FINANCIAL MARKET SNAPSHOT

All Eyes on Central Banks

July 1, 2019

Some dovish commentary from the world's key central bankers has again provided a platform for an equity rally.

In our view, a resolute monetary policy stance against economic weakness may continue to be a bullish backdrop for equities.

After some shaky market performance in May, central bank expectations re-ignited an equity rally in June. Both Mario Draghi, President of the European Central Bank, and Jerome Powell, Federal Reserve Chair, gave signals that policy could be eased to support recent indications of economic weakness. Via Fed funds futures, markets have now fully accounted for a potential Fed rate cut at the Federal Reserve's next two monetary policy meetings (July and September). This sentiment tailwind, coupled with some indication that U.S./China trade talks could get restarted, sent stocks markedly higher in June, while high-yield bonds and commodity prices also rose. Notably, market participants priced-in potential Fed policy action by taking the 10-year Treasury yield down to 2.01%; the lowest such reading since late 2016. According to futures markets, investors now expect 75 basis points of Fed rate cuts this year, which could bring the Fed funds rate back to 1.75% (upper bound).

Broadly, investor confidence seems to be hanging on the notion that central banks appear willing to backstop the economy and markets. The Fed has been reversing its previously hawkish tone, and Mario Draghi also affirmed his willingness to shift policy levers in order to potentially prevent European economics from a further downslide. Economically, we have indeed continued to see numbers, particularly Purchasing Managers' Index readings, that leave us a bit cautious. However, in terms of the equity market, betting against central bank policy has historically been a losing game. Thus, despite the economic and other geopolitical risks now present,

Table 1: Notable Returns / Yields / Spreads - March—June 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)

	Mar '19	Apr '19	May '19	Jun '19
S&P 500 Index	1.94%	4.05%	-6.35%	7.05%
MSCI EAFE Index	0.72%	2.89%	-4.68%	5.97%
MSCI Emerging Markets Index	0.83%	2.12%	-7.23%	6.28%
BBG Barc U.S. Aggregate Bond Index	1.92%	0.26%	1.78%	1.26%
10-Year Treasury Yield	2.41%	2.50%	2.13%	2.01%
U.S. HY Corp Spread (10Yr)	4.03%	3.62%	4.45%	3.86%

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we believe stock prices could continue to glide higher ahead of another potential dose of monetary policy accommodation.

Tactically, we have been putting money back to work in our internal model portfolios. Market trends have continued to improve off of the late-December bottom and we have been reacting accordingly. Our fundamental view has been somewhat cautious given bouts of weakness we have seen in several economic indicators. However, these inputs have now been largely offset by the sentiment impetus of monetary policy expectation. While we are not without some caution economically, we anticipate risky asset prices (including stocks) could move in accordance with a now more resolutely accommodative Federals Reserve (and ECB). With this in mind, investors should maintain a modest overweight to equities, based on sentiment and trend, but stop short of highly aggressive positioning given important fundamental uncertainties. At this time, we are targeting such a balance in our internal portfolios.

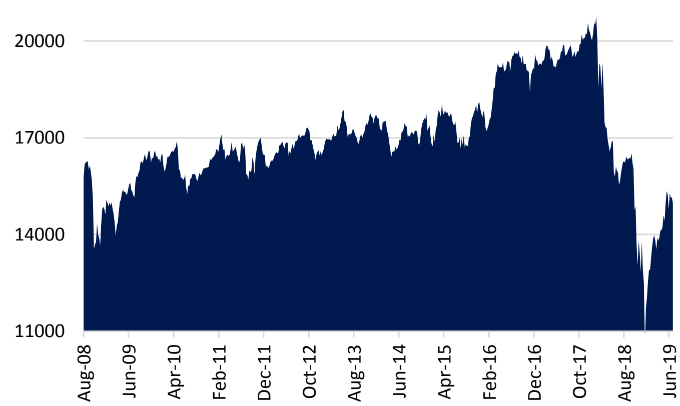
Figure 1: Smart Money Flow Index

Source: WallStreetCourier.com

The Smart Money Flow Index measures Dow Jones Industrial Average Index price at the end of the first thirty minutes of daily trading and compares that to the end of day price.

The theory behind the Index is inexperienced and perhaps emotional investors transact at the open, while institutional investors, armed with the best possible information, place orders near the close.

The difference between the two prices constitute the index. A rising index represents the fact that "smart money" is buying at or near the close.



The Smart Money Flow Index above illustrates the changing flow of market interest from latter 2018 until now. While we do not believe this index is the ultimate market forecasting tool, it does offer a picture of how "smart money" may view investing prospects. Notice this index was losing altitude well before the steep drawdown in Q4 2018, and has recovered, in part, as monetary policy sentiment has changed.

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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All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

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.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

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.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

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