Economic and Market Overview
Second Quarter 2019
Economic and Market Overview
Second Quarter 2019

The following commentary summarizes prior financial market activity, and uses data obtained from public sources. This commentary is intended for one-on-one use with a client’s financial advisor only, as a resource to manage assets and evaluate investment portfolio performance.

The Economy
The US economy’s growth accelerated again in the second quarter. The Bureau of Economic Analysis reported its third estimate of first quarter 2019 gross domestic product (GDP) of 3.1%, in line with the prior estimate, and higher than the fourth quarter of 2018’s 2.2% reading. The employment situation slowed substantially in the latest month, but continued to deliver gains, with an average of approximately 151,000 jobs added each month of the quarter. The unemployment rate held steady at 3.6%. The Federal Open Market Committee (FOMC) maintained its existing interest rate policy by keeping the federal funds rate target at a range of 2.25% to 2.50%. However, economists expect the FOMC to lower the fed funds rate as soon as July due to perceived slowing growth.

The global economic environment has continued to soften, as economists point to protectionist trade policies and uncertainties about the outcome and impact of Brexit. European economies have experienced a climate of slowing business investment, as firms delay investing in new projects until there is more clarity on the path of the region’s economy. China’s growth has also slowed, but the many policy initiatives it has taken over the past few quarters have enabled it to hold up relatively well. More action may be needed if the trade spat with the US continues much longer.
Economic and Market Overview
Second Quarter 2019

Highlights and Perspectives

GROSS DOMESTIC PRODUCT (GDP)
The Bureau of Economic Analysis released the third estimate of the first quarter 2019 real GDP, a seasonally adjusted annualized rate of 3.1%, higher than the fourth quarter’s 2.2% annualized growth, and in line with the prior estimate. The economy accelerated once again from the drop-off in the fourth quarter. Trade was the primary contributor to growth during the quarter, followed by consumer spending. Corporate profits fell by 2.6% (not annualized) during the quarter, while real disposable income rose by 2.0%. While economists were encouraged by the rebound in the first quarter, as well as the fact that the current expansion is now set to become the longest in history in July, concern has grown that the economy is showing signs of slowing. The deceleration was not expected, as last year’s growth was driven in part by deficit-financed tax cuts, the effect of which is now fading. Analysts believe the continuing trade battles with China, Mexico and others is having a chilling effect on businesses, which is contributing to the slowdown. One implication is that the FOMC is now expected to make at least one reduction in the fed funds rate this year, after economists had previously expected additional rate hikes.

U.S Equity Market Returns by Major Sector (GICS Sectors in S&P 500, Second Quarter 2Q19)

- Financials: 8.00%
- Materials: 6.31%
- Info. Tech.: 6.06%
- Cons. Disc.: 5.28%
- Comm. Svcs.: 4.49%
- Cons. Staples: 3.72%
- Industrials: 3.57%
- Utilities: 3.48%
- Health Care: 1.38%
- Energy: -2.83%

Source: Morningstar, Inc.
Economic and Market Overview
Second Quarter 2019

HOUSING
The housing segment gained ground after sluggish performance in the prior two months. The key driver of the solid results was a decline in mortgage rates. Existing-home sales for May (the latest monthly data available) grew at an annualized rate of 5.3 million units, 2.5% higher than the results from April, but down about 11% from year-ago levels. The inventory of existing homes was at about four months of supply, in line with levels of the prior year. Existing-home prices in May increased 4.8% from May 2018. In the new-home segment, the National Association of Home Builders (NAHB) Housing Market Index (HMI), a measure of homebuilding activity, ended the quarter at 64, slightly lower than both the prior month’s and year-ago levels. The consensus among analysts is that the outlook for housing remains positive, particularly in the short term.

EMPLOYMENT
The employment situation slowed dramatically in May, surprising economists, who had expected much more significant gains. Employers added only 75,000 jobs during the month, well below the consensus expectations of 182,000 new jobs, and far below the prior month’s gain of 224,000. Analysts point to cuts in the retail and financial services segments as being key reasons for the slowdown in payroll growth. The three-month moving average actually rose modestly despite the small gains in May, coming in at 151,000. The unemployment rate in May remained at 3.6%, and economists are generally of the opinion that it will trend somewhat lower for the remainder of the year. Average hourly earnings increased by a 3.1% from the year-ago level.

FEDERAL RESERVE POLICY
The FOMC ended its recent June meeting by announcing that there would be no change in the federal funds rate target range to 2.25% to 2.50%. The decision to stand pat was widely expected, and was accompanied by changes to its accompanying statement indicating that the committee would be more open to a rate cut. Many economists believe that the FOMC will soon enact a rate cut as insurance against a recession, and that such a reduction may occur as soon as July. The timing, and magnitude, of the committee’s decision importantly will be informed by the expected outcome of trade discussions with China.

INTEREST RATES
Fixed income securities' prices and yields continued to be impacted by concerns about slowing global economic growth during the quarter, as well as the potential effects of ongoing trade battles. The FOMC had earlier in the year suspended increases in the fed funds rates, but has now taken a more dovish stance, with analysts expecting a rate cut in the near future. Slowing growth has resulted in a continuation in the rally in bond prices, and a drop in yields. Economists expect this trend to continue, as seven FOMC committee members anticipate cutting the fed funds rate by 50 basis points this year. The fed funds rate is now expected to end 2020 at 2.1%, as opposed to an expectation of 2.6% three months ago.
The Treasury yield curve increasingly exhibited a “trough” shape during the second quarter, with yields on the shortest- and longest-term maturities moving slightly lower, and yields in the “belly” of the curve falling by as much as 50 basis points. By the end of the quarter, the yield on the benchmark 10-year US Treasury note was lower, ending the quarter at 2.0%, compared to 2.41% on March 31.

As mentioned above, interest rates started the quarter meandering slightly higher, but embarked on a steady decline after the China trade discussions fell apart in April. In addition, investors were also attempting to understand the implications of the failure of U.K. Prime Minister Theresa May to secure a Brexit deal, which resulted in her resignation. Markets also had to grapple with the Trump administration’s threat...
to impose tariffs on Mexico unless they assisted in helping solve the migrant flow at the border. Yields at the short end of the yield curve (up to three years) ended the quarter generally about 30-50 basis points lower than in March, while those on the longer end were lower by approximately 30-40 basis points. The yield on the 3-month Treasury bill settled at 2.1% at the end of the quarter, down about 29 basis points from the end of the previous quarter. The yield on the 5-year Treasury note ended the quarter at 1.8%, compared to 2.23% on March 31, and as mentioned above, the yield on the 10-year Treasury note fell to 2.0% from 2.41% over the same period. At the same time, the yield on the 30-year Treasury bond declined, ending the period at 2.5%, compared to its beginning level of 2.82%. Inflation expectations were somewhat lower, with the Fed’s gauge of five-year forward inflation expectations declining slightly from 1.89% on March 31.

Total returns on fixed income securities were positive across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index rose by +3.2% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index rallied +4.5% during the three months. High yield securities, which often follow the performance of equities, climbed, delivering a positive return of +2.5%. Municipals continued to perform well, as the Bloomberg Barclays Municipal Bond Index gained +2.1% during the quarter. Prices of non-US fixed income securities were also higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced +3.4%. Emerging markets bonds continued their trend higher, with the JPM EMBI Global Index gaining +3.8%.

EQUITIES
Equity markets experienced a roller coaster ride during the quarter, with stocks posting strong gains in April before reversing course in May following the collapse of trade discussions with China, as well as the threats of tariffs on Mexico if the country did not assist with the migrant flow at the border. However, indexes rallied again in June as it became apparent that the FOMC was taking a more dovish approach to interest rates, and would likely lower the fed funds rate in response to slowing growth. In addition, trade tensions seemed to ease with both China and Mexico, renewing investor confidence. Within this landscape, the S&P 500 Index finished the quarter with a gain of +4.3%.

With the exception of the energy sector, each of the eleven primary economic sectors produced performance results that were positive during the quarter. Financial Services, Materials and Information Technology were the strongest performers on a relative basis, generating returns of +8.0%, +6.3%, and +6.1%, respectively. The Energy, Health Care, and Real Estate sectors were the poorest relative performers, posting returns of -2.8%, +1.4%, and +2.5%, respectively.
Economic and Market Overview
Second Quarter 2019

The Russell 1000 Index of large capitalization stocks generated a +4.3% total return. Within the large cap segment, growth stocks sharply outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly underperformed large caps, and finished the quarter with a total return of +2.1%. Small cap value underperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of +3.9%. The Dow Jones Industrial Average of 30 large industrial companies advanced +3.2%.

Real Estate Investment Trusts (REITs) posted modest gains during the quarter, with the DJ US Select REIT Index up 0.8%. Commodities were mixed, with the Bloomberg Commodity Index losing -1.2% for the quarter.

International stocks again generated positive results that in line with the gains in US equities. In the Eurozone, economic growth has struggled to gain momentum with the uncertainty surrounding Brexit and the resignation of UK Prime Minister Theresa May. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, advanced by +3.0%. The MSCI EAFE Index of developed markets stocks rose by +3.7%. Regional performance was mixed for the quarter. Eastern Europe was the strongest performer on a relative basis, with a return of +12.4%. China was the poorest relative performer, declining -4.0%. Emerging markets performance was positive, as the MSCI Emerging Markets Index was slightly higher by +0.6%.

<table>
<thead>
<tr>
<th>Non-U.S. Equity Market Returns</th>
<th>By Region (U.S. Dollars)</th>
<th>Second Quarter 2Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM (East. Eur.)</td>
<td>12.35%</td>
<td></td>
</tr>
<tr>
<td>Pacific Ex-Japan</td>
<td>5.16%</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>4.48%</td>
<td></td>
</tr>
<tr>
<td>EM (Latin Am.)</td>
<td>4.44%</td>
<td></td>
</tr>
<tr>
<td>World (Dev.)</td>
<td>4.00%</td>
<td></td>
</tr>
<tr>
<td>World Ex-USA</td>
<td>3.79%</td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>3.68%</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1.02%</td>
<td></td>
</tr>
<tr>
<td>EM</td>
<td>0.61%</td>
<td></td>
</tr>
<tr>
<td>EM (Asia)</td>
<td>-1.25%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Morningstar, Inc.
Outlook
While the US expansion will become the longest on record in July, recession fears have recently begun to emerge. Economic growth has slowed this quarter from the rebound in the first quarter, in large part due to what economists view as the Trump administration’s capricious approach to trade. The threat of tariffs has dampened business investment and confidence. The bond market is also exhibiting concerns about a recession, as yields have dropped significantly in the past quarter due to a flight to quality and low inflation expectations. The yield curve is inverted (i.e., yields on three-month bills are higher than on 10-year notes), which usually presages a recession a year later. However, recession worries are not currently being reflected in stock prices, with certain broad-based indexes recently establishing record highs. Stock prices historically have anticipated a recession about six months in advance. A steep decline in stock prices and significant drop in consumer spending will likely be the signs that the economy will be decelerating and enter into a recession, but the consensus among economists is that such an occurrence likely won’t occur until later in 2020.
Economic and Market Overview
Second Quarter 2019

DISCLAIMER
The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this quarterly review is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. Investment decisions always should be made based on the investor’s specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors, and investors should consult with an investment advisor to determine the appropriate investment strategy. Past performance is not indicative of future results.

Information obtained from third-party sources is believed to be reliable but not guaranteed. Envestnet | PMC™ makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing, and are subject to change at any time without notice.

Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons, such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines, or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) securities are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to their direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value, and are subject to the market fluctuations of their underlying investments. Investing in commodities can be volatile, can suffer from periods of prolonged decline in value, and may not be suitable for all investors. Index performance is presented for illustrative purposes only, and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. Investors should conduct their own due diligence to ensure they understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and nontraditional instruments, such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks, such as reverse merger arbitrage, long/short equity, convertible bond arbitrage, and fixed income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products use short selling, derivatives trading, and other leveraged investment techniques, such as futures trading, to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Neither Envestnet, Envestnet | PMC™ nor its representatives render tax, accounting, or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding US federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor. SR# 1222456
Economic and Market Overview
Second Quarter 2019

INDEX OVERVIEW
The Dow or DJIA (Dow Jones Industrial Average) is an unmanaged index of 30 common stocks comprising 30 actively traded blue chip stocks, primarily industrials, and assumes reinvestment of dividends. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The S&P 500 Index is an unmanaged index comprising 500 widely held securities considered to be representative of the stock market in general. The DJ U.S. Select REIT Index is a subset of the Dow Jones Americas Select RESI and includes only REITs and REIT-like securities (The Dow Jones U.S. Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the US). The Bloomberg Commodity Index is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity market, and is designed to minimize concentration in any one commodity or sector. The MSCI EAFE Index is recognized as the preeminent benchmark in the US to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East. The MSCI Emerging Markets Index is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI ACWI Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging markets country indices. The MSCI Emerging Markets (EM) Eastern Europe Index captures large and mid cap representation across four emerging markets (the Czech Republic, Hungary, Poland, and Russia) countries in Eastern Europe. With 52 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI EM (Emerging Markets) Latin America Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The MSCI ACWI Ex-U.S. Index is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies. The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, and P chips covering about 85% of this China equity universe. The Bloomberg Barclays Municipal Bond Index is an unmanaged index comprising investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The Bloomberg Barclays Global Aggregate ex-U.S. Index is a market-capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most US-traded investment-grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The Index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the US. The Bloomberg Barclays U.S. 5-10 Year Corporate Bond Index measures the investment return of US dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between 5 and 10 years. Treasury securities, mortgage-backed securities (MBS), foreign bonds, government agency bonds, and corporate bonds are some of the categories included in the Index. The Bloomberg Barclays Capital US 5-7 Year Treasury Bond Index is a market-capitalization-weighted index, and includes Treasury bonds issued by the US with a time to maturity of at least 5 years, but no more than 7 years. The Russell 1000 Index is a market-capitalization-weighted benchmark index made up of the 1000 largest US companies in the Russell 3000 Index (which comprises the 3000 largest US companies). The Russell 2000 Index is an unmanaged index considered representative of small cap stocks. The Russell 3000 Index is an unmanaged index considered to be representative of the US stock market, and measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Housing Market Index (HMI) is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months, as well as the traffic of prospective buyers of new homes. The JPMorgan Emerging Market Bond Index (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.
Economic and Market Overview
Second Quarter 2019

DEFINITIONS
The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System. The federal funds rate is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The European Central Bank (ECB) is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power, and thus price stability, in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999. The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The Bureau of Labor Statistics (BLS) is a unit of the United States Department of Labor. It is the principal fact-finding agency for the US government in the broad field of labor economics and statistics, and serves as a principal agency of the US Federal Statistical System. The Bureau of Economic Analysis (BEA) is an agency in the US Department of Commerce that provides important economic statistics, including the gross domestic product of the US. It is a governmental statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, state and local governments, business, and labor representatives. The PCE (Personal Consumption Expenditure) Index of Prices is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data, including US Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures, and is essentially a measure of goods and services targeted towards and consumed by individuals. Sector performance is represented by the Global Industry Classification Standard (GICS) sectors, developed by Standard & Poor’s and MSCI Barra.