

Capital Markets Update Q2 2019

Investing in equities during the second quarter was akin to riding a roller coaster—a slow steady climb in April gave way to a sharp drop in May followed by a rapid rise in June. In the end, both equity and bond markets posted quarterly gains adding to already strong year-to-date results.

PERFORMANCE DRIVERS

Positive Performers

The market cheered the growing consensus that the Federal Reserve will cut rates later this year. This provided broad support to risk assets.

While U.S. growth stocks remained dominant on a year-to-date basis, defensive sectors such as utilities and consumer staples performed well amid second quarter volatility.

A sharp drop in interest rates led to the best first half of the year for the U.S. bond market since 1995. Interest rates fell due to expectations of future rate cuts and signs of slowing growth.

Negative Performers

A breakdown in U.S.—China trade negotiations provided the catalyst for the equity downturn during May. Emerging market equities were particularly weak as a result of this political discord.

Oil prices were unable to maintain first quarter gains amid weakening economic indicators. Tensions in the Middle East led to a partial rebound late in the quarter.

The U.S. Treasury yield curve inverted with the yield on 10-Year Treasury Notes falling 10 basis points below the yield on 3-Month T-Bills. The past several recessions in the U.S. were preceded by an inverted yield curve.

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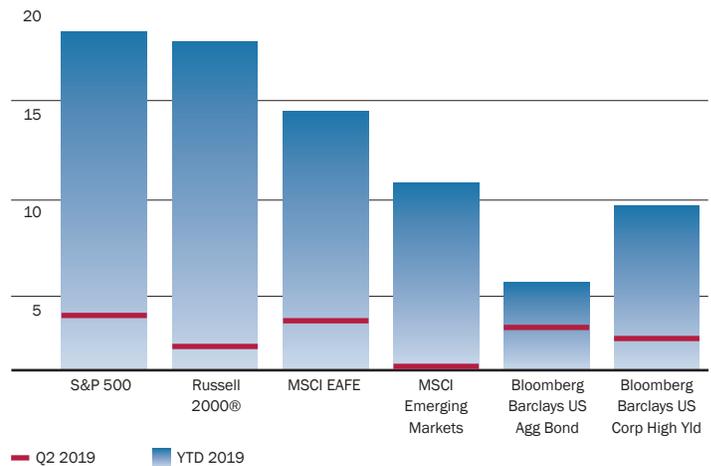
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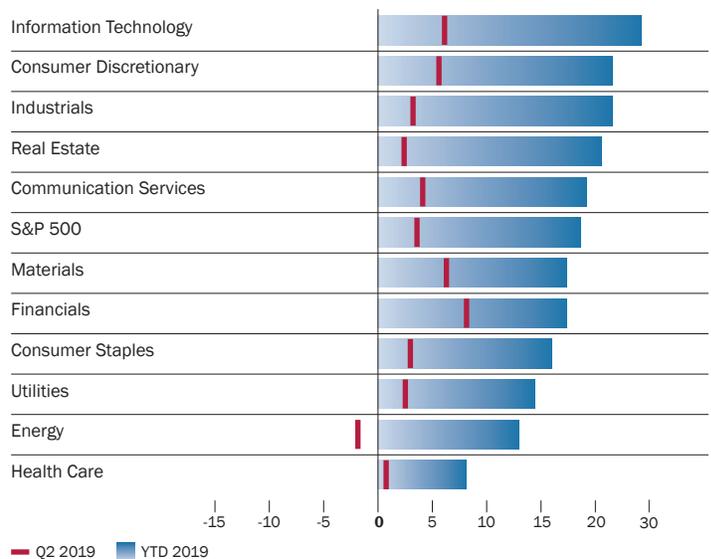
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INDEX RETURNS% Through June 30, 2019



Source: Morningstar Direct, S&P Dow Jones Indices LLC, a division of S&P Global, Russell, MSCI, Bloomberg Finance, L.P.

S&P 500 SECTOR RETURNS% Through June 30, 2019



Source: Morningstar Direct, S&P Dow Jones Indices LLC, a division of S&P Global

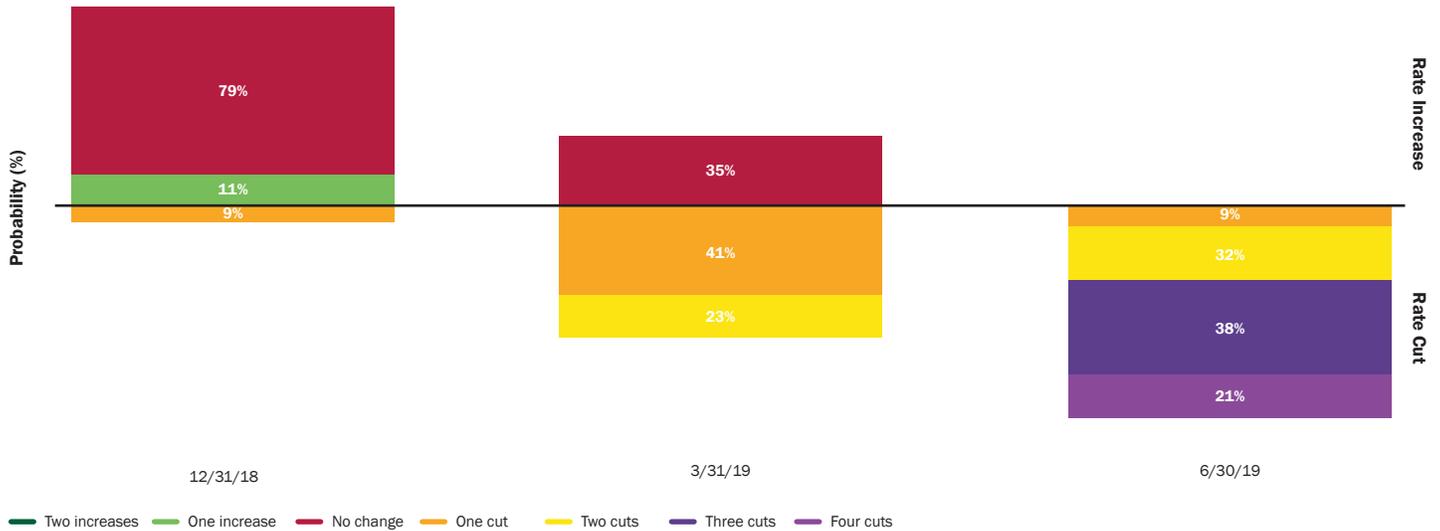
10-YEAR U.S. TREASURY BOND YIELD Through June 30, 2019



Source: U.S. Department of the Treasury

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MARKET EXPECTATIONS: YEAR-END 2019 FED FUNDS RATE



Source: Bloomberg Finance, L.P., CME FedWatch Tool.

As the U.S. enters the 11th year of the post-2008 bull market, economic indicators are mixed. While employment remains solid and financial conditions are stable, manufacturing activity has softened considerably. During the first half of 2019, markets have recalibrated expectations for the future path of Federal Reserve interest rate decisions amid a muted inflation environment.

Currently, the market is pricing in a 100% probability of a Fed Funds Rate decrease by the end of 2019, compared to a 9% probability six months ago. The Federal Reserve, in its June 2019 release of projections, shifted its bias towards no rate increases or a potential rate cut in 2019.

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Bonds are subject to interest rate, price, and credit risks. Generally when interest rates rise, bond prices fall.

Investments in commodities may have greater volatility than investments in traditional securities.

Investments in emerging markets may be less liquid and more volatile. Additional risks include currency fluctuations, and political instability.

Equity investments are more volatile than bonds and subject to greater risks. Small- and mid-cap stocks involve greater risk than large-cap stocks.

High-yield fixed income securities are subject to liquidity and credit risk, and tend to be more volatile than investment grade fixed income.

Unless otherwise noted, all data herein is as of June 30, 2019.

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