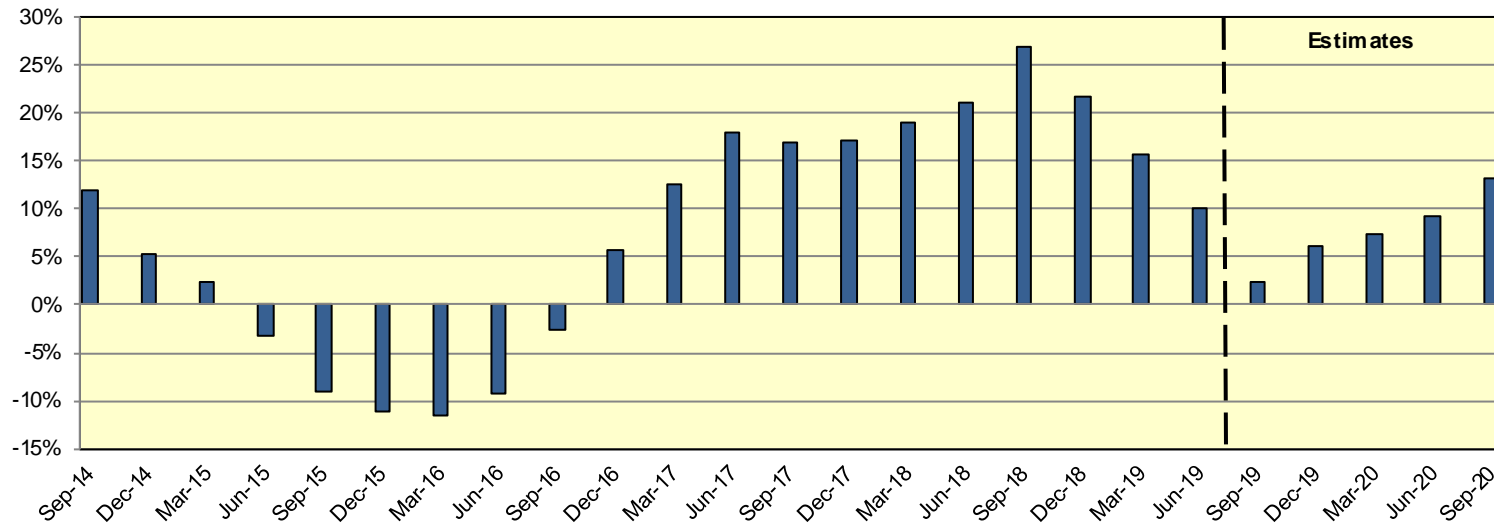
Source: S&P Dow Jones Indices.

Cumulative Return: R1000G vs. R1000V (August 2019 – September 2019)



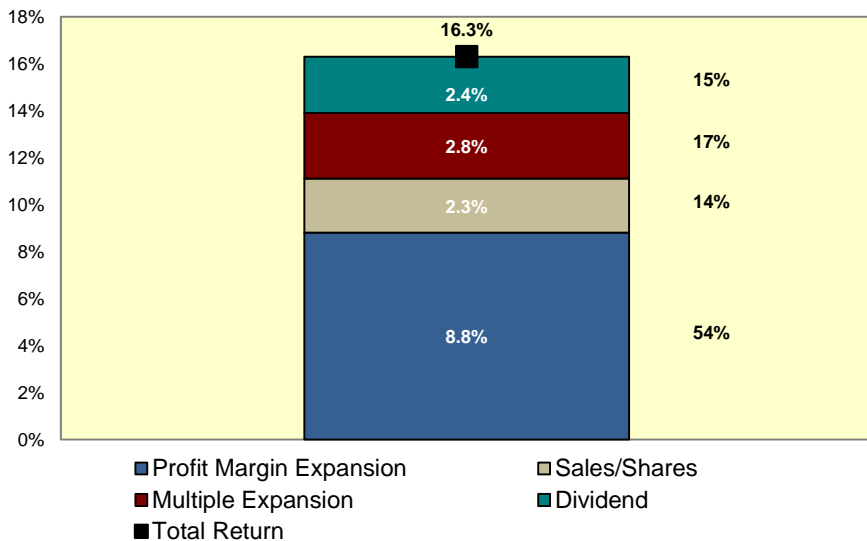
Source: Bloomberg.

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



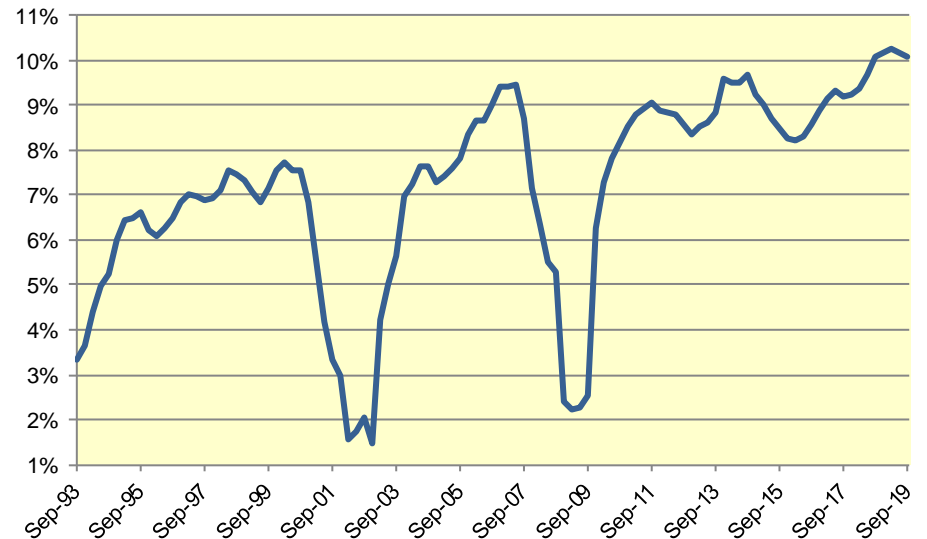
Source: S&P Dow Jones Indices.

S&P 500 Return Decomposition: Mar. 2009 – Aug. 2019 (Annualized)



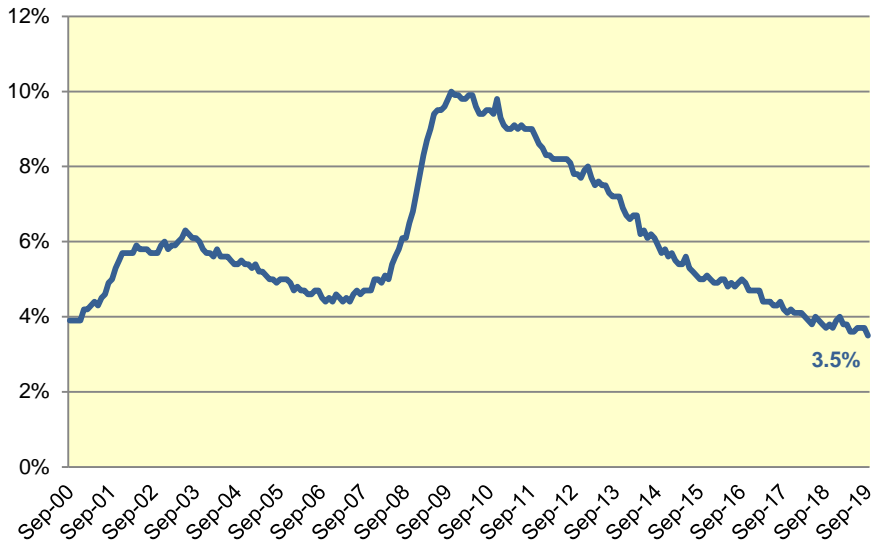
Source: Touchstone Investments, Bloomberg, S&P Dow Jones Indices.

S&P 500 Profit Margin



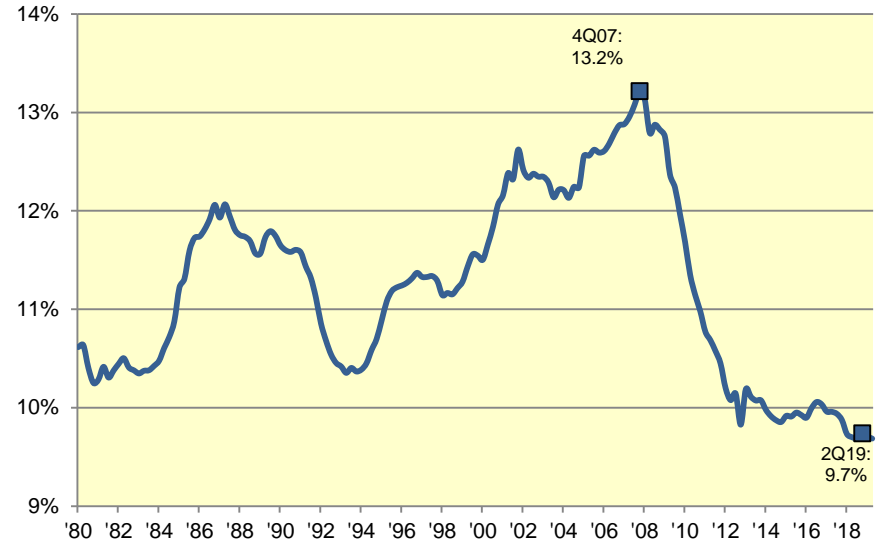
Source: Bloomberg.

Unemployment Rate



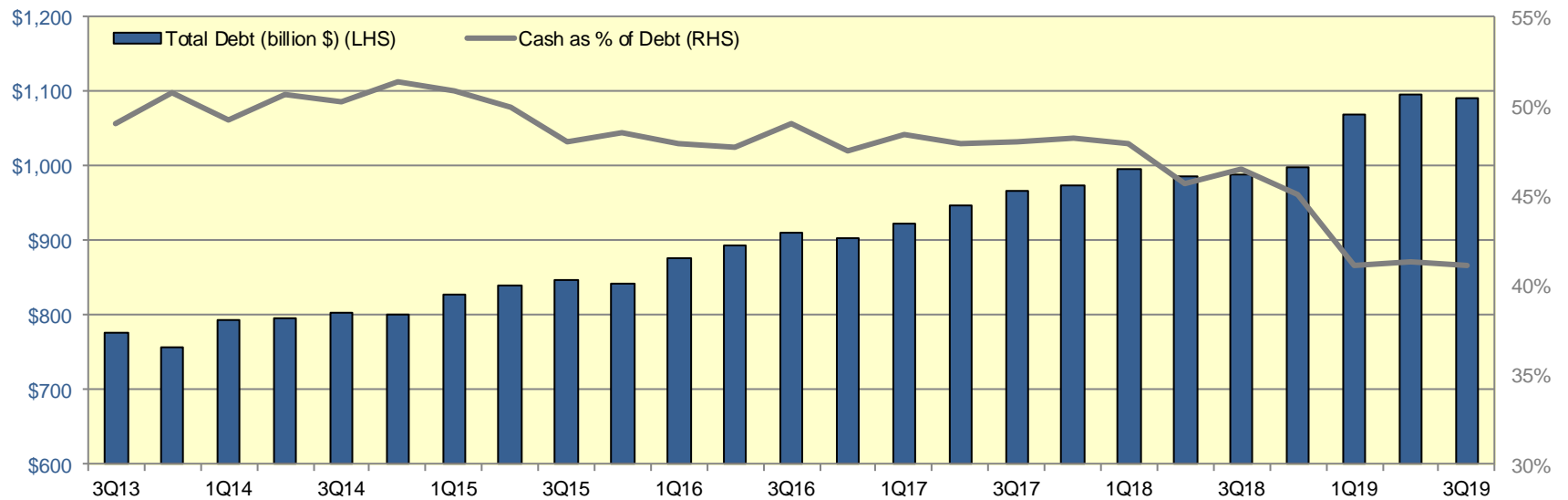
Source: Federal Reserve Bank of St. Louis, JP Morgan.

Household Debt Payments as % of Personal Disposable Income



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

S&P 500 Balance Sheet



Source: Bloomberg.

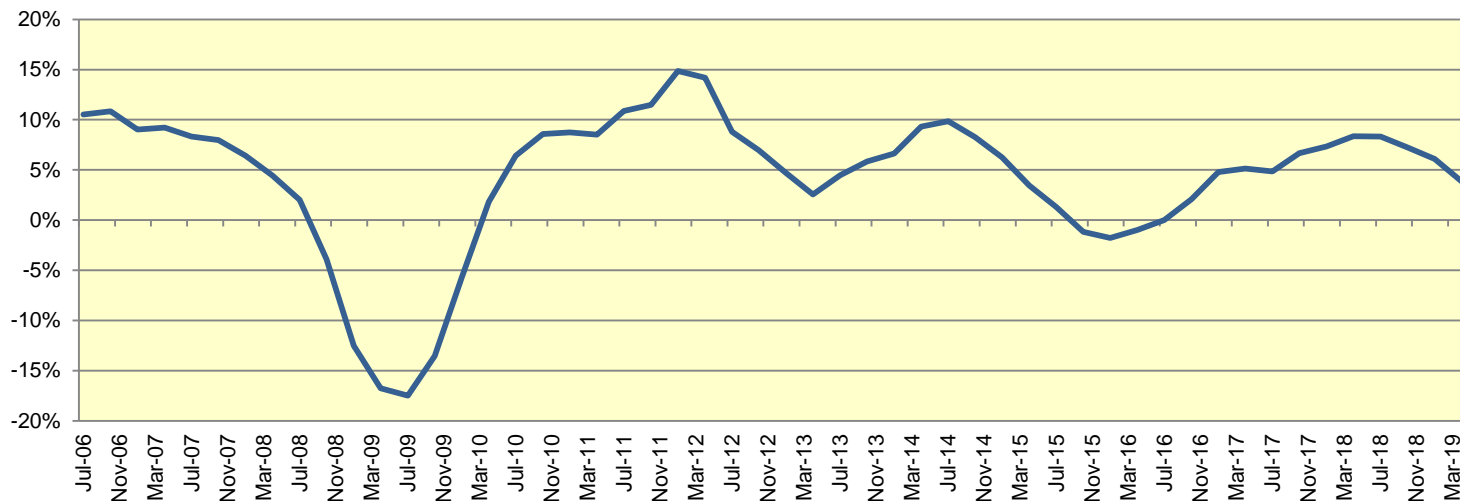


Global Manufacturing PMI

	2016				2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
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	49.5
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	48.7
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	50.5
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	50.6
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	50.1
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	49.2
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	47.9
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	46.4
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	42.8
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	50.3
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	48.3
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	48.2
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	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	50.6
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	49.2
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	48.1
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	48.7
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	51.8
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	51.9
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	49.3
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	48.2

Source: Bloomberg, JP Morgan, Markit. Colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration in the geographic regions shown.

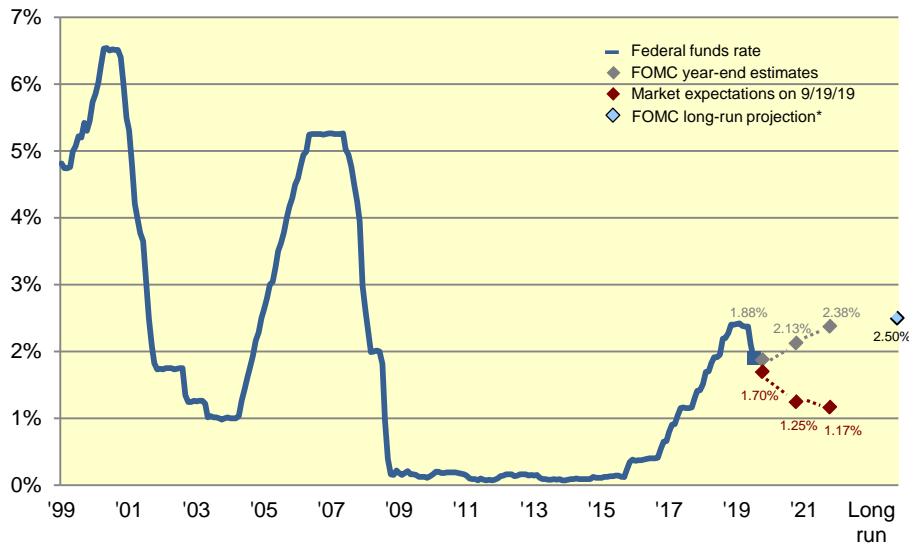
Capital Expenditures (YoY Percentage Change)



Note: Capital expenditures are non-residential fixed domestic investment.

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

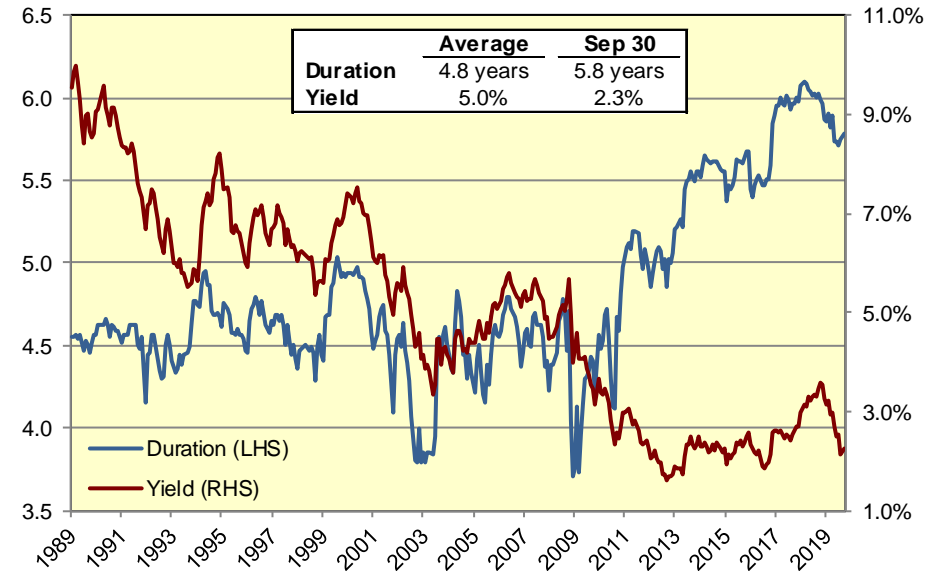
The Fed and Interest Rates



*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.

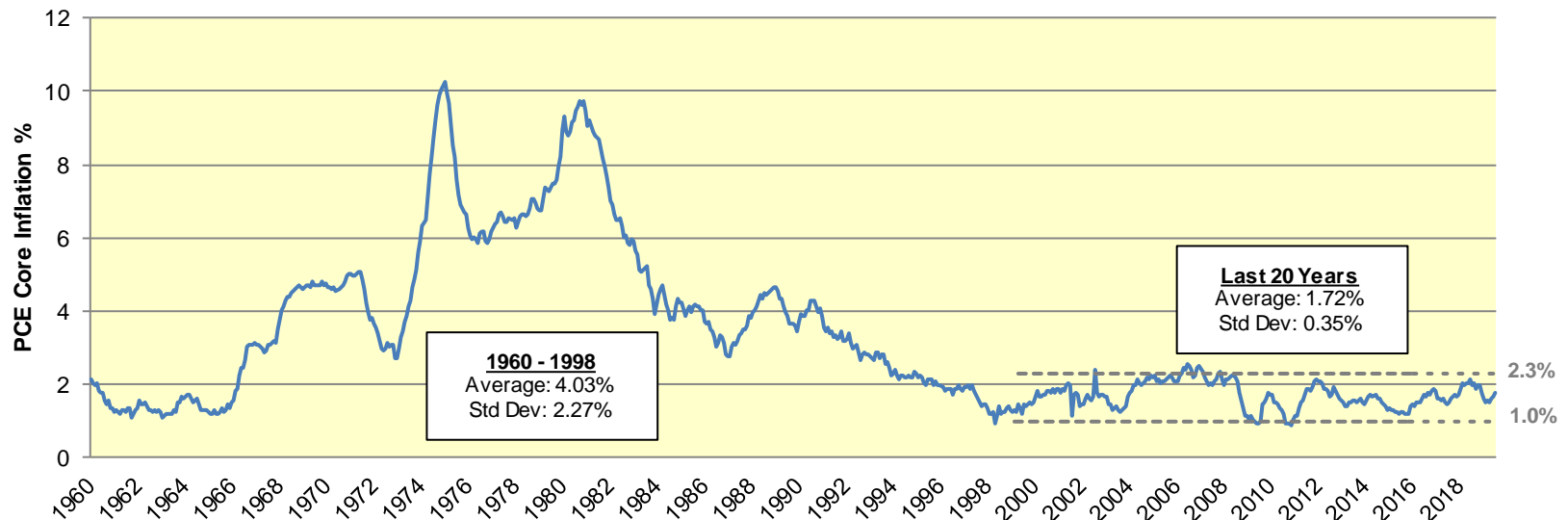
Source: Bloomberg, JP Morgan.

Duration of Barclays U.S. Aggregate



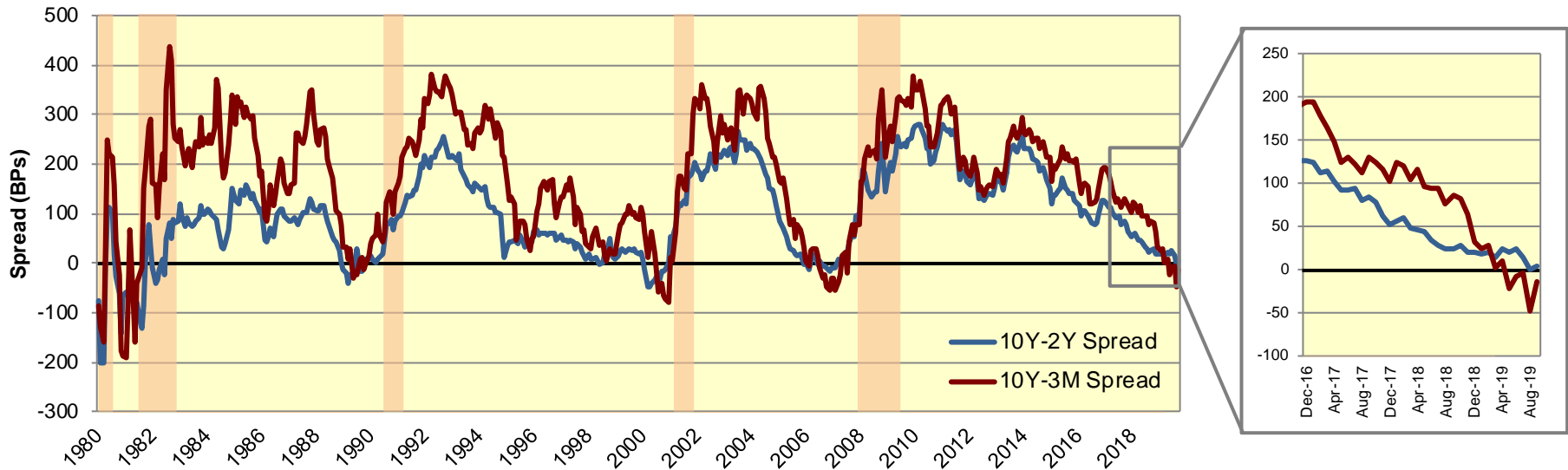
Source: Bloomberg, JP Morgan.

Inflation Since 1960



Source: Bloomberg, WSJ.com.

US Treasury Spreads



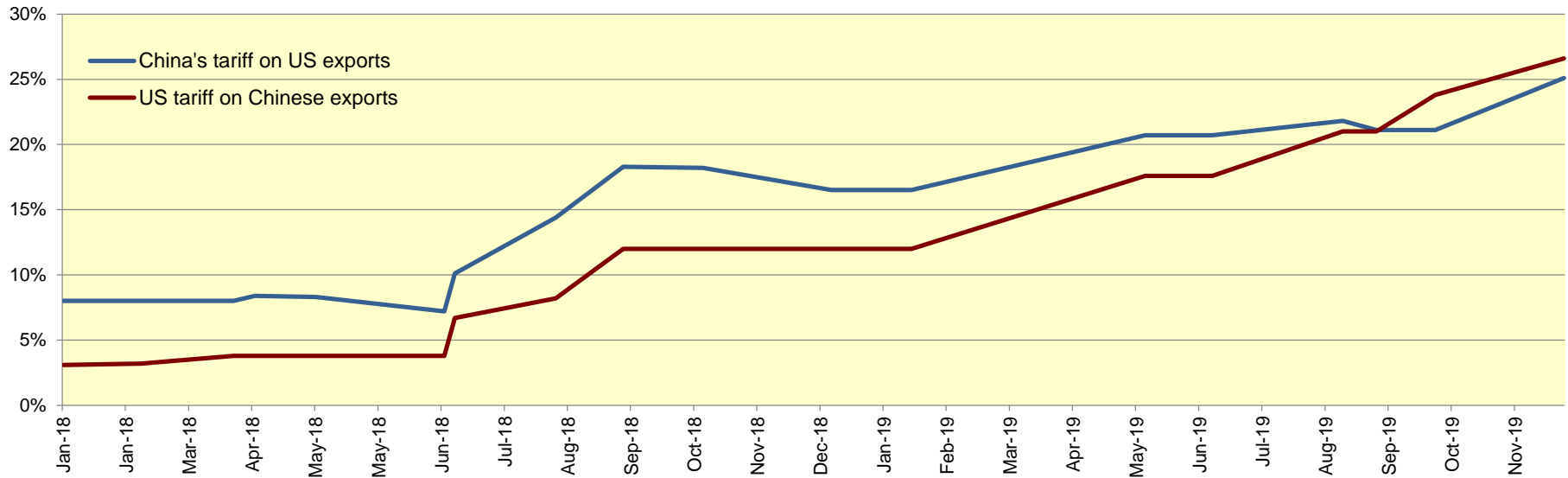
Source: Bloomberg, JP Morgan.

G7 Yield Matrix

	3-Month	1-Year	3-Year	5-Year	7-Year	10-Year	30-Year
Canada	1.65%	1.71%	1.51%	1.40%	1.36%	1.36%	1.53%
France	-0.59%	-0.63%	-0.73%	-0.64%	-0.50%	-0.28%	0.54%
Germany	-0.60%	-0.70%	-0.82%	-0.78%	-0.74%	-0.57%	-0.07%
Italy	-0.30%	-0.25%	-0.12%	0.21%	0.49%	0.82%	1.91%
Japan	-0.38%	-0.30%	-0.35%	-0.36%	-0.36%	-0.22%	0.36%
United Kingdom	0.68%	0.46%	0.29%	0.28%	0.26%	0.48%	0.97%
United States	1.82%	1.76%	1.56%	1.55%	1.61%	1.67%	2.11%

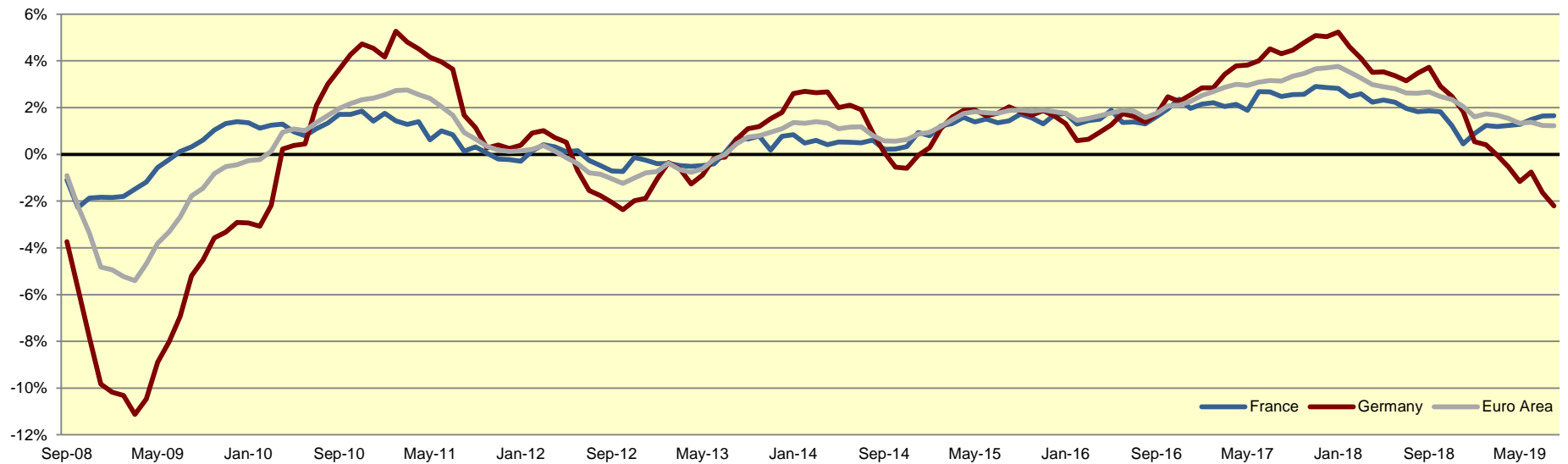
Source: Bloomberg. Data as of September 30, 2019.

Trade War: Average Tariff Rate Between US and China



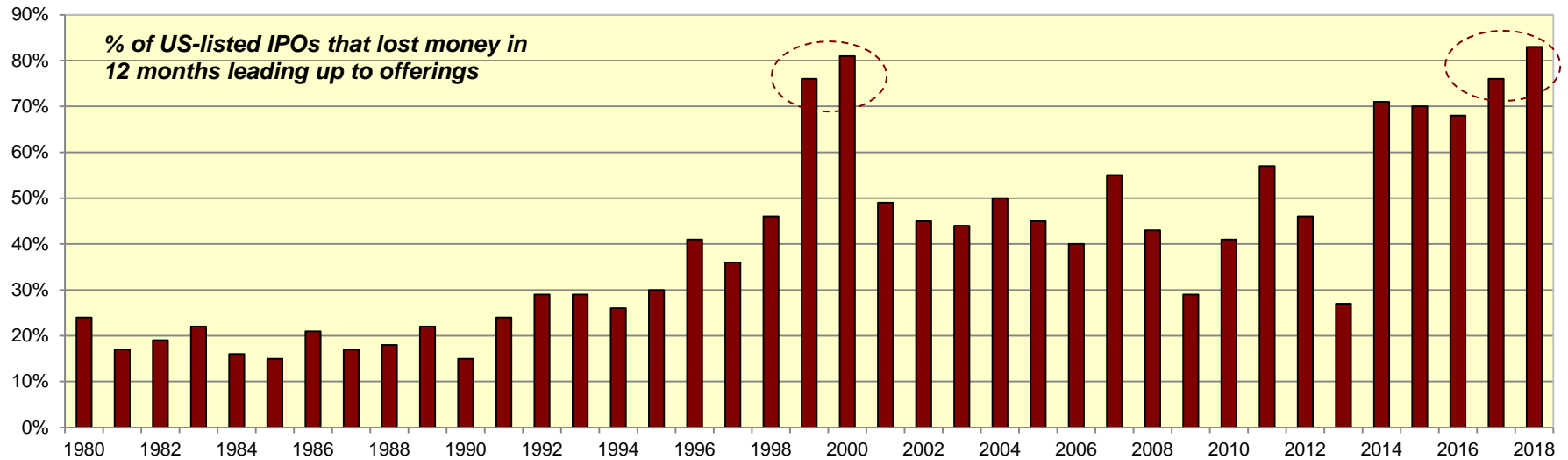
Source: Peterson Institute for International Economics. Data as of September 20, 2019.

GDP in Europe



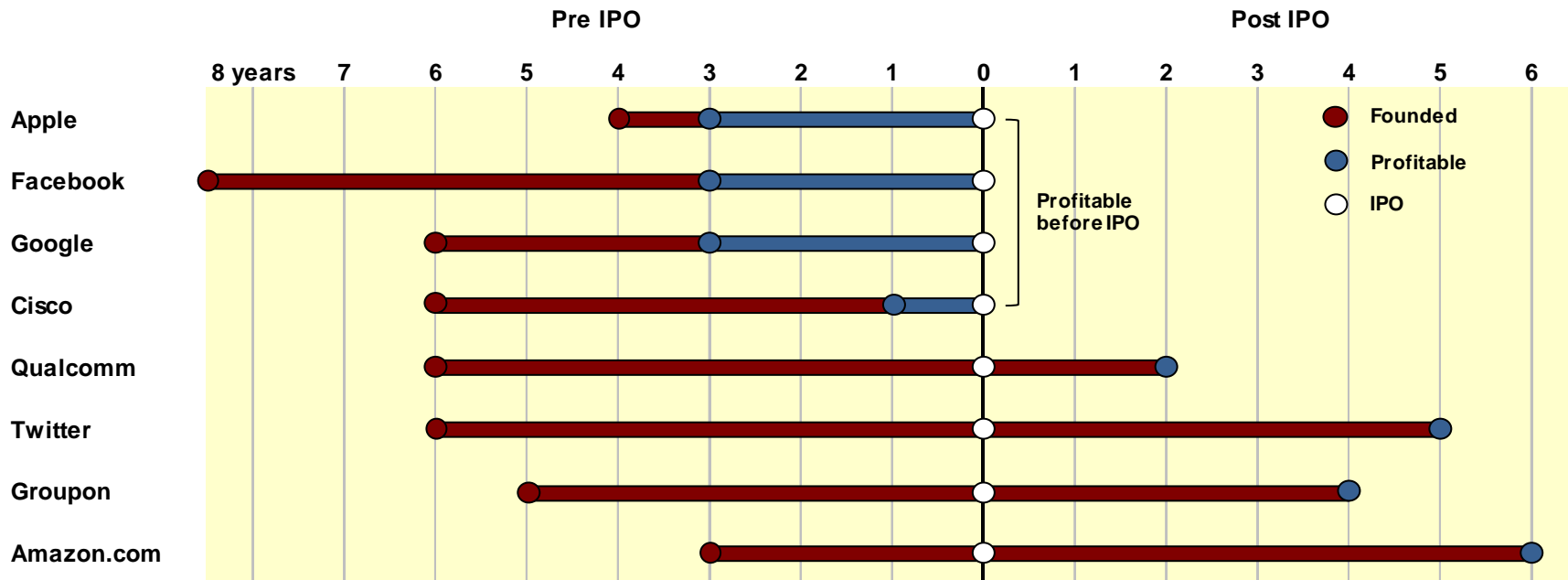
Source: Bloomberg.

Lack of Profitability of US IPOs



Source: WSJ.com.

Time to Profitability



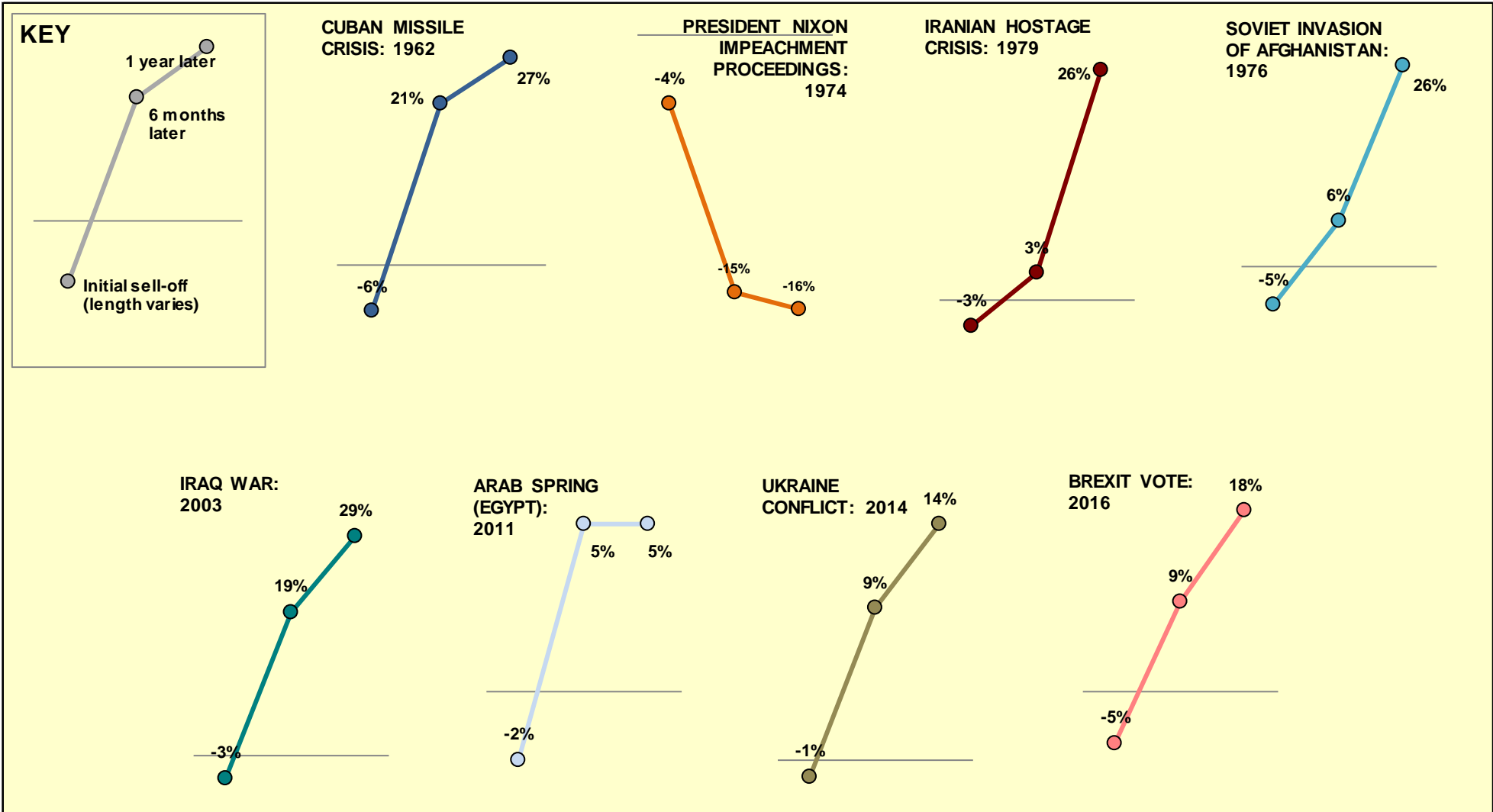
Source: WSJ.com.



Geopolitical Sell-Offs are Short-Lived

Average total return 6 months later: 5.3%

Average total return 1 year later: 9.8%



Notes: Not shown in the above charts, but included in the averages, are returns after the following events: the Suez crisis (1956), construction of the Berlin Wall (1961), assassination of President Kennedy (1963), authorization of military operations in Vietnam (1964), Israeli-Arab Six-Day War (1967), Israeli-Arab War/oil embargo (1973), Shah of Iran's exile (1979), invasion of Grenada (1983), U.S. bombing of Libya (1986), First Gulf War (1991), President Clinton impeachment proceedings (1998), Kosovo bombings (1999), multi-force intervention in Libya (2011), and the U.S. anti-ISIS intervention in Syria (2014).

Source: Vanguard. S&P 500 Total Return Index extracted from Bloomberg for all dates through December 31, 1987. Starting January 1, 1988, S&P 500 Total Return Index extracted from FactSet.

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Index returns are derived principally from market indices on Bloomberg and other third party proprietary databases such as Morningstar, HFRI and CS Tremont. The following four broad-based indices are examples of indices used in reports for comparative purposes only and have been selected as they are well known and may be easily recognizable by investors. The S&P 500 Index includes 70% of all U.S. equities and is weighted by market value, and its performance is thought to be representative of the U.S. stock market as a whole. The Barclays Aggregate Bond Index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities, and is a broad measure of the taxable, investment grade U.S. bond market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. It comprises 21 MSCI country indexes. The HFRI Monthly Indices are equal fund weighted and comprised of hedge funds that voluntarily report their performance to HFR. Each HFR broad strategy index consists of funds that allocate capital among several hedge fund strategies. Each strategic index consists of funds that allocate capital within a specific strategy. With respect to these and other indices used in this report, more detailed information is available upon request. Please note that these indices or performance benchmarks are comprised of securities which for the most part are dissimilar to the positions held directly or indirectly by the managers or funds in the portfolios represented in this report, and these indices or benchmarks do not have similar risk/return profiles to them. Additionally, indices are unmanaged; do not incur management fees, costs or expenses; and cannot be invested in directly. Benchmarks are provided for illustrative purposes only and should not be relied upon as an accurate measure of comparison.

Past Performance is No Guarantee of Future Results