JUNE 2019 IN REVIEW

July Update | As of June 30, 2019

ECONOMY:

U.S. ECONOMY MODERATES, FED SHIFTS IN JUNE

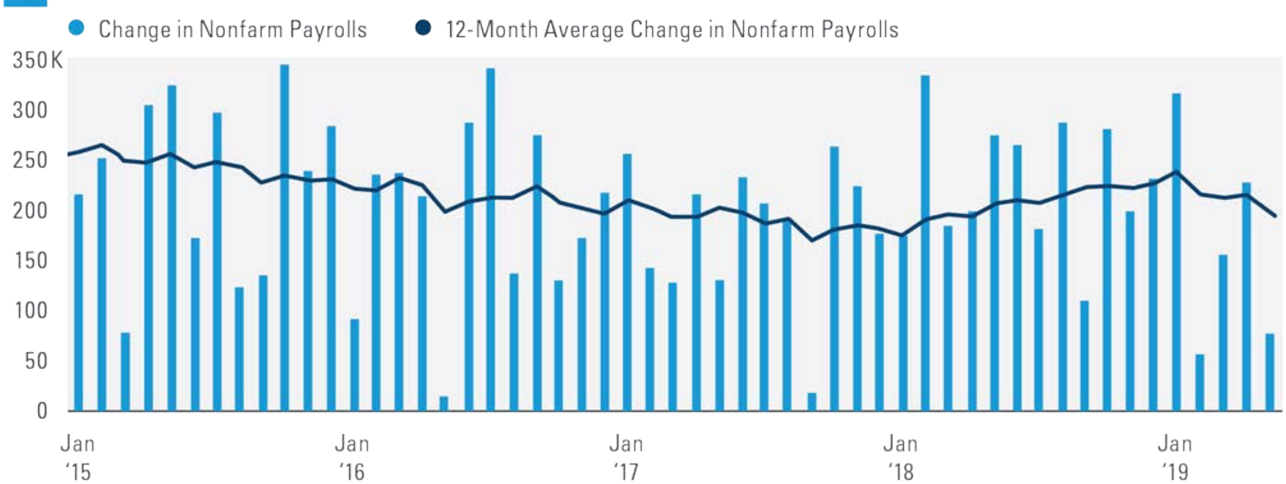
U.S. economic data moderated in June as trade tensions plagued the global economy.

Leading indicators slowed, but remained largely resilient against trade headwinds. The Conference Board's Leading Economic Index (LEI) rose 2.5% year over year in May, its slowest pace of year-over-year growth since January 2017. Still, the LEI is squarely in positive territory, signaling future growth.

The June jobs report was weaker than expected, fueling worries that trade tensions have infiltrated an otherwise solid U.S. labor market. Nonfarm payrolls growth fell well short of consensus estimates [Figure 1], and job gains for March and April were both revised down as well. Still, the average pace of payroll gains has remained steady this year, and slowing job creation is typical late in the business cycle.

The pace of consumer inflation continued to soften. The core Consumer Price Index, which excludes food and energy, increased 2% year over year, matching a 15-month low. Core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred inflation gauge, rose 1.6% year over year in April, below policymakers' 2% target.

1 LONG-TERM TREND OF SOLID JOB GAINS STILL IN PLACE



Source: LPL Research, Bureau of Labor Statistics 06/07/19

Past performance is no guarantee of future results.

Wage and input pricing pressures faded. Average hourly earnings rose 3.1% year over year in May, an eight-month low. However, current wage growth is at a level that should continue to bolster consumer confidence without concerns of overheating. Growth in the core Producer Price Index (PPI), which excludes food and energy prices, fell to 2.4% year over year, its fourth straight decline.

U.S. manufacturing deteriorated further. The Institute for Supply Management's (ISM) manufacturing Purchasing Managers Index (PMI), a gauge of U.S. manufacturing health, fell to its lowest point since October 2016. Markit's PMI ticked up slightly, according to preliminary June data, but the gauge remained less than a point away from contractionary territory (which is below 50).

Consumer sentiment faltered, as the Conference Board's Consumer Confidence Index fell to its lowest level since 2017. However, heightened trade tensions didn't faze corporate sentiment. The National Federation of Independent Business's measure of business confidence climbed for a fourth straight month. Retail sales rose for a third straight month in May, while new orders for nondefense capital goods climbed. Year-over-year growth in both measures was tepid, suggesting long-term demand is slowing.

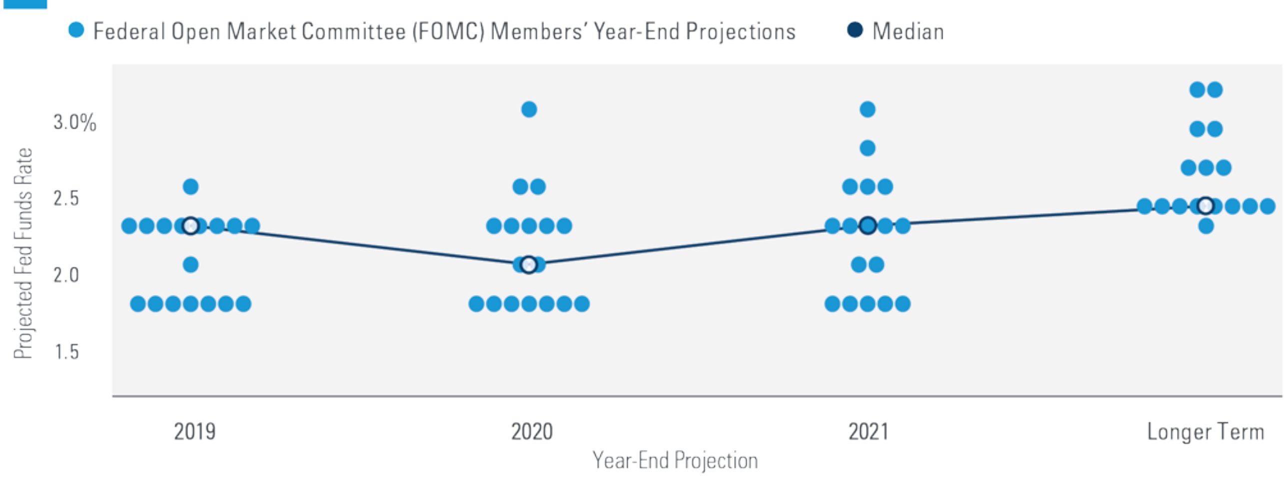
Fed Language Shifts

On June 18 the Fed chose to keep rates unchanged, but policymakers prepared investors in a measured fashion for an eventual policy shift [Figure 2]. The Fed dropped its "patient" policy stance in the post-meeting announcement and instead reiterated Fed Chair Jerome Powell's June 4 comments that policymakers will "act as appropriate to sustain the expansion."

Still, Powell emphasized in his post-meeting press conference that the U.S. economy is performing "reasonably well" with solid economic fundamentals. The Fed kept its gross domestic product (GDP) growth projection unchanged at 2.1% for the year, in line with average output growth in this expansion.

Financial markets are now overwhelmingly pricing in a July rate cut, with fed fund futures implying a 100% chance of lower rates at the Fed's July meeting.

2 FED DOTS REFLECT LOWER RATES IN 2019



Source: LPL Research, Bloomberg 06/19/19
The economic forecasts may not develop as predicted

GLOBAL EQUITIES

STOCKS COME ROARING BACK IN JUNE

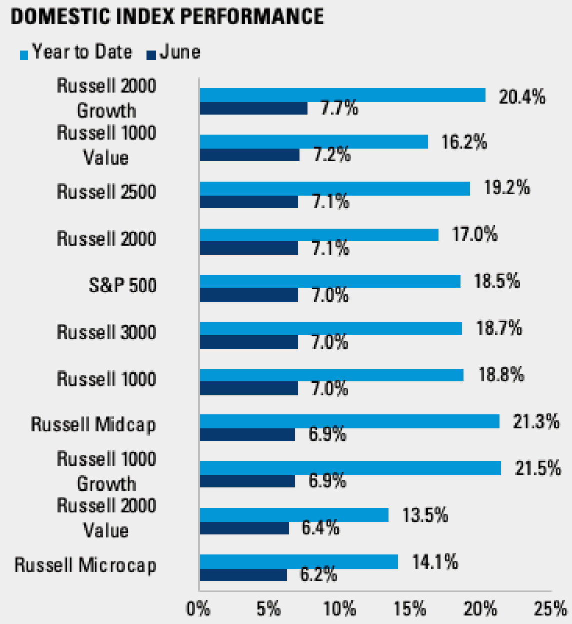
The S&P 500 Index returned 7% and reached new record highs in June, bouncing back from May's losses in what was the best performance by the index in any June in more than 60 years. Market participants became more comfortable with prospects for a U.S-China trade deal, which was likely the biggest reason for selling in May. The Fed also offered strong signals that a rate cut was coming, relief for those worried about overly restrictive monetary policy. The S&P 500 returned 18.5% in the first half of the year, trailing the Nasdaq (21.3%) but ahead of the Dow Jones Industrials (15.4%). For the S&P 500, it was the best first half of a year since 1997.

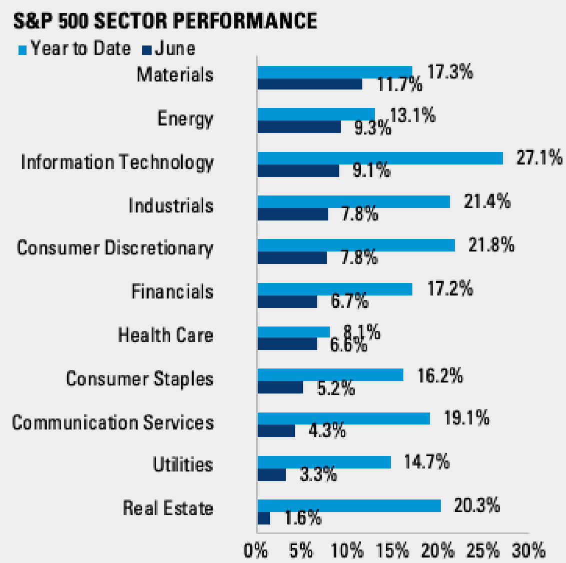
Trade and tariffs remained at the top of the list of investor concerns in June. After talks between the United States and China derailed in May, the market's confidence in an eventual deal was restored in June. Hopes for a trade war cease-fire helped propel stocks higher during the month, culminating in an agreement between President Trump and China's President Xi at the G20 summit at the end of the month in Japan, which included renewed talks and no new tariffs.

The Fed's policy U-turn was the other big market driver in June. Throughout the month, the bond market became increasingly confident not only in a July rate cut but also an additional potential cut in the fall. The existence of a so-called "Fed put," or a preemptive cut for insurance against unexpected deterioration in the U.S. economy, helped lift stock market sentiment. Investors have come to believe that the central bank would come to the rescue if the economy weakened further. A jobs shortfall in May and softer manufacturing and consumer sentiment surveys added to rate-cut speculation.

Performance across the market cap spectrum was tightly bunched in June, with similar returns from small, mid, and large cap stocks. Optimism around a potential trade deal likely helped support large caps, offsetting any benefit of greater historical market sensitivity for small and mid cap stocks. Mid caps led the first half with a 21.3% return, ahead of the 18.8% and 17% advances for large caps and small caps, respectively, based on the Russell indexes.

Growth and value produced similar returns during June, as was the case in May. At a macro level, slowing

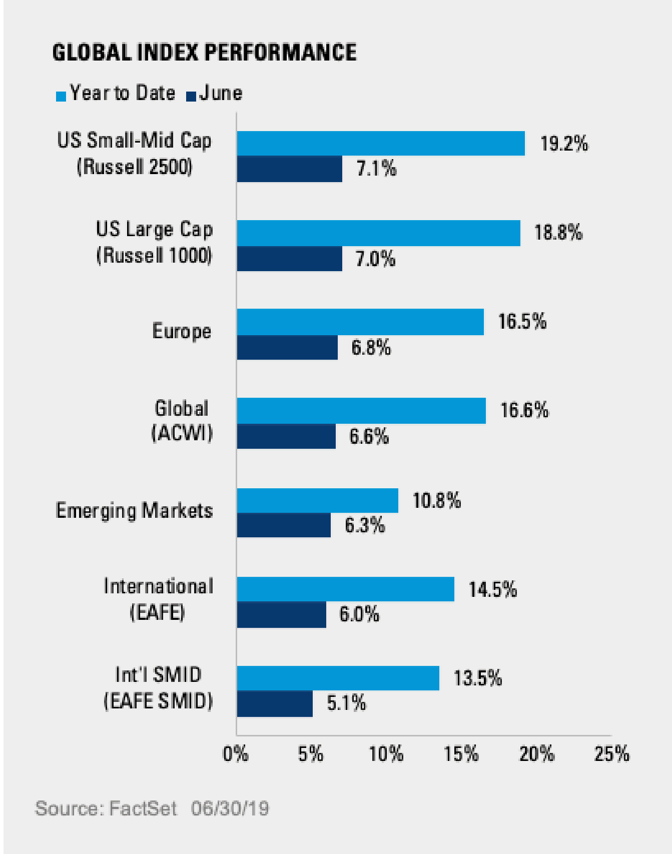




Source: FactSet 06/30/19
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

economic growth has tended to help growth. However, among large caps, value did slightly better during the month due mostly to weakness in the growth portions of the communication services and healthcare sectors. Growth still led value over the first half by about five percentage points, based on the Russell 1000 style indexes.

As one would expect, the more economic-sensitive sectors fared best in the June rally, led by materials, technology, and energy. Rebounding commodity prices helped support the materials and energy sectors while strength in hardware and semiconductor stocks lifted technology. Even as interest rates fell during the month, the interest-rate sensitive and defensive real estate and utilities sectors were the biggest laggards, each with gains of less than half the broad U.S. stock market.



International

International and emerging market (EM) equities participated in the global market rally in June but couldn't quite keep up with the domestic stock market rally. Both the MSCI EAFE and MSCI EM indexes, representing developed international and emerging markets, gained more than 6% during the month, but both fell a bit short of the S&P 500's 7% gain.

Prospects for more accommodative monetary policy from the European Central Bank helped buoy market sentiment in Europe, with leadership from France, Germany, and Switzerland. More broadly, a weak U.S. dollar helped buoy international markets, though that wasn't enough to offset weakness in Japan and the United Kingdom, as well as less technology sector exposure, leading to international underperformance. Geopolitical risks, particularly with regard to Iran, remain heightened.

Anticipation and the eventual announcement of a tariff cease-fire and more stimulus from the Chinese government helped support Chinese stocks during June. The MSCI China Index, with its 8.1% return, outpaced the broader EM index and the S&P 500. Other top EM country performers included Argentina, Russia, and South Korea; meanwhile, markets in India and Mexico lagged.

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Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

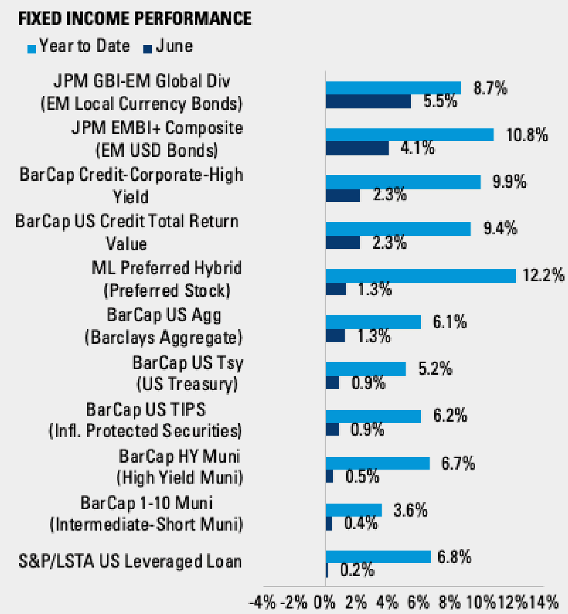
FIXED INCOME

10-YEAR YIELD FALLS FOR SECOND STRAIGHT MONTH

Treasury prices jumped and yields slid in June. The 10-year Treasury yield fell 12 basis points (0.12%) during the month to end at 2.01%, the lowest level since November 2016. Global investors have piled into U.S. Treasuries at an increasing rate this year as they search for income, safety, and liquidity. The increasing weight of trade tensions on the global economy has also fueled a rush into fixed income worldwide.

The spread between the 3-month and 10-year Treasury yields climbed, but closed the month in negative territory at -0.09%. The spread between the 2-year and 10-year yields increased to 25 basis points (0.25%).

All fixed income classes we track rose in June, as shown in the Fixed Income Performance Table. EM debt was the best-performing sector, while leveraged debt was the worst-performing sector. The Bloomberg Barclays U.S. Aggregate Index rose for a fourth straight month in June, its longest monthly winning streak since July 2016.



US Treasury Yields

Security	5/31/19	6/30/19	Change in Yield
3 Month	2.35	2.12	-0.23
2 Year	1.95	1.75	-0.20
5 Year	1.93	1.76	-0.17
10 Year	2.14	2.00	-0.14
30 Year	2.58	2.52	-0.06

AAA Municipal Yields

Security	5/31/19	6/30/19	Change in Yield
2 Year	1.42	1.35	-0.07
5 Year	1.53	1.46	-0.07
10 Year	1.86	1.83	-0.03
20 Year	2.37	2.35	-0.02
30 Year	2.49	2.48	-0.01

Source: FactSet 06/30/19
Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subjec t to availability and change in price.

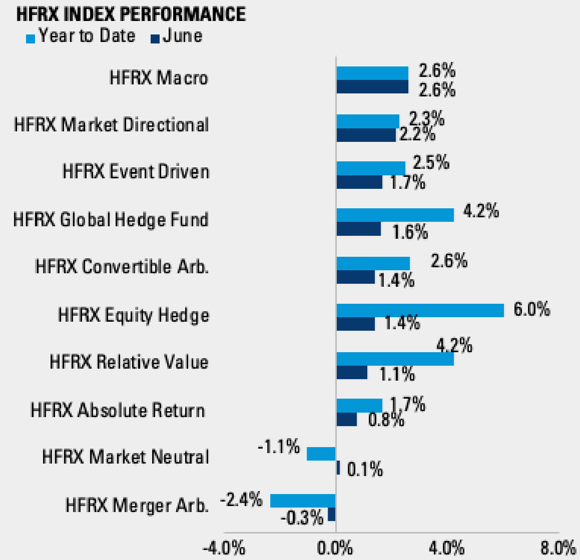
ALTERNATIVE INVESTMENTS

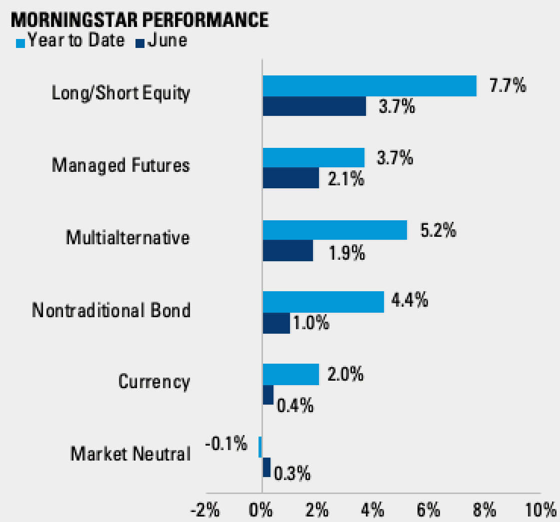
MACRO STRATEGIES DELIVER

The HFRX Equity Hedge Index gained 1.4% during June, as the industry encountered difficulty keeping pace with the impressive 7% rally in the S&P 500. In general, long/short equity positioning remains rather conservative, and managers maintained their net equity exposures even as the market continued to march higher. With all the underlying S&P 500 sectors positive for the month, short exposure was generally a headwind, with limited opportunities to add value.

The HFRX Index Performance Chart was the best performing sub strategy, with a gain of 3.1%. As has been the case for most of 2019, long equity and long bond exposure drove returns, as the market has begun to assume further accommodations from the Fed. Select commodity exposure also supported returns, as the price of gold gained over 6% and closed above $1,400 per ounce (Source: NYMEX) for the first time since 2013. Unfortunately, long positions in oil detracted from performance, as prices have declined since reaching their year-to-date high in April. For 2019, the HFRX Systematic Diversified Index has gained 4.4%, which represents the best first half of a year since 2015. Discretionary macro strategies also performed well during June, as the HFRX Macro Index gained 2.6%.

While the HFRX Merger Arbitrage Index declined 0.3% during June, it was still an active month for new deal announcements. An aerospace and defense merger, as well as a large pharmaceutical announcement showed that the merger and acquisition market remains healthy.





Source: FactSet 06/30/19
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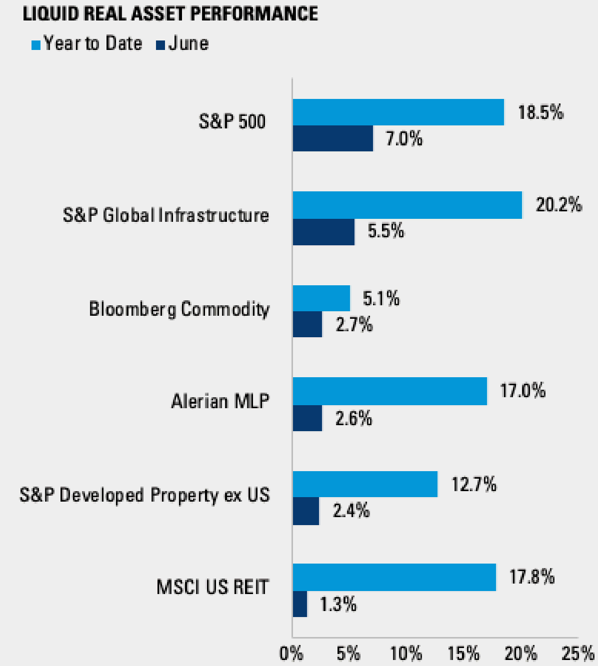
REAL ASSETS

BROADLY HIGHER BUT TRAILED EQUITIES

Liquid real assets posted gains during June, but none of the major categories we track was able to keep up with the U.S. or global equity benchmarks.

Master Limited Partnerships (MLP)

The Alerian MLP Index gained 2.6% in June, lagging significantly behind the broad equities indexes. The tailwinds of falling interest rates and rising oil prices were not enough to offset the market's preference for more economically sensitive investments. Falling natural gas prices also hindered the group some. After trailing in June, the 17% year-to-date return for MLPs dipped below the S&P 500 Index's 18.5% year-to-date return.



Source: FactSet 06/30/19

REITs and Global Infrastructure

The MSCI US REIT Index trailed the S&P 500 by about 6 percentage points in June, and it now trails the domestic equity index fractionally year to date. The industrial sector continued its strong performance through June, posting a monthly return of 7.5% to top the primary real estate sub-sectors for the month. The industrial REIT year-to-date return of 32.2% through June (Source: FTSE NAREIT Equity Industrial Index) illustrates the market's continued preference for warehouses and distribution centers. Shipping volume attributed to e-commerce remains a tailwind for that group. Down 1.6%, office was the worst performing sub-sector for June (Source: FTSE NAREIT Equity Office Index) and now trails the broad domestic REIT index by 2.5% year to date. International real estate performed slightly better but still trailed U.S. and global equities.

The S&P Global Infrastructure Index trailed domestic equities in June but outperformed domestic REITs by more than 4 percentage points. Global infrastructure outperformed both domestic REITs and domestic equities in the first half of 2019.

Commodities

The Bloomberg Commodity Index rallied 2.7% in June, with gains in crude oil a key driver. Year to date, commodities' 5.1% gain continues to significantly trail equities. Oil rallied more than 8% in June, benefiting from Iran tensions and the start of the U.S. summer driving season. Gold matched the strong U.S. stock market performance and benefited from a weaker U.S. dollar amid increasing expectations for Fed rate cuts. Industrial metals lagged despite positive developments on trade, possibly weighed down by weakness in aerospace and defense. Agriculture performance was mixed, with trade progress helping to lift soybeans, while plantings were bullish for wheat and bearish for corn. Softs including cocoa, sugar, and coffee all posted gains in the month. (Source for all performance numbers: Bloomberg Commodity Index).

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