FINANCIAL MARKET SNAPSHOT

Trade….And Then Some

June 3, 2019

U.S. trade policy with China has received most of the financial market headlines, but there were likely other issues that weighed on May market activity as well.

We believe that despite some recently positive U.S. GDP, jobs, and consumer confidence data, market participants have grown increasingly concerned with the state of the economy.

Uncertainty over U.S. trade policy with China and other global partners has gotten much of the attention and caused some tumult in in financial markets. However, this alone may not explain the weakness across many risky asset classes through the month of May. We have also seen a more pronounced slide in the type of economic data that does not often show up on the evening news. We believe this is causing some concern among market participants and may elicit a reaction from monetary policymakers. In addition, broad equity indices had gone up in nearly a straight line since late December, and we were likely overdue for some price correction. So, while trade has made headlines, some other issues have also led to the recent dent in investor confidence.

Across asset classes, global equities weakened and high yield bond spreads widened as investors gravitated, in part, to lower risk assets. Strength in Treasury and other core bonds and further ascension of the U.S. dollar were symptomatic of investors seeking some higher ground last month.

Table 1: Notable Returns / Yields / Spreads - February—May 2019

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month
High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

	Feb '19	Mar '19	Apr '19	May '19
S&P 500 Index	3.21%	1.94%	4.05%	-6.35%
MSCI EAFE Index	2.58%	0.72%	2.89%	-4.68%
MSCI Emerging Markets Index	0.22%	0.83%	2.12%	-7.23%
BBG Barc U.S. Aggregate Bond Index	-0.58%	1.92%	0.26%	1.78%
10-Year Treasury Yield	2.72%	2.41%	2.50%	2.13%
U.S. HY Corp Spread (10Yr)	3.82%	4.03%	3.62%	4.45%

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In terms of U.S./China trade, investors have been disappointed that a potential near-term "deal", a growing expectation in recent months, now seems further off. Both sides have criticized the other for moving the goal posts on an agreement, and each has imposed additional tariffs on the other in retaliation. The U.S. levied a new 25% duty on approximately $200 billion in imports from China. China answered that with higher tariffs on approximately $60 billion worth of U.S. goods bound for China shores. And finally, President Trump asked U.S. Trade Representative Robert

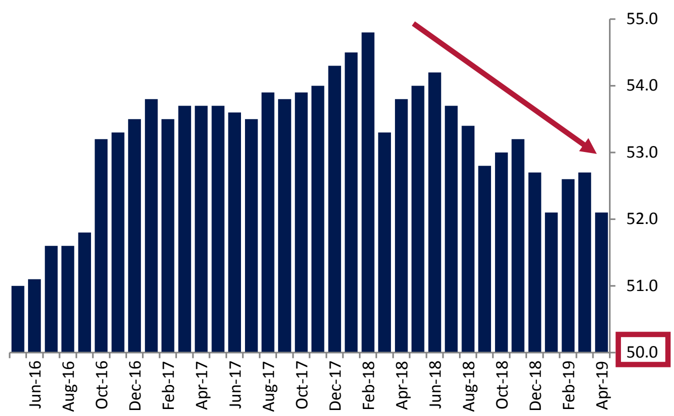
Lighthizer to prepare for tariffs on an additional $300 billion of China imports. As a result of the activity, the two sides seem far apart in reaching an agreement and the potential damage to global trade threatens to weigh on China, the U.S., and the global economy.

While new tariffs likely pose future risks to the global economy, we have already seen some deterioration in business activity that investors should be taking note of. Both issues, in our view, have provided fundamental reason for the reduction in risk-taking over the last month. Purchasing Managers' Indices (PMI: surveys designed as insight into business activity) are an economic data series that are indeed causing us some concern. Data readings in the PMI series, globally and across many individual countries, have been making a steady approach toward 50. Readings above 50 indicate economic growth, and those below 50 point to economic contraction. The trajectory of PMI numbers have been worrying and the increasing proximity to 50 only heightens the concern, in our view. Quietly, this data series (one closely watched by market forecasters) has likely combined with more widely-reported trade news to help curb risk appetites.

Figure 1 aggregates Purchasing Managers surveys for various manufacturing and services business in over 30 countries. In such cases, purchasing managers are asked to assess business conditions concerning various aspects of their operation, including new orders, backlog, employment, etc.

We believe market participants have begun to pay more attention to this other like data series.

Figure 1: JP Morgan Global Composite PMI
Source: JP Morgan, IHS Markit



Our cautious model portfolio positioning has helped weather some of the recent volatility in equity prices.

The recent weakness in risky asset prices, including equities and non-core bonds has been answered by our consistently cautious positioning in our model portfolios. Thus, we believe our portfolios have been prepared for what May has offered in terms of price volatility. We have carried some excess cash in our models and we have been increasing our investment focus on investment grade or core bond assets.

In sum, we have been taking action to maintain a firm handle on portfolio risk, especially during a long-standing, and perhaps unsustainable period of equity price recovery that occurred from late December through April. Recent price weakness has helped avow our more cautious position and recent economic data we point to here likely calls for a continuation of our steady investment approach.

As we look ahead, we would anticipate some monetary policy response to the economic data we have been seeing and to the risk posed by heightened trade tensions. We believe monetary action could help support equity prices, however, some of that potential benefit could be offset by what could be a prolonged chill in U.S./China trade relations.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

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