



Marcia Peters, CFA
Chief Investment Officer



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Market Performance During the Second Quarter

Economic Review and Outlook, 2Q19

- ❖ First quarter's optimism gave way to renewed recession concerns in the second quarter. However, following stock price declines in May, equity markets finished the second quarter at record levels.
- ❖ Significant factors included:
 - The appearance of easing trade tensions between the Administration and China ahead of the June G20 Summit.
 - The Fed's indication they will act more accommodative, as necessary, given weaker global economic data and persistent core PCE inflation below their 2% target.
 - Despite not lowering the Fed Funds rate in June, several FOMC voting members indicated a preference for lower rates in the second half of the 2019.
 - Financial markets and economists estimated a 25-50 basis point cut at the July FOMC meeting.
 - Global monetary policy became more accommodative, as ECB guidance also indicated readiness to restart bond purchases and hold interest rates lower for longer.
- ❖ U. S. interest rates and the yield curve continued to shift downward over the quarter. Additional factors that impacted rates included weaker investment spending, business confidence, and global economic data.
 - The 10-year Treasury ended the quarter at 2.01%.

	2Q19 Return
S&P 500	4.30%
Russell 2000	2.10%
MSCI EAFE	3.68%
MSCI EM	0.61%
BBgBarc US Aggregate	3.08%
FTSE NAREIT	1.24%
S&P GSCI	-1.42%

Economic Factors to Consider

Economic Review and Outlook, 2Q19

- ❖ Although the current economic expansion is about to become the longest on record, uncertain economic data was a key reason the Federal Reserve considered a pre-emptive interest rate cut:
 - Manufacturing data was lackluster. New factory orders, and industrial production were lower ahead of the Fed's June meeting. Global manufacturing PMI survey data also pointed to sustained weakness.
 - Trade uncertainties continued to suppress U.S. business confidence and spending.
 - The unemployment rate at the end of the quarter (3.7%) continued to support consumer spending and confidence. Weakness in May's non-farms payrolls was offset by 224,000 new jobs in June. Wages increased at a 3.1% annualized rate, in part contributing to low inflation (CPI; +1.6% in June). Retail sales showed strength in June.
 - Looking deeper into jobs data, trade issues contributed to weaker hiring by manufacturers (autos) and small businesses.
- ❖ Global growth continued to decline due to slowing trade and the impact on industrial production. Global business confidence dropped from its peak at the beginning of 2018.
- ❖ EU growth estimates were lowered to 1.1% for 2019. Despite a bit stronger first quarter, data suggested weaker second quarter business activity from trade uncertainties. Germany's manufacturing continued a downtrend, and business sentiment moved lower. The ECB held rates at zero and moved out guidance for a rate hike until 2020.
- ❖ China's second quarter GDP was 6.2%, down from 6.4% annualized first quarter growth. Modest increases in retail and fixed asset spending suggested the country's stimulus efforts offset weaker trade.

- ❖ Lower global economic growth is projected in the second half of 2019 and is expected to remain below 3% through 2021.
- ❖ The U.S. and China have resumed trade discussions, but it is unclear when an agreement will be reached. As a result, business uncertainty remains high around the world, putting pressure on capital investment and spending. Businesses have continued cost cutting measures, and earnings overall are expected to be in the mid-single digits for this year.
- ❖ Oil prices (WTI) are expected to remain in the \$55-\$65/barrel range, which will be supportive to emerging market exporters, but geopolitical issues could drive increased volatility.
- ❖ So when is the next recession? Many analysts have pushed out their projections until late 2020 or 2021. Expectations generally are for a shallow recession as many of the historical causes (high inflation, asset pricing shocks, financial excesses) appear to be missing.
 - As of now, estimates for second quarter U.S. GDP are around 1.4-1.6%.
- ❖ Risk: lingering geopolitical policy uncertainty, especially related to trade tariffs.
 - Global growth expectations will center on U.S./China trade negotiations. Some analysts have speculated that pressure will build to reach an agreement before the 2020 elections.
 - Brexit policy is still at a stalemate until the next Prime Minister is selected. Boris Johnson, the front runner, has recently softened his tone with regards to the U.K. leaving the EU without a deal.
 - Populist parties improved their standing in the May European Union parliamentary elections.

Global Economic Growth

Economic Review and Outlook, 2Q19

- ❖ Based on manufacturing surveys, the outlook for global growth continued to weaken during the second quarter:

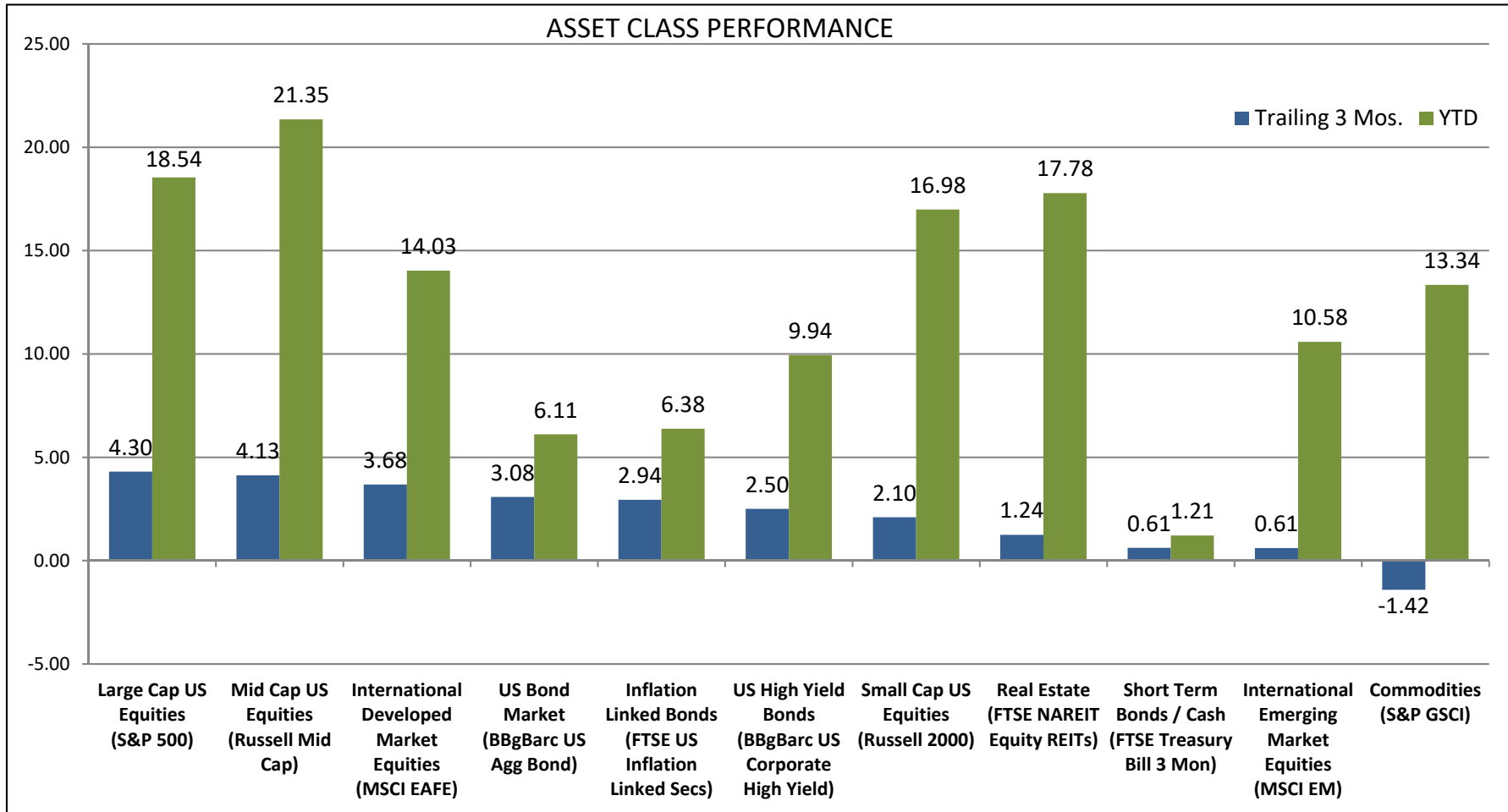
Global Purchasing Managers' Index for Manufacturing

	Jul-17	Aug-17	Sep-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
JPM Global	52.8	53.2	53.3	54.4	54.1	53.4	53.5	53.4	53.0	52.7	52.6	52.2	52.1	52.0	51.4	50.7	50.6	50.6	50.4	49.8	49.4
Developed	54.0	54.2	54.6	56.0	55.7	54.9	54.6	54.7	54.4	54.0	53.8	53.6	53.2	52.8	52.3	51.5	50.4	50.0	50.2	49.2	48.9
Emerging	51.0	51.7	51.4	52.0	51.9	51.3	51.2	51.1	51.2	51.0	50.8	50.3	50.5	50.8	50.3	50.0	50.6	51.0	50.5	50.4	49.9
US	53.3	52.8	53.1	55.3	55.3	55.6	56.4	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6
Canada	55.5	54.6	55.0	55.6	55.6	55.7	56.2	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	-
Japan	52.1	52.2	52.9	54.1	54.1	53.1	52.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3
UK	55.3	56.8	56.1	54.9	55.0	55.1	54.3	54.3	54.4	54.0	53.0	53.6	51.1	53.6	54.2	52.8	52.1	55.1	53.1	49.4	48.0
Euro Area	56.6	57.4	58.1	58.6	58.6	56.6	55.5	55.5	54.9	55.0	54.6	53.2	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6
Germany	58.1	59.3	60.6	60.6	60.6	58.2	56.9	56.9	55.9	57.0	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	45.0
France	54.9	55.8	56.1	55.9	55.9	53.7	54.4	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7	50.0	50.6	51.9
Italy	55.1	56.3	56.3	56.8	56.8	55.1	52.7	52.7	53.3	51.3	50.1	50.0	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.4
Spain	54.0	52.4	54.3	56.0	56.0	54.8	53.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	47.9
China	51.1	51.6	51.0	51.6	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4
India	47.9	51.2	51.2	52.1	52.1	51.0	51.2	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1
Brazil	50.0	50.9	50.9	53.2	53.2	53.4	50.7	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8	51.5	50.2	51.0
Mexico	51.2	52.2	52.8	51.6	51.6	52.4	51.0	51.0	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8	50.1	50.0	49.2
Russia	52.7	51.6	51.9	50.2	50.2	50.6	49.8	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.8	48.6

Source: Trading Economics and Markit Economics

Financial Market Performance Over the Quarter

Economic Review and Outlook, 2Q19



Financial Market Performance

Economic Review and Outlook, 2Q19

Data as of 6/30/19

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	3.21	15.40	12.20	16.80	12.29	15.03
	S&P 500	4.30	18.54	10.42	14.19	10.71	14.70
	NASDAQ Composite	3.87	21.33	7.78	19.56	13.97	17.19
	Wilshire 5000 Total Market	3.99	18.66	9.09	14.03	10.33	14.66
	Russell 1000	4.25	18.84	10.02	14.15	10.45	14.77
Large Cap	Russell 1000 Growth	4.64	21.49	11.56	18.07	13.39	16.28
	Russell 1000 Value	3.84	16.24	8.46	10.19	7.46	13.19
Mid Cap	Russell Mid Cap	4.13	21.35	7.83	12.16	8.63	15.16
	Russell Mid Cap Growth	5.40	26.08	13.94	16.49	11.10	16.02
	Russell Mid Cap Value	3.19	18.02	3.68	8.95	6.72	14.56
Small Cap	Russell 2000	2.10	16.98	-3.31	12.30	7.06	13.45
	Russell 2000 Growth	2.75	20.36	-0.49	14.69	8.63	14.41
	Russell 2000 Value	1.38	13.47	-6.24	9.81	5.39	12.40

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI ACWI	3.61	16.23	5.74	11.62	6.16	10.15
	MSCI ACWI Ex USA	2.98	13.60	1.29	9.39	2.16	6.54
	MSCI EAFE	3.68	14.03	1.08	9.11	2.25	6.90
	MSCI EAFE Growth	5.73	18.47	4.24	9.68	4.39	8.23
	MSCI EAFE Value	1.54	9.58	-2.10	8.46	0.05	5.50
	MSCI EAFE Small Cap	1.71	12.55	-6.35	9.06	4.40	9.67
	MSCI Europe	4.48	15.80	1.88	9.11	1.27	6.99
	MSCI Europe Ex UK	5.82	16.88	3.39	10.00	1.91	6.99
	MSCI Pacific Free	2.43	11.17	-0.17	9.38	4.29	6.90
	MSCI Pacific Free Ex Japan	5.16	18.03	8.06	11.94	4.04	8.92
	MSCI Japan	1.02	7.75	-4.19	8.06	4.47	5.85
	MSCI EM	0.61	10.58	1.21	10.66	2.49	5.81
	MSCI BRIC	-0.22	13.76	3.27	14.42	4.68	4.84
	Emerging	MSCI EM Latin America	4.44	12.64	18.45	10.79	-0.75
MSCI EM Europe		11.74	20.43	15.59	13.41	-0.96	3.63
MSCI EM Asia		-1.25	9.72	-2.29	11.21	4.49	7.48

Source: Morningstar

FIXED INCOME

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	BBgBarc US Agg Bond	3.08	6.11	7.87	2.31	2.95	3.90
	BBgBarc US Government	2.99	5.15	7.21	1.39	2.48	2.97
	BBgBarc US Credit	4.27	9.35	10.34	3.74	3.92	5.77
	BBgBarc US Govt/Credit Interm	2.59	4.97	6.93	1.99	2.39	3.24
	BBgBarc US Govt/Credit Long	6.59	13.46	13.82	3.76	5.68	7.62
	FTSE US Inflation Linked Secs	2.94	6.38	4.93	2.12	1.85	3.76
	BBgBarc EM USD Aggregate	3.75	9.39	10.95	5.05	4.61	7.67
	BBgBarc ABS	1.67	3.17	4.98	1.99	2.07	3.35
	BBgBarc US MBS	1.96	4.17	6.22	2.06	2.56	3.23
	FTSE Treasury Bill 3 Mon	0.61	1.21	2.30	1.36	0.84	0.46
	ICE BofAML 1-3Y US Trsy	1.44	2.44	3.96	1.29	1.21	1.20
	BBgBarc US Corp Aaa	5.04	10.31	11.86	3.71	4.66	5.20
	BBgBarc US Corp A	4.18	9.08	10.15	3.28	3.92	5.72
	BBgBarc US Corp Baa	4.86	10.87	11.38	4.71	4.24	6.86
	BBgBarc US Corporate High Yield	2.50	9.94	7.48	7.52	4.70	9.24
	BBgBarc US HY Caa	0.29	7.46	0.16	8.92	4.26	10.48

Source: Morningstar

STABLE VALUE & MONEY MARKET

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	Median Taxable Money Market Fund	0.61	1.22	2.30	1.34	0.85	0.53
	Median Stable Value Fund	0.62	1.22	2.39	2.11	1.97	2.21
	Consumer Price Index	0.64	1.83	1.28	1.93	1.38	1.70

Source: PEI

REAL ASSETS

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	FTSE NAREIT Equity REITs	1.24	17.78	11.21	4.20	7.92	15.46
	Bloomberg Commodity	-1.19	5.06	-6.75	-2.18	-9.15	-3.74
	S&P GSCI	-1.42	13.34	-11.49	1.55	-13.33	-5.19

Source: Morningstar

Survey Data: Outlook and Forecasts

Economic Review and Outlook, 2Q19

	Second Quarter, 2019*	Third Quarter, 2019*
U.S. GDP	1.93%	1.92%
Unemployment	-	3.6%
CPI	2.03%	-
Fed Funds	1.75-2.00%	-

"Risks are firmly on the downside, in part reflecting the possibility of destabilizing policy developments, including a further escalation of trade tensions between major economies."

-World Bank,
June 2019

Other Projections as of July 10, 2019

	2Q19 U.S. GDP	3Q19 U.S. GDP	2019 U.S. GDP	2019 Global GDP
<i>Atlanta Federal Reserve Bank</i>	1.4%	-	-	-
<i>New York Federal Reserve Bank</i>	1.48%	1.74%	-	-
<i>World Bank Group</i>			2.5%	2.6%

*Source: *The Wall Street Journal*, July 1, 2019; survey average of 76 economists