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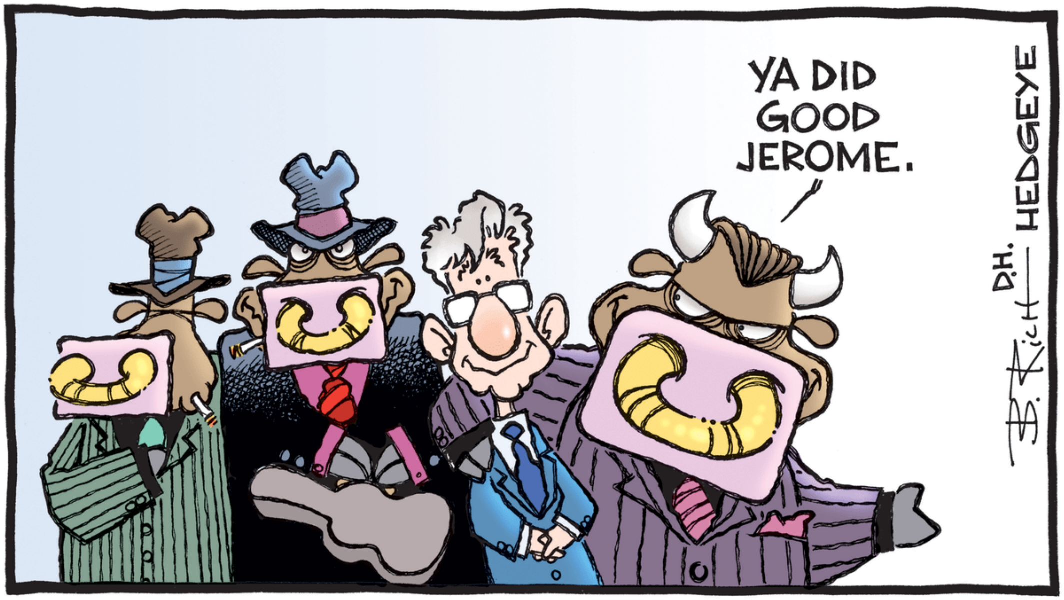
SECOND QUARTER 2019 MARKET RECAP



Stocks and Bonds Rally While Global Trade Tensions Rise

"I'm Gonna Make Him an Offer he Can't Refuse."

Federal Reserve Chairman Jerome Powell is like an ardent Caporegime, or Capo for those in the know, but instead of using a bat or gun to impose his will, he uses forward guidance. Forward guidance is the use of public statements and written commentary to manage short-term rate expectations. Fed Chair Powell and other central bank Capos around the world have strong-armed the financial markets higher by avowing to loosen financial policy if circumstances dictate. This has allayed concerns over rising trade tensions and slowing economic growth, helping propel stock and bond prices higher throughout the course of the first half ("1H") of 2019. US stock prices have rallied back to long-term valuation levels while bond yields have declined back towards their historical lows. We expect both US and global economic growth to decelerate but not enough to fall into recession over the next 12 months, which provides a positive backdrop for stocks. However, US stock valuations are at levels that require something more, such as a US-China trade deal, deeper interest rate cuts than what is currently anticipated, or the approval of an infrastructure bill to maintain the pace of returns generated during the first half of 2019. Meanwhile, the return potential for investment grade bonds is moderate, but this is offset by their ability to stabilize portfolio values during periods of financial market stress. We continue to see opportunity in foreign equities as well as other segments within stocks and bonds to support positive portfolio returns going forward. Thoughtful diversification, especially into lower correlated asset classes such as real assets and alternatives, will also help to further stabilize portfolios while offering differentiated sources of returns.

US Stocks Recap

The Standard & Poor's 500 Index ("S&P 500"), which measures the performance of the 500 largest publically traded companies in the US, rose 4.3% during second quarter 2019 and increased 18.5% for the first half of 2019. During the quarter, US stocks benefited from the perception that the US Federal Reserve ("Fed") had reached the end of its "tight" monetary policy efforts and may reduce short-term interest rates over the near-term. This expectation more than offset concerns over escalating trade tensions between the US and China, moderating US economic growth trends, and an inverted yield curve (where short term interest rates are higher than long term interest rates). A more "dovish" Fed was also the key driver behind US stock prices during the first half of 2019 helping propel the S&P 500 to its best six-month start of a year since 2007.

Within the S&P 500, Financials (+8.0%), Materials (+6.3%), and Technology (+6.1%) led all sectors over the second quarter while Real Estate (+2.5%), Healthcare (+1.4%), and Energy (-2.8%) were the worst performing sectors over this timeframe. Year-to-date through 6/30/19 ("YTD"), Technology (+27.1%), Consumer Discretionary (+21.8%), and Real Estate (+20.4%) led all sectors while Utilities (+14.7%), Energy (+13.1%), and Healthcare (+8.1%) were the laggards. During 2Q 2019, growth stocks, or shares of companies growing sales and profits faster than the broader market, rose 4.6% while value stocks, or shares of defensively-oriented companies that generally have slower growth and higher dividend payouts, increased 4.0%. Over the first six months of 2019, growth stocks more meaningfully outperformed, rising 20.2% versus +16.7% for value stocks.

International Stocks Recap

Foreign stocks, both international developed market and emerging market, underperformed US stocks during 2Q 2019 and the first half of 2019. The MSCI EAFE Index ("Europe, Australia-Asia, and Far East"), which measures the US dollar-denominated return of medium-to-large capitalization stocks in developed markets outside of the US and Canada, rose 3.7% during the second quarter and 14.0% YTD. Much like their US stock counterpart, international developed market stock performance in 2Q 2019 and 1H 2019 benefited from mounting expectations that the European Central Bank ("ECB") and Bank of Japan ("BoJ") would "loosen" monetary policy to stimulate economic growth and reinvigorate inflation, both of which have been negatively impacted by a slowdown in global trade activity. The delay of the United Kingdom's ("UK") exit from the European Union ("EU") to 10/31/19, otherwise known as "Brexit," also boosted developed market stock prices as the delay will give UK politicians more time to ratify an exit plan deemed acceptable by the EU thus avoiding the economically disruptive effects of a disorderly Brexit.

Emerging market stocks (countries with less than a $25,000 per capita income), as measured by the MSCI Emerging Markets USD Index, increased (on a US dollar-denominated basis) 0.6% and

10.6% in 2Q 2019 and 1H 2019 respectively. Emerging market stock returns continued to be influenced by the performance of Chinese stocks, which rose 20.1% during 1H 2019 but declined 3.8% in 2Q 2019 (as measured by the MSCI All China USD Index). Perceived progress towards a US-China trade deal supported Chinese stocks throughout most of 1H 2019, but an apparent last-minute change to preliminary deal terms by Chinese negotiators in May triggered a slump in Chinese stocks as the US responded by increasing the level of existing tariffs on Chinese imports while also threatening to levy a 25% tariff on the remaining $300 billion worth of Chinese imports now not subject to a tariff. While emerging market sentiment was further impacted by upheaval in Venezuela and heightened tensions between the US and Iran, progress towards tri-lateral approval of the US, Mexico, Canada (trade) Agreement (“USMCA”), also known as NAFTA 2.0, provided some support towards the end 2Q 2019.

Real Assets and Alternatives Recap

Real assets or physical assets that have tangible value and produce relatively stable income streams, experienced strong results during 2019. The Dow Jones Global World Real Estate Index rose 0.9% and 16.7% in 2Q 2019 and 1H 2019 respectively while the MSCI Core Infrastructure Index increased 3.5% and 19.7% during the same periods respectively. Increased demand for higher yielding bond substitutes, in response to declining US interest rate expectations, and relatively cheap valuations helped boost demand for these assets throughout 1H 2019. Midstream energy infrastructure assets as measured by the Alerian MLP Index, which is comprised of oil and natural gas/liquid pipelines and storage facility multi-limited partnerships, kept pace with the broader universe of infrastructure assets YTD, increasing 17.0%, but lagged in 2Q 2019 (+0.1%) due in part to declining energy prices.

The Wilshire Liquid Alternatives Index, which measures the returns of investment assets that have very low correlation (i.e. relationship) to traditional stocks and bonds, increased 1.3% in 2Q 2019 and +4.6% in 1H 2019. Since alternatives historically provide single digit returns with bond-like volatility, they are viewed as an attractive alternative to owning more fixed income (bonds) or cash as means to lower overall portfolio volatility. Over the past 20 years, institutional investors, such as pension funds and insurance companies, have consistently devoted 20-25% of their total investment assets to alternative investments to benefit from their differentiated risk and return patterns relative to traditional stocks and bonds.

US Fixed Income Recap

The Bloomberg Barclays US Aggregate Bond Index (“Barclays Agg”), a measure of high quality US bonds of all types, rose 3.1% in 2Q 2019 and increased 6.1% during the first half of 2019. Credit-sensitive bonds, namely investment grade corporate bonds, handily outperformed other investment grade bond sectors due to their relatively high correlation to US stocks and a narrowing of the yield spread differential between these bonds and US Treasuries. The Bank of America Merrill Lynch US Corporate Bond Index increased 4.4% and 9.6% in 2Q 2019 and 1H 2019 respectively while US Treasuries delivered similar results to the Barclays Agg. Agency mortgage-backed securities (“MBS”), as measured by the Bank of America Merrill Lynch US MBS Index, lagged the Barclays Agg in 2Q 2019 and 1H 2019 rising 2.0% and 4.3% respectively as the drop in mortgage rates over the course of 1H 2019 raised concerns over prepayment risk associated with these assets.

US investment grade bond prices reacted positively to the Fed's increasingly "dovish" stance towards monetary policy throughout 1H 2019 as the agency responded to continued benign inflationary pressures and weakening US economic activity stemming from the escalation in US trade tensions with China and other countries. At its latest policy meeting in June, the Fed not only reduced its outlook for future short-term interest rate hikes from two 25 basis point (0.25%) increases to zero hikes, but it signaled an openness to lowering short-term rates this year. The Fed also reiterated its goal to end quantitative tightening ("QT") in September. As you may recall, Fed Chairman Jerome Powell surprised the financial markets in March by saying the Fed would end QT in 2019, when just three months prior, he said the agency's bond-reduction program would remain on "automatic pilot" with no definitive end date. The expectation that the Fed will reduce the supply of Treasury bonds via its open market operations (it has to buy bonds to lower short-term rates) and ending QT (the Fed will stop selling its holdings of US Treasury bonds) pushed the yield on the 10-year US Treasury Bond down by 41 basis points during 2Q 2019 (from 2.41% on 3/31/19 to 2.00% on 6/30/19) and down by 69 basis points during the first half of 2019 (from 2.69% on 12/31/18 to 2.00% on 6/30/19).

The S&P National Municipal Bond Index rose 2.3% in the second quarter and was up 5.1% during the first half of 2019. While municipal bond returns lagged those of the Barclays Agg, due to their relatively high valuations, favorable supply-and-demand dynamics continued to be supportive of results. Net negative issuance (i.e. more bonds were called, retired, or matured versus new bonds issued) reduced supply while demand from investors impacted by the Tax Cuts and Jobs Act remained strong.

International Fixed Income Recap

Outside of the US, the Bloomberg Barclays International Aggregate Bond USD Index, a measure of developed market investment grade bonds of all types, also posted positive results (in US dollar terms) for 2Q 2019 and 1H 2019 rising 3.4% and 5.0% respectively. Concerns over rising global trade frictions and the perceived safety of developed market investment grade bonds boosted demand for these assets. Developed market investment grade bonds also benefited from more accommodative posturing out of the ECB, BoJ, and Bank of England ("BOE"), which are all expected to pursue more aggressive monetary policies to counter slowing economic growth trends as a result of escalating global trade conflicts and geopolitical headwinds (e.g. Brexit).

There is also an expectation the ECB, BoJ, and other central banks will begin to more aggressive use "unconventional" monetary policy tools, including quantitative easing ("QE"), the purchase of bonds to reduce interest rates, and negative interest rate policy (charging commercial banks a fee rather than giving them interest on overnight deposits held at the central bank) to reduce the risk of a "deflationary spiral" given the downward slide in inflation expectations YTD. The market value of global government bonds with a negative yield has grown from $zero (US dollars) just prior to when the ECB first implemented its negative interest rate policy in June 2014 to $9.9 trillion currently. The value of negative yielding government bonds, which stands at 26% of all investment grade government bonds globally, is expected to meaningfully rise as global central banks restart QE and move interest rates even more negative.

Emerging market bonds delivered strong results during the first half of 2019. The Bloomberg Barclays Emerging Market Aggregate Bond USD Index, which measures the performance of USD-denominated debt of government and corporate issuers was up 3.4% in 2Q 2019 and +9.5% in 1H 2019. Emerging market bonds were indirect beneficiaries of “looser” global central bank monetary policy given strong demand for their relatively higher yields as compared to developed market bonds.

The 3-Month Treasury Bill/10-Year Treasury Bond Curve Remains Inverted

The 3-month/10-year yield curve charts the spread between the 3-month Treasury bill yield (short-term rates) and the 10-year Treasury bond yield (long-term rates) over time. Normally, the yield curve is upward sloping, meaning short-term interest rates (i.e. yields) are typically lower than long-term interest rates. This is because investors demand a premium for having their interest rates fixed for longer periods of time. When a yield curve inverts, prevailing short-term interest rates are higher than long-term rates. This phenomenon is mostly observed in the later stages of an economic cycle and may serve as a signal that the financial markets expect the Fed to lower interest rates in the future to combat a near-term recession. In fact, the 3-month/10-year Treasury yield curve has preceded each of the last 7 recessions dating back to 1970, and recessions typically occur just prior to or at the beginning of structural bear markets in stocks. A structural bear market is when an index, such as the S&P 500, declines 20% or more in value over a period of at least 12 months.

The market strategists we regularly speak with do not believe the inverted yield curve portends a US recession over the next 12 to 18 months. As discussed in last quarter’s market recap, heightened demand for US bonds have further suppressed longer term yields as even more aggressive central bank accommodation outside of the US (namely in Japan and Europe) have maintained the attractiveness of US Treasury bonds given their relatively higher yield as compared to other sovereign bonds, especially when considering the growing level negative yielding international sovereign debt. Meanwhile, the Fed had been actively propping up short-term rates by raising the target for the federal funds rate (the interest rate at which commercial banks lend overnight reserve balances to each other on an uncollateralized basis) and through its forward guidance. Considering the Fed had been raising short-term rates from artificially low levels and central banks outside of the US continue to depress long-term rates, we think that the recession signal implied yield curve inversion is less powerful than in prior cycles.

This inversion simply confirms the US economy is in its late business (i.e. economic) cycle but not that a recession is imminent. While economic indicators have slowed, primarily due to artificially high levels of economic activity last year, spurred on by the 2017 tax cuts and the dampening effect of slower global trade, the US labor market remains extremely healthy and trends in key economic indicators, such as service sector activity and retail sales continue to signal an expanding economy. It is also important to note that the average time between the first incidence of yield curve inversion, which for the current cycle was March 22, 2019, and the beginning of a recession has been expanding from 1.0-1.5 years to just under 2 years. Should the Fed begin to lower short-term rates, experts tell us to expect the timeframe between first inversion and a recession to exceed the long end of historical ranges.

Outlook for US Stocks

We generally advocate maintaining meaningful exposure to US stocks but at approximately half the levels we would typically recommend earlier in a market cycle. The US economy, which is entrenched in the late phase of its business cycle, still provides a positive backdrop for stocks. However, most valuation measures we use in our analysis suggest US stocks are priced modestly above their long-term historical averages, which means there is little embedded discount to absorb volatility during periods of market stress. We also see modest upside to US stocks relative to returns experienced in 1H 2019 until there is better visibility into the ultimate outcome of the US-China trade war.

We remain (cautiously) optimistic that a trade deal will get negotiated sooner rather than later since the Trump administration realizes a protracted trade war with China would hurt the economy, the US stock market, and ultimately their prospects for reelection. China is incentivized to avoid an extended trade war since it would restrict access to US technology and meaningfully delay progress towards its “Made in China 2025” strategic targets. While China is predominately a consumer-based economy, export-related manufacturing remains a major driver of economic growth. A more meaningful slowdown in export-related manufacturing would thwart China’s efforts to reform its sizeable $4 trillion shadow banking (i.e. unregulated lending) market. Rising default rates (as a result of lower availability of non-regulated credit) and the government’s surprise seizure of Baoshang Bank Co. in May, the first such takeover of a commercial lender in 20 years, signal the potential for greater financial stress should the trade war continue for an extended period of time. We were encouraged by the post “G20 (meeting) trade truce” rhetoric. This included President Trump’s comment that the administration would allow US companies to sell equipment with “no great national emergency problem” to Huawei Technologies Co. Ltd. and China’s offer to the US to help shape the details of its new Foreign Investment Law to address specific concerns the US has over intellectual property protection and technology transfers.

The Fed’s pivot to a more accommodative approach to monetary policy will serve to backstop US stocks until a trade deal is consummated. It will also help support valuations if congress fails to prevent sequestration (i.e. mandatory budget cuts) at the end of September or if the UK is unable to avoid a “hard” Brexit at the end of October. The potential approval of an infrastructure bill represents an “upside risk” to US stocks since associated spending would further extend the US economic cycle, thus push out the timing of the next recession. An infrastructure bill would also offset the impact that an extended US-China trade war would have on economic growth. Revamping the US’s aging infrastructure is one of only a few areas of US congressional bipartisan support. The approval of an infrastructure bill would benefit both republicans and democrats going into the upcoming election cycle.

We generally recommend owning a balanced mix of predominately large cap value and growth stocks to reduce the volatility of client US stock holdings. The underlying managers we use to gain exposure to these stocks further reduce volatility by focusing on owning shares of high quality companies with robust cash flows and strong competitive positions within their respective industries. As we get stronger signs that the U.S economy is headed for a recession, we will look to further reduce risk by emphasizing value (dividend paying) stocks over growth stocks and directing investment towards managers that have greater flexibility to increase cash or buy high quality bonds to stabilize returns, especially during extended periods of heightened volatility.

Outlook for International Stocks

We maintain our positive view towards foreign stocks, both international developed market stocks and emerging market stocks. International developed market stocks remain poised to begin outperforming US stocks due to cheaper valuations and more aggressive central bank support. The potential UK approval of an EU exit plan deemed acceptable by the EU Commission on or before October 31, 2019, would remove a major (sentiment-related) negative perception on international developed market stocks and trigger an extended rally in these assets.

The experts we speak with think there is a low probability of a disorderly “hard” (i.e. no deal) Brexit. Instead, they expect the UK will either approve a close variant of the withdrawal agreement that outgoing Prime Minister, Theresa May, previously negotiated with the EU or the UK leaves the EU without a withdrawal agreement in place (i.e. a “no deal” Brexit). In a “no deal” Brexit scenario, it is anticipated that the UK and EU will immediately convene to negotiate a future free trade agreement. This outcome infers a “no deal” departure is likely to culminate in the pursuit of a deal from a different starting point. Regardless of the likely outcomes, we expect the actual Brexit event, to serve as potential catalyst for renewed interest in international developed market stocks since investors will have more confidence to invest in these securities given greater visibility into how the Brexit will ultimately proceed.

Emerging market stocks continue to provide an attractive long-term investment opportunity. Not only are these assets near the cheapest they have been in 15 years relative to US stocks, but underlying earnings growth, especially within local consumer-oriented industries, will be supported by an unprecedented expansion of the middle class within China, India, and other key emerging economies over the next decade. As discussed above, emerging market stock returns have not kept pace with their developed market peers YTD due to a surge in global trade tensions causing most large emerging market economies to grow below expectations. While trade tensions are not expected to meaningfully fade until a US-China trade deal is reached, the “dovish swerve” by the Fed and other developed market central banks has given emerging market central banks the opportunity to loosen their own monetary policies. We expect the easing of financial conditions combined with lower energy prices will help to improve the second-half 2019 growth outlook for emerging markets and reinvigorate investor interest in these securities.

It is important to note the growing influence China will have on emerging market stock returns now and in the future. Currently, China accounts for 33% of the MSCI Emerging Markets Index, which is more than double the weighting of the next largest constituent (13% S. Korea). Over the next three years, China's weighting in this index is expected to grow to 46% as result of 800+ locally traded companies (i.e. China A-share companies) becoming available to non-domestic investors. Even though economic growth in China will continue to decelerate, it remains one of the fastest-growing economies in the world, which provides a positive backdrop for long-term earnings growth for local companies and international companies with large exposure to the Chinese consumer. We appreciate that the trade war with the US has stymied economic growth and made it more difficult for the central government to execute essential reforms to set the country on more balanced and sustainable growth path. It is likely China will have to pursue more aggressive measures to ensure a "soft landing" (i.e. structural imbalances are unwound gradually and asset bubbles are deflated in a non-crisis fashion). Fortunately for China, the government has numerous levers to pull, including additional fiscal stimulus, additional tax reductions, launching new infrastructure projects, and easing credit standards within its regulated loan sector.

Outlook for Real Assets, Tactical Opportunities, and Alternatives

Real assets, which includes global real estate, global infrastructure, and domestic mid-stream energy pipelines and storage facilities, stand to benefit from the global reduction in interest rates. We expect demand for real assets to rise since they provide a viable substitute to bonds given their relatively stable income streams and low correlation to key bond risks, namely interest rate risk and credit (i.e. downgrade) risk. Real assets also serve as an important portfolio "diversifier" due to the defensive characteristics of these assets (their income streams tend to be derived from products and services essential to the efficient function of the global economy).

We generally maintain tactical investments in the communication services/technology, consumer staples, and healthcare equity sectors. Since stocks within these sectors tend to be less cyclically-oriented, they help to reduce the sensitivity of client stocks holdings to adverse changes in the business cycle. At this time, we view the relative weakness in healthcare stocks as a buying opportunity rather than a cause for concern. The rhetoric over the need for broad-based price controls and universal healthcare is more politically motivated than a true threat to the long-term growth tailwinds supporting this sector (i.e. aging demographics and constant innovation). When appropriate, we will look to increase investment in this sector if a client's portfolio weighting to healthcare stocks meaningfully falls below their respective individual strategic target.

Alternative assets and strategies ("alternatives") provide a level of diversification beyond which can typically be achieved with just traditional stocks and bonds. Since the price of these assets have the ability to "zig" while traditional stock and bond prices "zag" they can provide broader portfolio diversification and the opportunity to reduce risk and enhance returns. The managers we use within alternatives may utilize strategies that have the potential to generate positive returns when the broader financial markets decline, which helps to stabilize client portfolios during periods of weak stock market performance.

Outlook for Fixed Income

We generally continue to advise clients to hold a globally diversified mix of investment grade bonds with lower overall sensitivity to interest rate movements and changes in the credit environment. Investors are not being adequately compensated for taking excessive interest rate risk within bonds since global yields remain at historically low levels. The U.S. economy is also in the late phase of its current business cycle, which reduces the attractiveness of maintaining excessive credit exposure. We prefer to take more credit risk earlier in a business cycle when underlying economic conditions are improving and the risk of defaults are declining. We emphasize exposure to asset-backed securities (mostly mortgage-backed securities but also other collateralized pools of financial assets such as loans, leases, royalties, and receivables) since these bonds provide the opportunity to own high quality assets with lower correlations to interest rate changes. We also think exposure to emerging market bonds may be beneficial to many clients, as this asset class is one of the few areas within fixed income to offer attractive long-term, risk-adjusted, return opportunities supported by robust secular tailwinds.

As the US stock market nears the end of its current “bull market” cycle (a stock market cycle is a long-term price pattern of stocks that is often associated with the general economic cycle), we anticipate even greater stock volatility than what we have experienced over the past 7-8 years, including more frequent bouts of volatility and more extreme price movements. Higher volatility is a consistent late market cycle phenomenon since it is a byproduct of higher asset valuations. The higher the asset valuation the smaller the discount that can absorb perceived negative market events/headlines and increasing consternation over potential signs of economic deterioration (e.g. the market is aware that recessions typically occur just prior to or at the beginning of a recession). For most clients, we plan to further reduce credit risk in their portfolios by replacing existing core bond investments with even more conservative managers that have demonstrated an ability to generate more stable returns during periods of weak stock market performance.

The primary reason for maintaining meaningful exposure to fixed income is to reduce the fluctuation of portfolio returns, especially during tenuous market environments. The equity sector remains the primary means by which we advocate assuming risk to generate returns since these assets still provide the potential to deliver much higher upside. Combining stocks with predominately high quality bonds, real assets, and alternatives diversifies risk while improving the return potential of client portfolios through more efficient compounding of returns over time.

“You Want to Play Rough? Okay, Say Hello to my Little Friend.”

Unlike Tony Montana (Al Pacino) in Scarface, Fed Chairman Powell’s “little friend” is not a firearm but rather the Fed’s open market operations. Powell and the other global central bank “enforcers” will have to follow through with their promises to loosen monetary policy to appease the financial markets and support asset prices. This will be especially true if the US and China are unable to make meaningful progress towards a trade deal. While continued favorable global economic conditions provides a positive backdrop for stocks, we see increased financial market turbulence over the second half of this year as global trade tensions remain high, the US yield curve stays inverted, and key geopolitical events unfold (e.g. Brexit, US sequestration/budget negotiations).

Owning a conservatively positioned, well-diversified portfolio will help to stabilize portfolios during such turbulence. Thoughtful asset class diversification, including emphasizing sectors with the best risk-adjusted return profiles and owning asset classes that can dampen volatility while providing differentiated sources of upside potential will support more predictable investment return patterns over time.

We invite you to visit our new website at www.ginsburgadvisors.com. Here you will learn more about our services, value proposition, and our team. The site also has a useful "Resources" section where you can access our previous market commentaries, watch informative videos, download our latest staff contact list, and access useful financial calculators and web links. Please be sure to check the site periodically as we will be updating the functionality of the site to include a client portal and other useful applications.

As always, please contact us if you have any questions or concerns about your investment portfolio. We welcome the opportunity to discuss your goals and the most appropriate strategy to attain them. We are also honored to speak to any of your friends, associates, or relatives should they have an interest in our financial planning or investment management services.