Windsor™
WEALTH MANAGEMENT

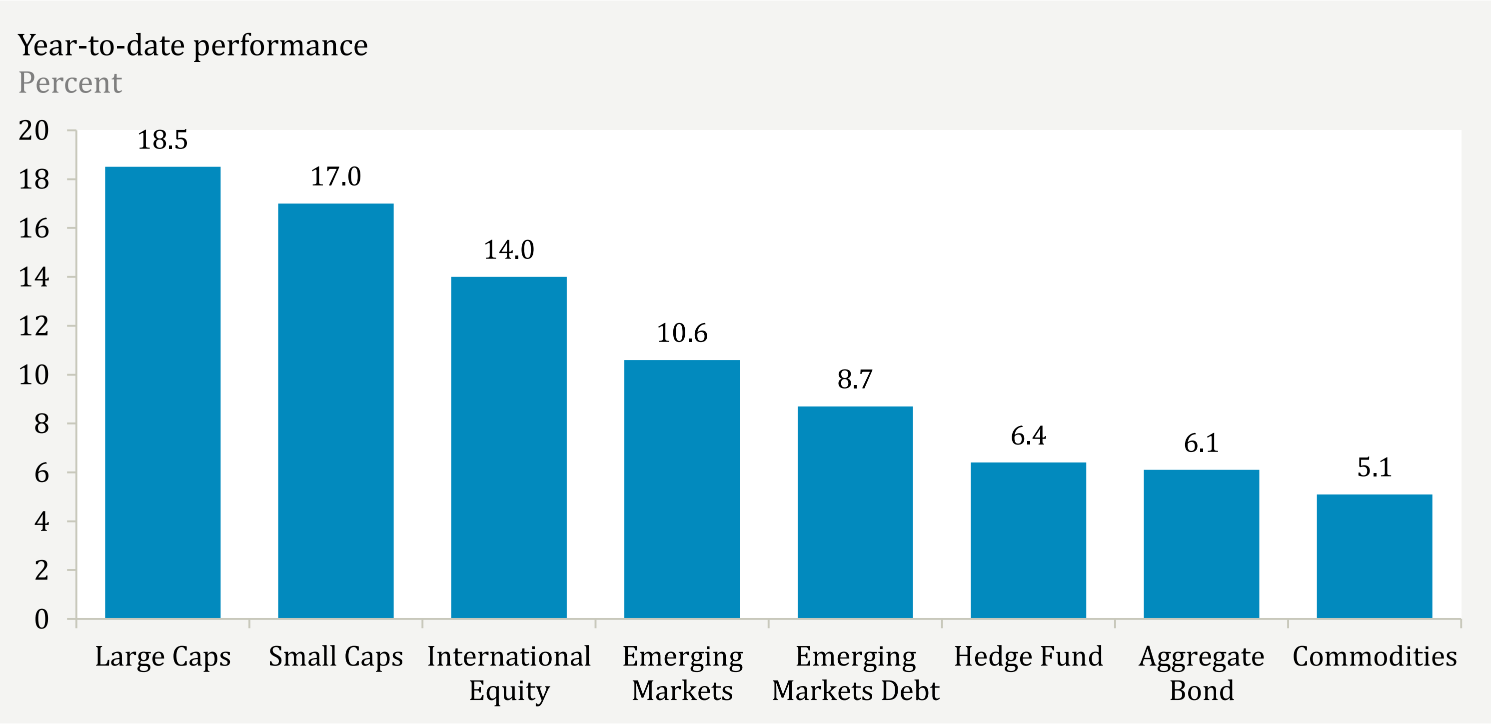
Dream boldly. Plan wisely.

Wisdom in your corner.

2019 Mid-Year Market Update

Overall Market Performance

Both U.S. equities and bonds benefited from the dovish shift in tone from global monetary policymakers that many investors hoped would lead to lower policy interest rates and greater liquidity growth. More globally linked assets such as commodities and emerging market equities lagged.

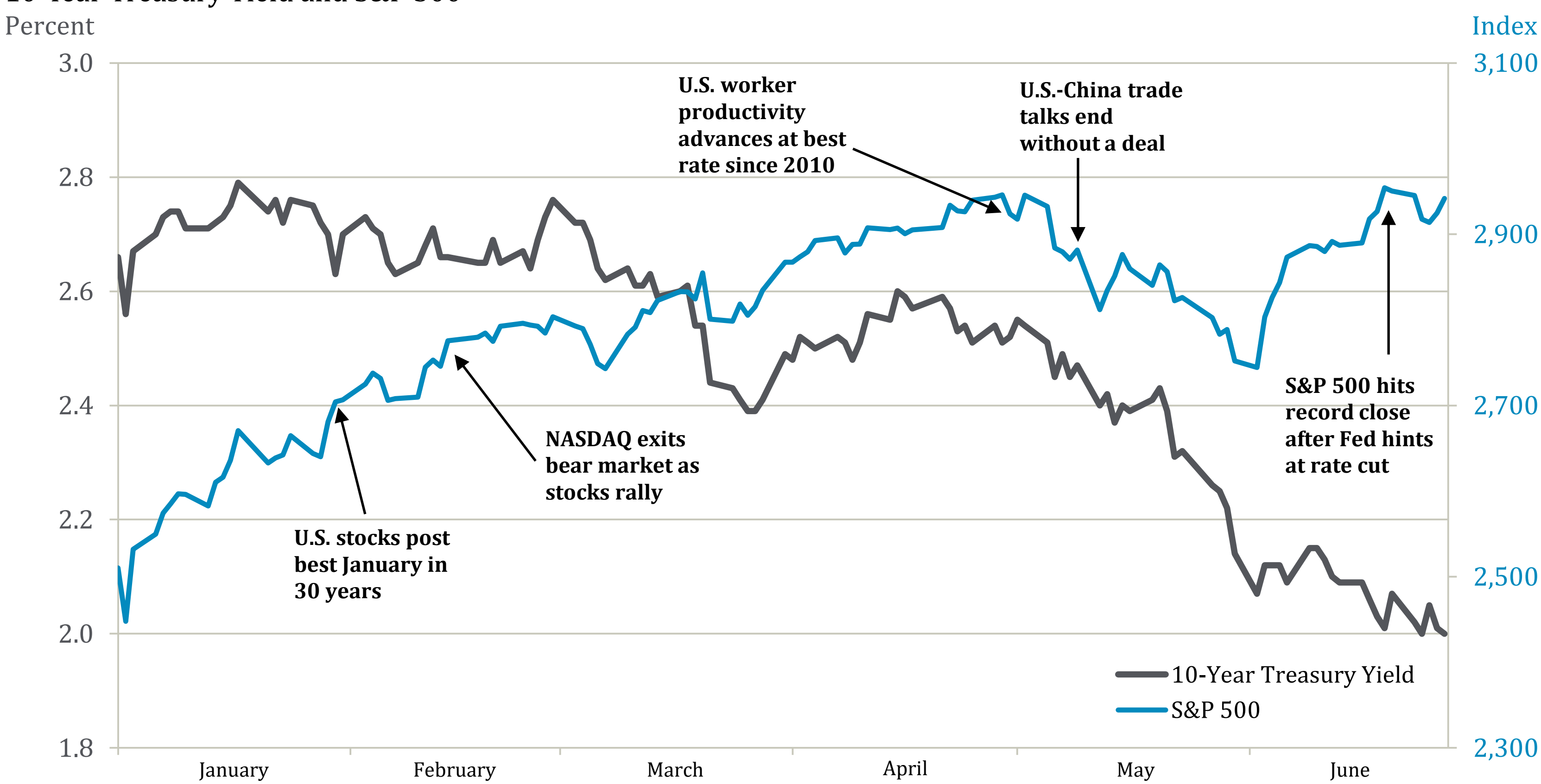


The following indices were used for asset class returns: S&P 500 TR, Barclays Aggregate Bond, Russell 2000, Credit Suisse Hedge Fund, MSCI Emerging, MSCI EAFE NR, JPMorgan EM Global Index, Bloomberg Commodity TR USD. Data as of June 30, 2019.

Events that Moved Markets in 2019

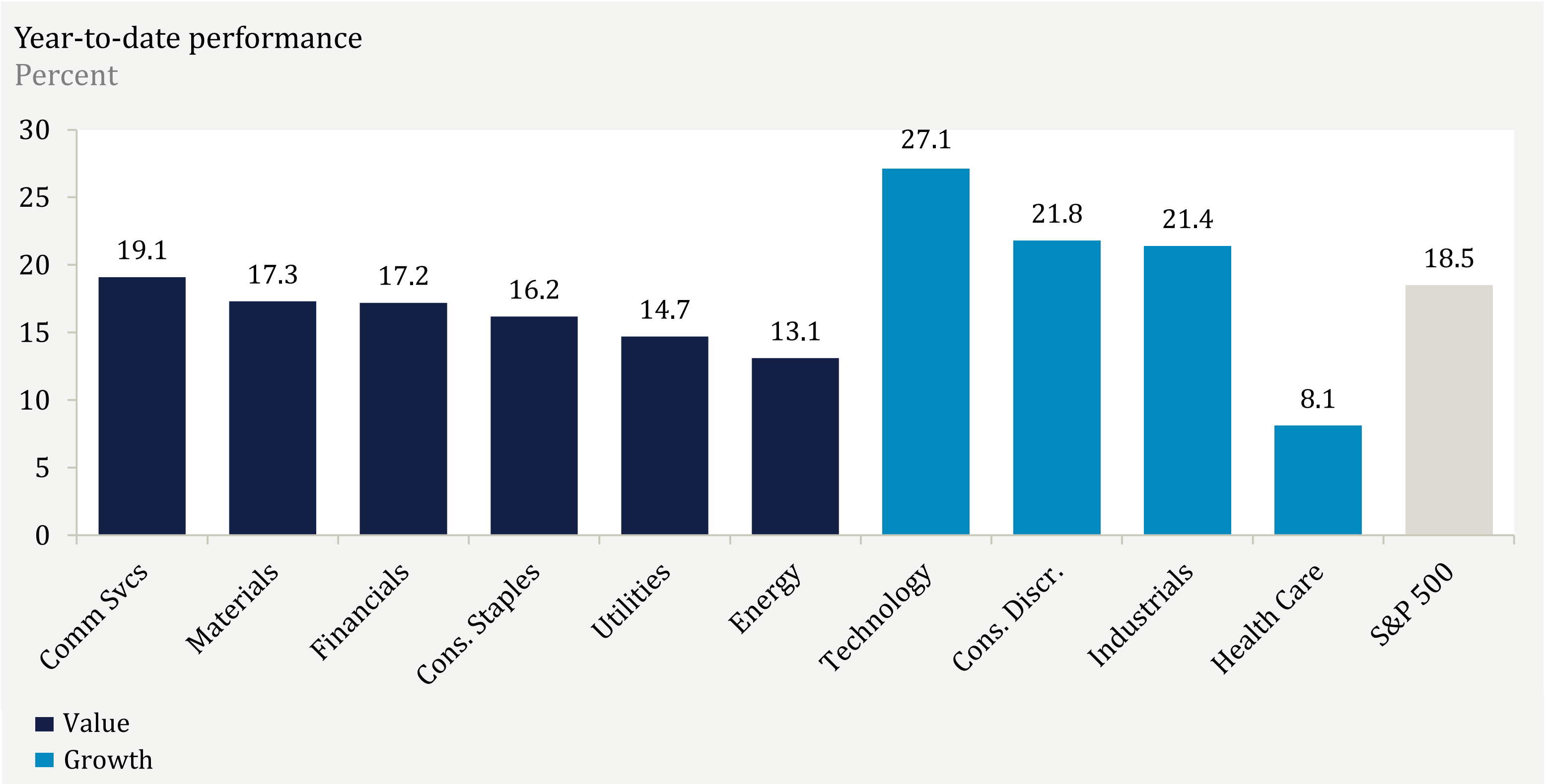
Volatility was back in the second quarter, as the lack of a trade agreement between the U.S. and China as well as new tariff threats against Mexico sent Treasury yields lower and temporarily weighed on stock prices.

10-Year Treasury Yield and S&P 500



S&P Sector Performance

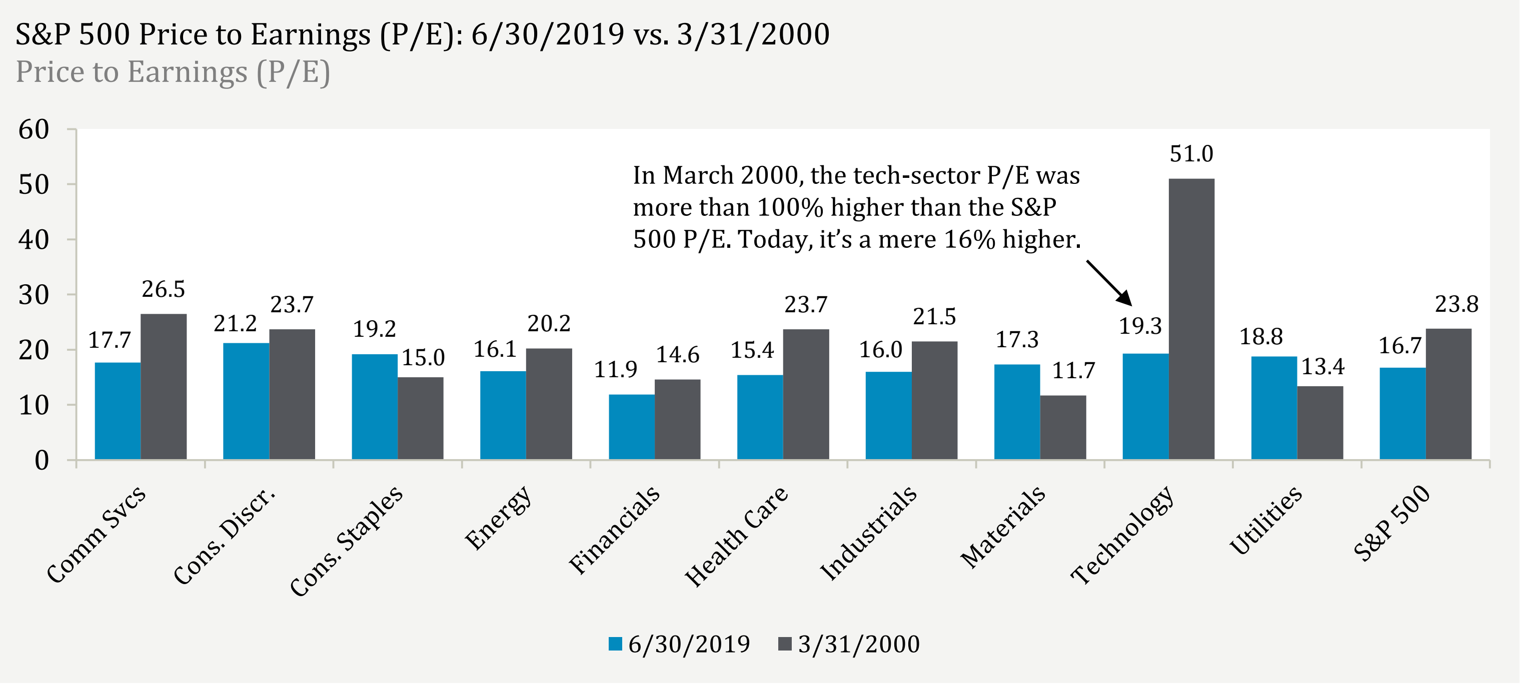
Technology had the strongest first half thanks to strong performance in the software and services industries and the hyper-cyclical semiconductor industry. Other economically sensitive industries, such as retail, autos, building products, and machinery, assisted the consumer discretionary and industrials sectors.



Source: Morningstar. Data as of June 30, 2019.

Technology Bubble?

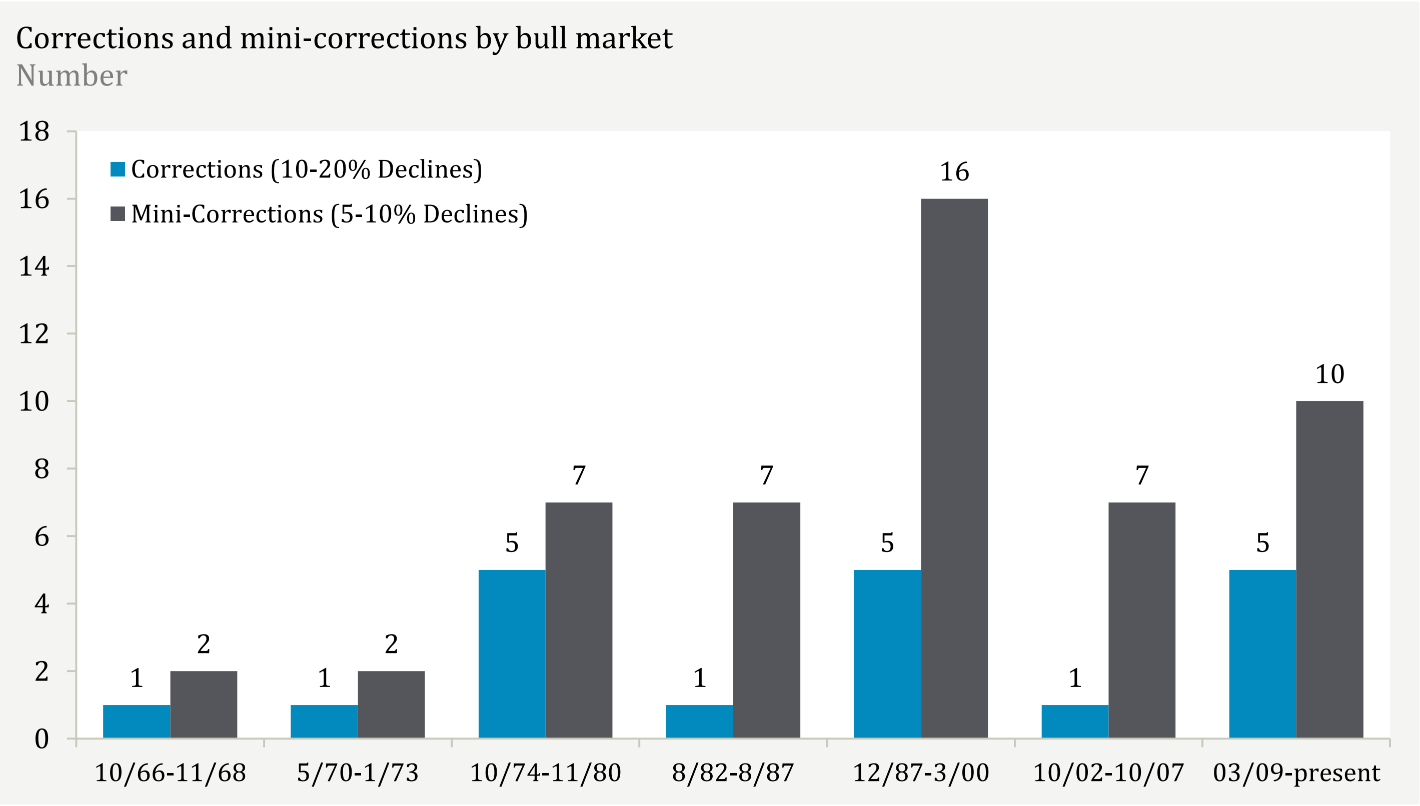
Investors often worry about technology stocks' high valuations, citing the tech bubble of yesteryear. While we've seen some bubblish pockets of activity—such as software in early 2018—today is not the 1990s redux. Modern-day technology and communications services are more influential across a variety of industries than they were 20 years ago.



Source: Wells Fargo Investment Insights, Factset, Eaton Vance. Price to Earnings (P/E) is market price per share divided by expected earnings per share over the next twelve months. Data as of June 30, 2019.

Short-Term Pullbacks Occur Frequently

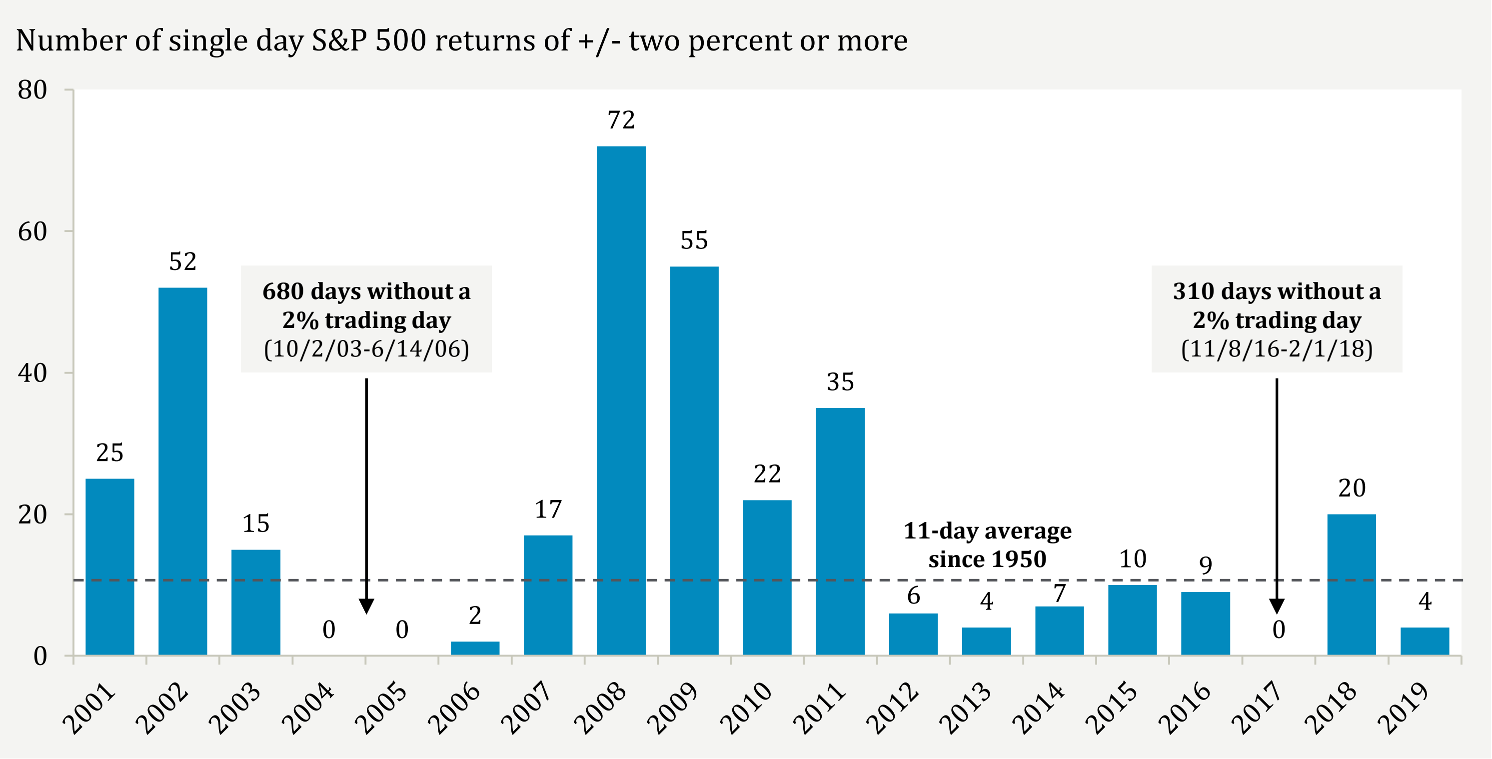
The hiccup in the second quarter marked the 15th decline of at least five percent in the S&P 500 since the bull market began in 2009. A longer cycle obviously provides the scope for more short-term pullbacks, which tend to occur more frequently in the bull markets that produce the strongest overall returns.



Source: Bloomberg, Nationwide. Data as of June 30, 2019.

Market Volatility Has Retreated

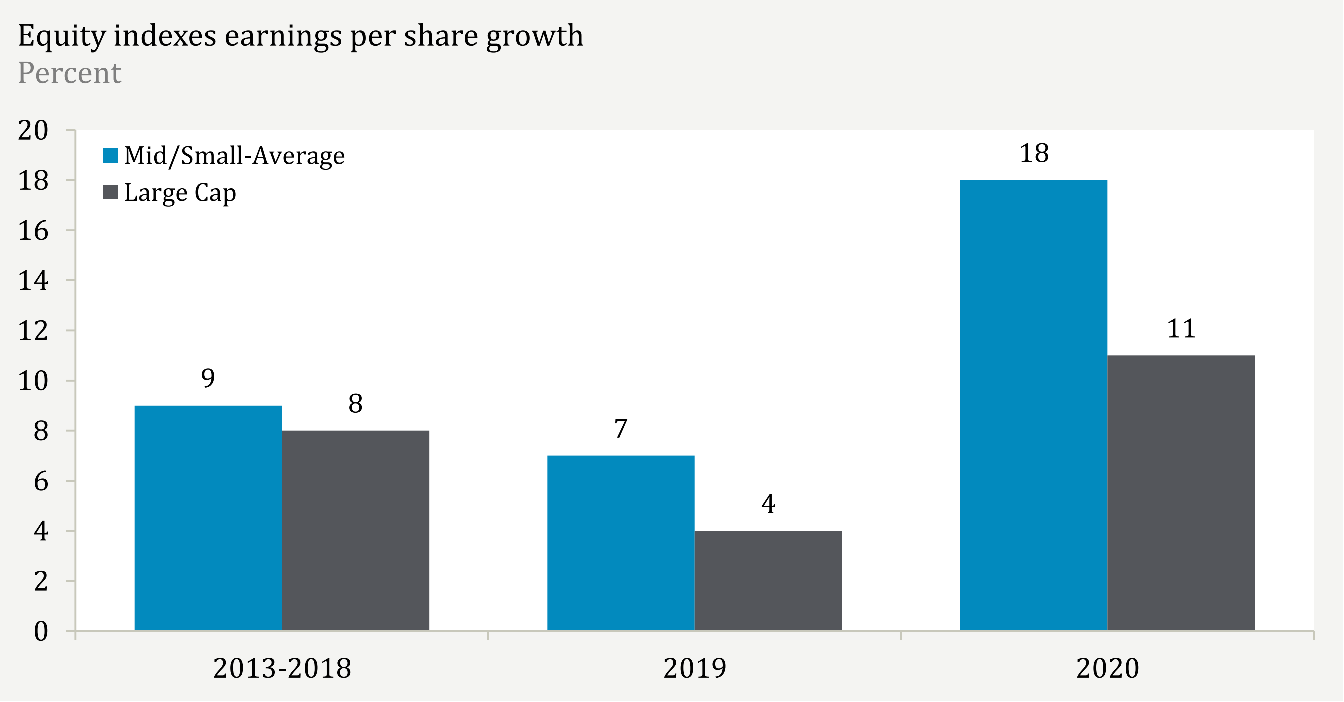
There have only been four trading days in which the S&P 500 has moved by +/- two percent or more (two positive and two negative) in 2019. Contrast this to last year when there were 20 trading days where U.S. stocks moved +/- two percent.



Source: BlackRock Student of the Market. Morningstar. Data as of June 30, 2019.

Opportunity within Mid/Small Caps

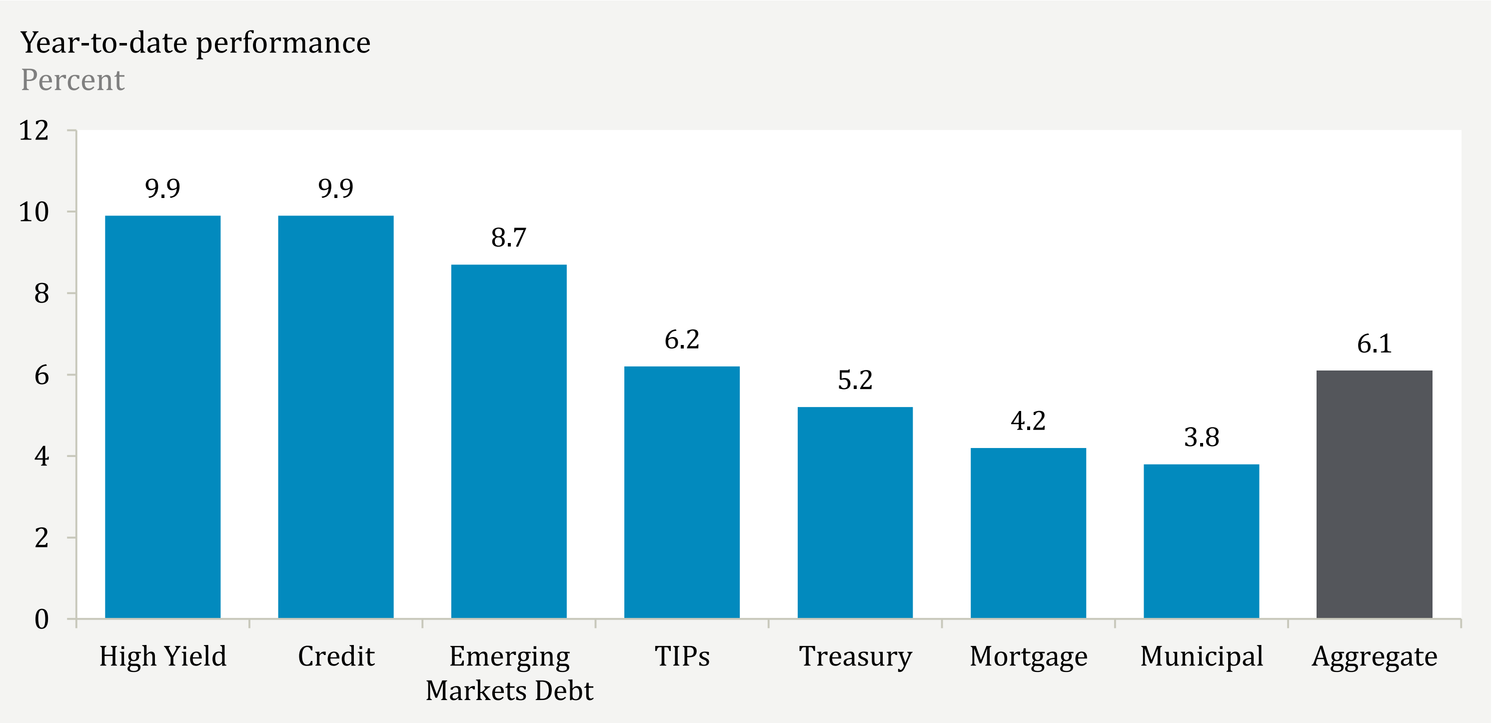
Mid and small cap stocks, in contrast with longer-term averages have recently underperformed large cap stocks. There is potential for a turn around as small- and mid-cap companies' earnings estimates for 2019 and 2020 are forecasted to outpace those of the S&P 500 Index.



Source: Wells Fargo Investment Insights, FactSet. The Mid/Small-Average is represented by the average of the Russell Midcap Index® and Russell 2000 Index®. Large is represented by the S&P 500 Index. The years of 2013–2018 are annualized bottom-up actual earnings. The years of 2019 and 2020 are annual bottom-up estimates as of May 2019. Past performance is no guarantee of future results.

Fixed Income Performance

The investment grade credit market in the first half of the year posted one of its best starts since 2012, driven by dovish central banks, strong technical factors, and macroeconomic tailwinds.

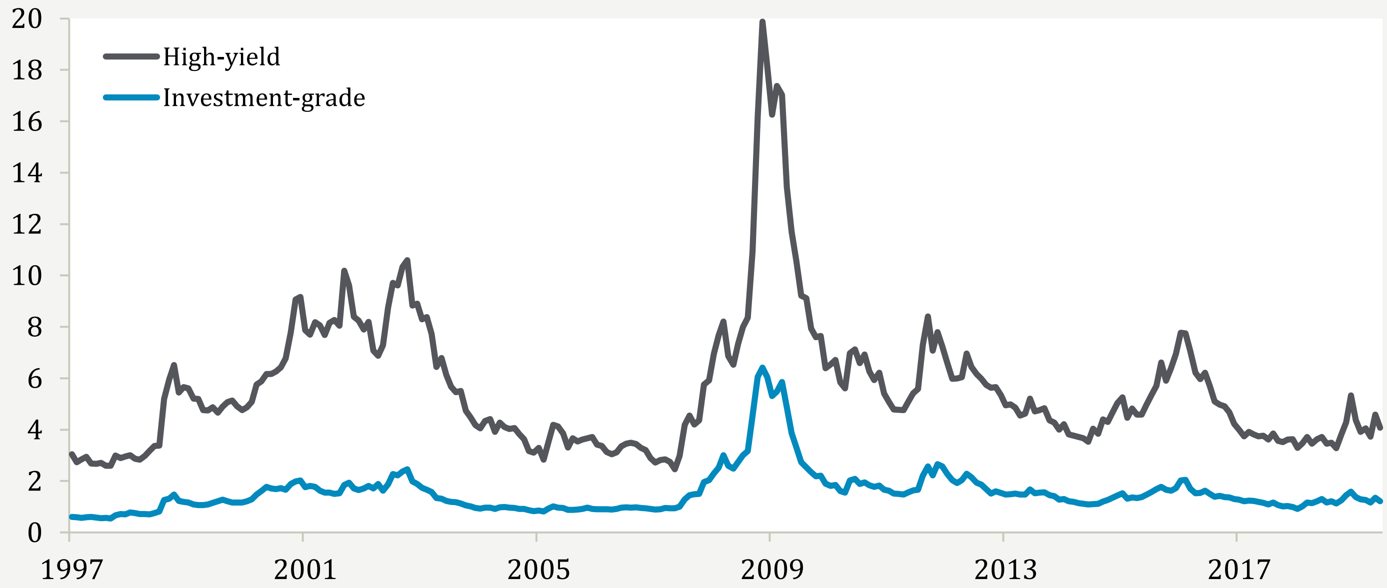


The following indices were used for asset class returns: Barclays Capital TIPS, Barclays Municipal 5 Yr 4-6 TR USD, Barclays Capital U.S. Treasury, Barclays U.S. Corp IG, Fixed Rate MBS Index, JPMorgan EM Global Index, Barclays U.S. Corporate High Yield Index, Barclays Aggregate Bond. Data as of June 30, 2019.

Corporate Spreads Grind Tighter

Spreads tightened again in the second quarter on the central bank pivot and improved macro conditions even as Treasury yields continued to fall.

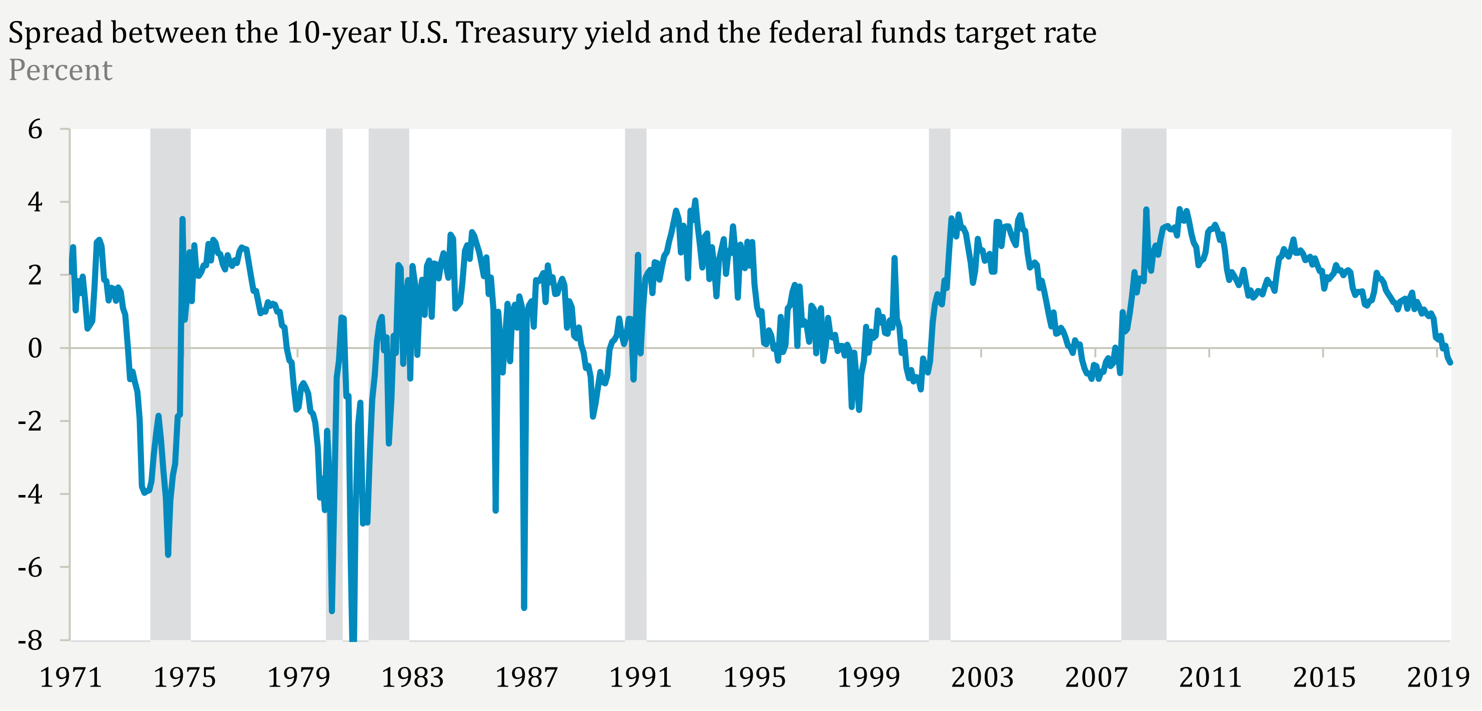
Investment-grade and high-yield option adjusted spreads
Percent



Source: Bloomberg Barclays, Nationwide. Data as of June 30, 2019.

Yield Curves Hits a Key Inflection Point

The indicator that best encapsulates the stance of monetary policy relative to the state of the economy is the yield curve, the spread between long- and short-term interest rates. As this has proven over time to be the most predictive signpost of a turn in the business cycle, the deepening inversion in the second quarter should be taken as a sign that the recession risks are rising.

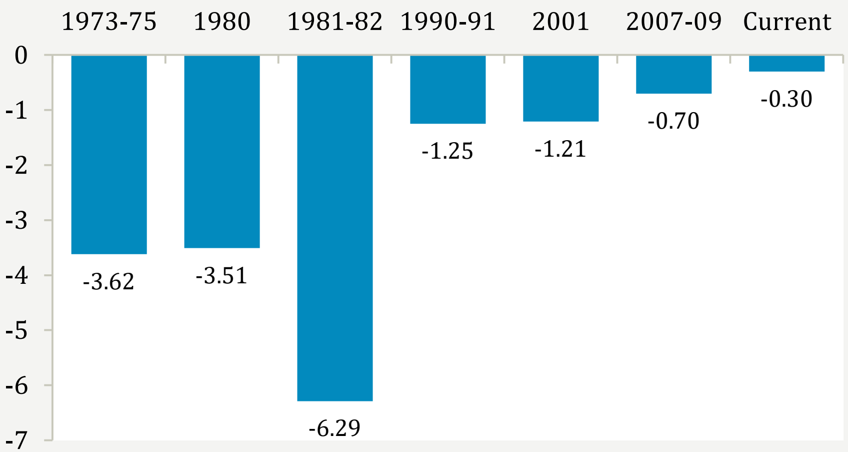


Source: Bloomberg, Nationwide. Data as of June 30, 2019. Shaded areas depict recessionary periods.

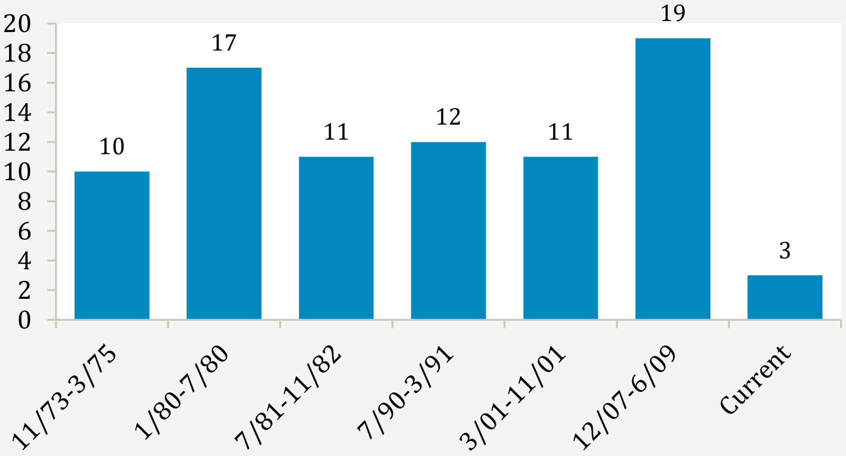
Curve Inversion Modest by Historical Standards

Not all yield curve inversions lead directly into recessions. The gap between long- and short-term interest rates typically flags a downturn when it has been deeply negative for a sustained period. The recent inversion is an undeniable red flag, but it is not yet signaling that a contraction is inevitable.

Trough in the spread between the 10-Year U.S. Treasury yield and the federal funds target rate prior to recessions
Percent



Months in which the 10-year/federal funds spread has been negative prior to recessions
Number



Source: Bloomberg, Nationwide. Data as of June 30, 2019.

U.S. Exhibiting a Slow-Moving Late Cycle

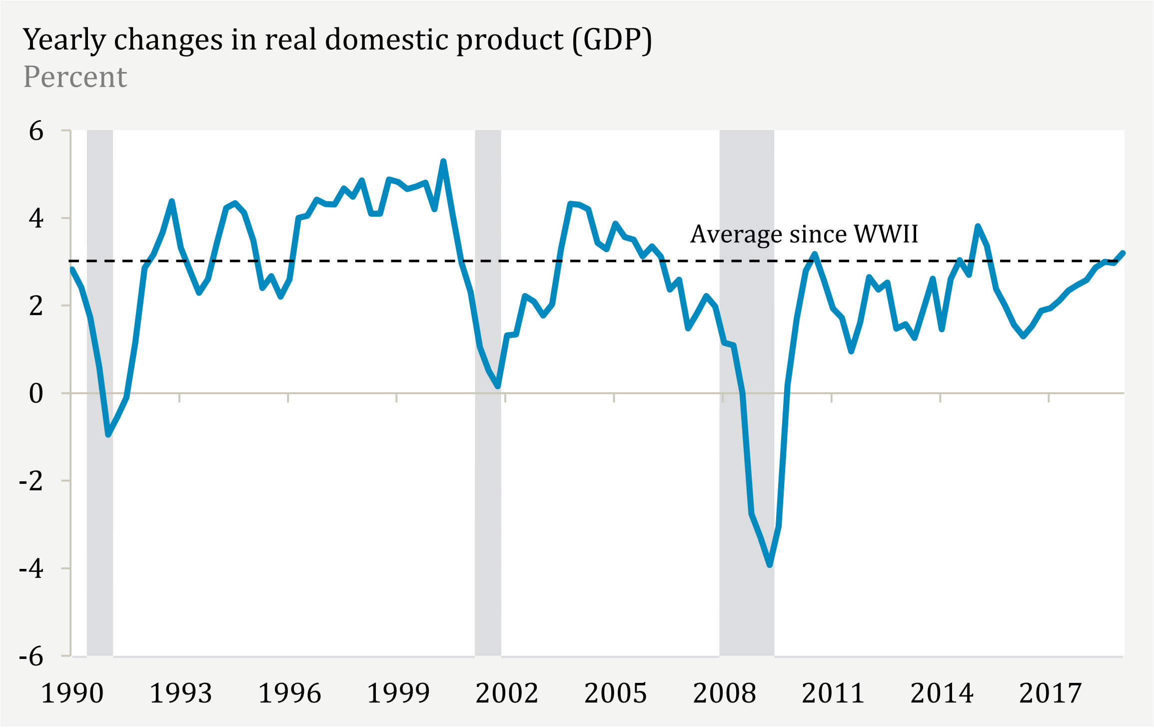
Late cycle often is characterized as the phase when capacity becomes constrained and economic activity peaks. Inflation rates are not always high, but tight labor markets tend to lead to higher wage growth and more restrictive monetary policy. Currently, late cycle trends are well entrenched with peaking profit margins and an inverted yield curve, although some trends are progressing slowly and credit conditions remain easy.

Indicator	Current Trend	Latest Readings
Employment/Wages	Labor markets tighter, wages higher than 2-3 years ago	Pace of improvement has stalled
Monetary Policy	Fed policy tighter than one year ago	Fed leaning toward easing
Yield Curve	Flattening	Inverted
Credit	Some tightening of lending standards	Credit accessible, spreads tight
Corporate Profits	Margins lower than 3 years ago	Mid-single-digit earnings growth expectations

Source: Fidelity Investments (AART). Data as of June 30, 2019.

GDP Growth Rate is Expected to Slow

Slower population growth and aging demographics provide a more challenging backdrop for U.S. growth over the next 20 years. Labor force growth has continued to decelerate from its peak in the 1960s and ‘70s, and since 2000 nearly half of this growth came from immigration. Even if productivity rates reaccelerate, it will be difficult for the U.S. to return to the roughly three percent real GDP growth average since World War II.

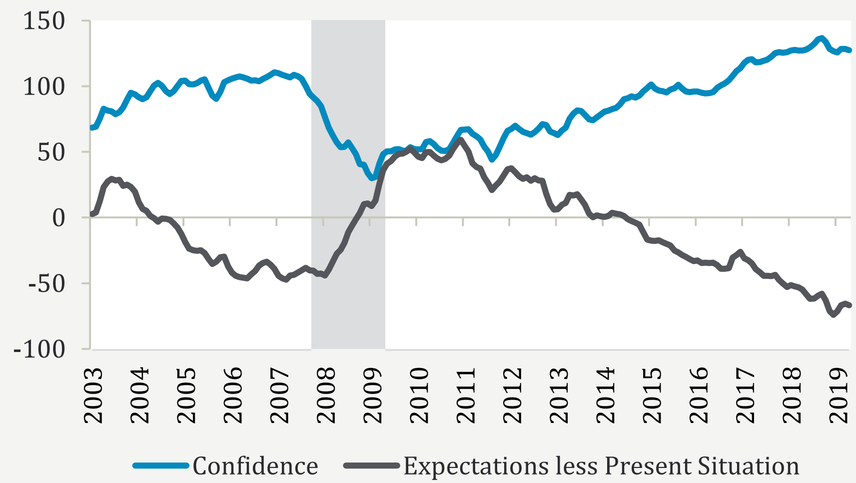


Source: Bureau of Economic Analysis, Shaded areas depict recessionary periods. Data as of June 30, 2019.

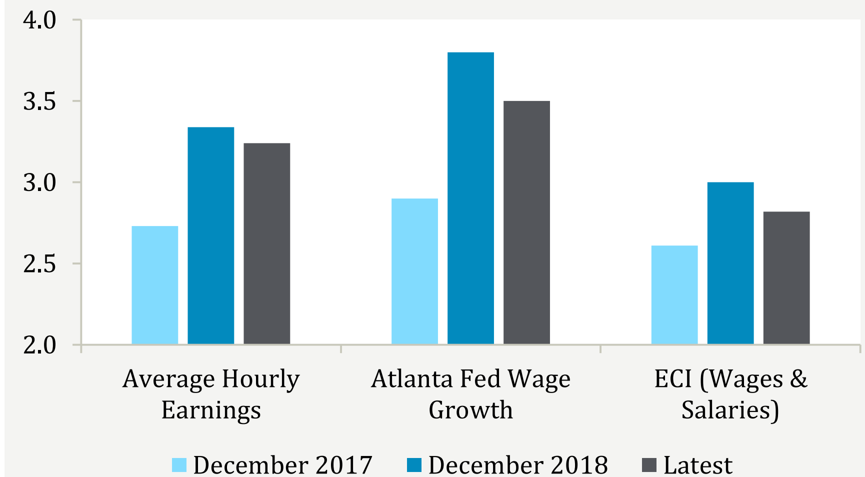
Consumer Still Solid but Wage Growth Peaking

A strong labor market and higher wages have buoyed consumer confidence. Although consumer sentiment remains positive, the large gap between current conditions and forward expectations has often occurred toward the end of prior economic cycles. The improvement in wage growth over the past two to three years has stalled in recent months despite a cyclically low unemployment rate and continued job gains.

Consumer Sentiment
Index, 3-month moving average



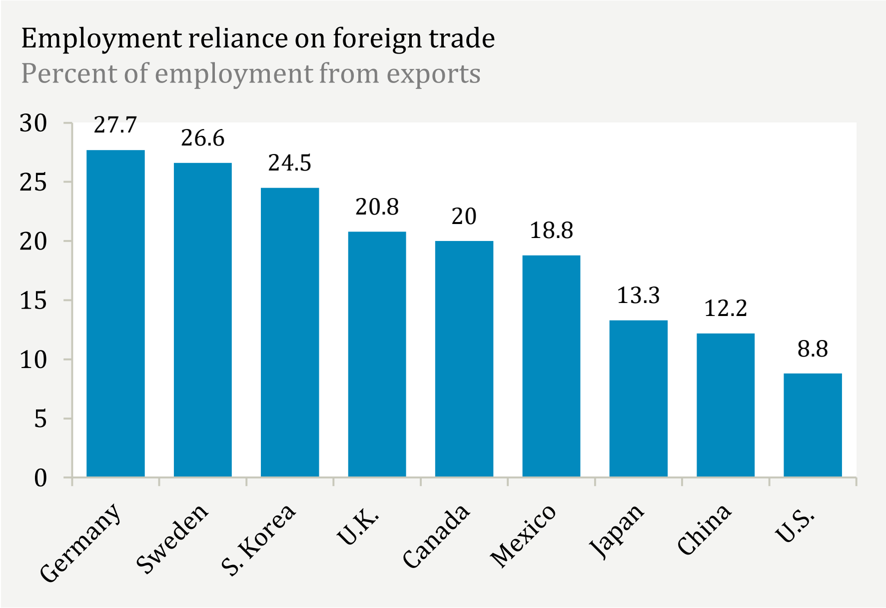
U.S. Wage Growth
Percent, year-over-year

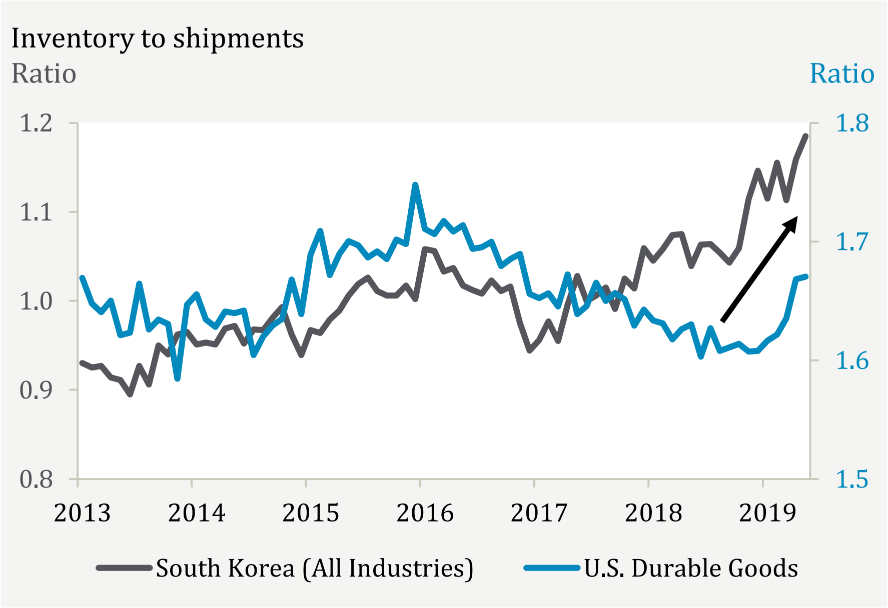


Source: (Left) The Conference Board, Fidelity Investments (AART). Shaded areas depict recessionary periods. Data as of June 30, 2019. (Right) BLS, Federal Reserve Board of Atlanta, Fidelity Investments (AART). Data as of May 31, 2019.

Evidence of a Trade Slowdown Starting to Mount

Weaker industrial activity—in conjunction with rising trade barriers and uncertainty—has begun to reverberate throughout the highly interconnected global economy. Inventories, particularly of manufactured goods, have risen in several regions. Smaller and more open economies are most susceptible to global trade risk, but employment in many large economies, including Germany, is significantly influenced by trade.

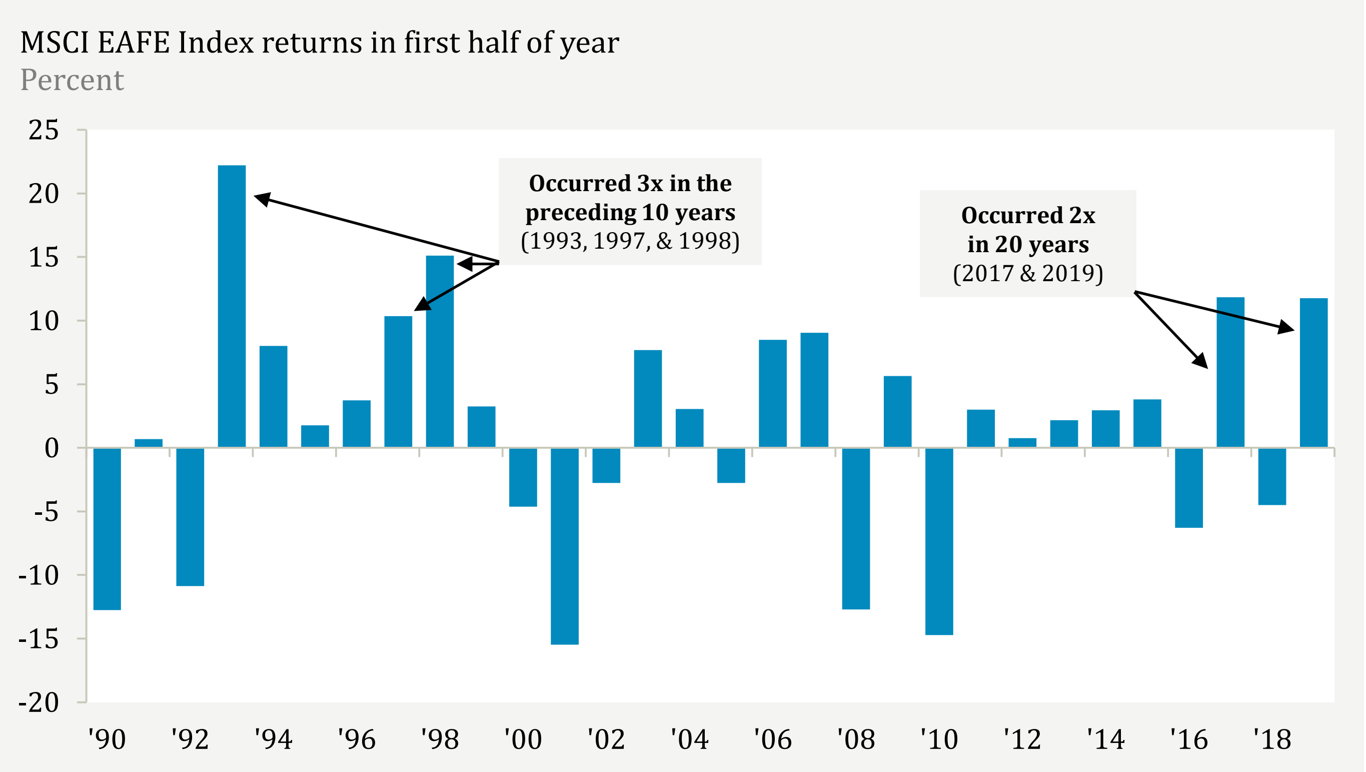




Source: (Left) OECD, Fidelity Investments (AART). Data as of June 30, 2019. Share of domestic business sector employment sustained by exporting activities. (Right) U.S. Census Bureau, Reuters, Fidelity Investments (AART). Data as of May 31, 2019.

Global Stocks Up Strongly in First Half of Year

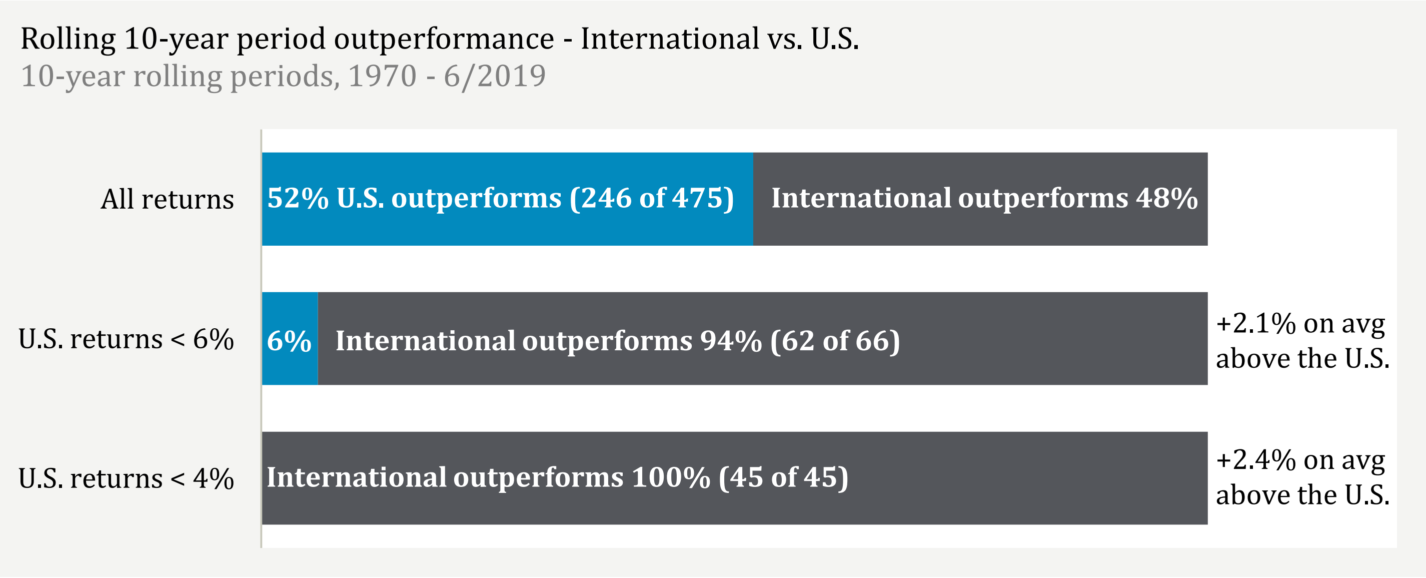
For only the second time in the last two decades, global equities have recorded a double-digit increase in the first half of a year. The strong gains in the first four months of 2019 were driven by: 1) the Fed pause, 2) a cease-fire in trade tensions between the U.S. and China and 3) early signs of stabilization in the Chinese economy. However, trade tensions heated up once again in May, dashing investor optimism.



Source: MSCI EAFE PR, Nationwide. Data as of June 30, 2019.

Are International Stocks Worth the Bother?

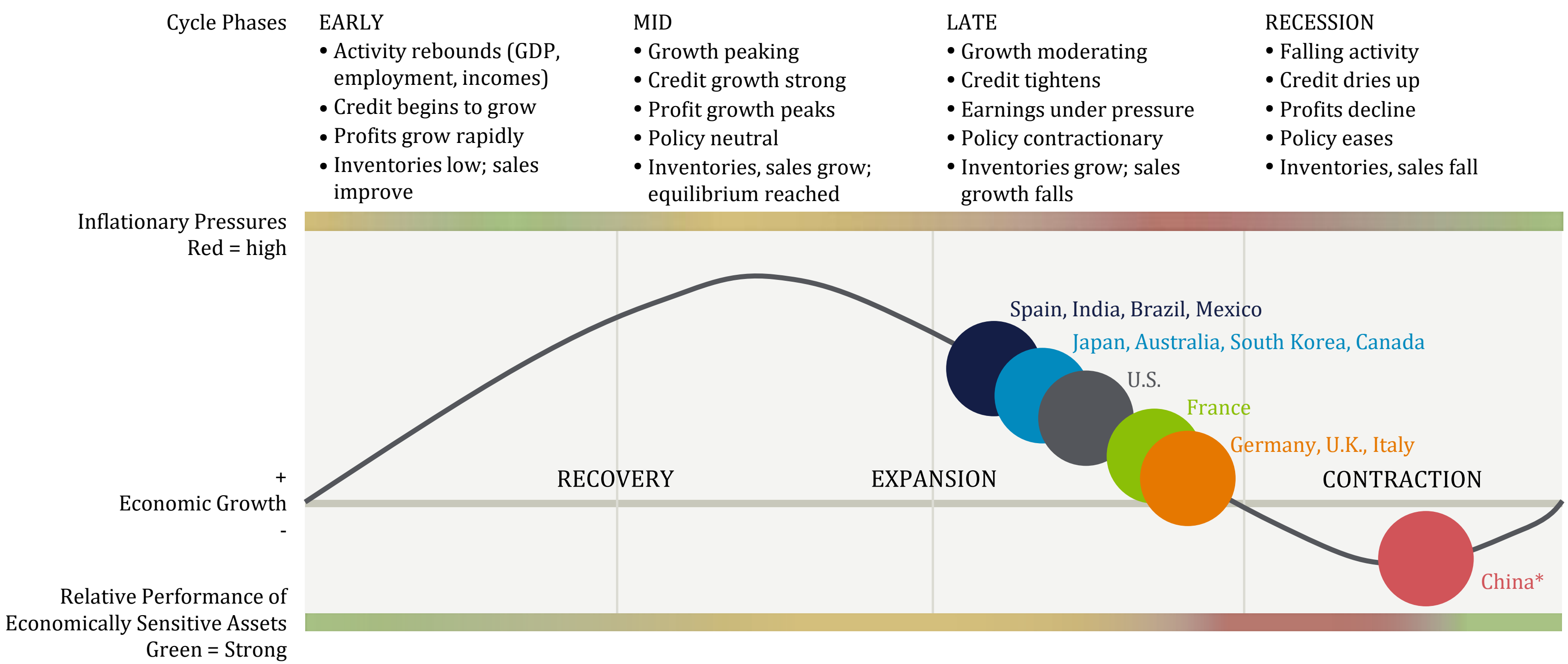
International stocks have trailed the U.S. in five of the last six calendar years (not counting 2019). However, current valuations for U.S. stocks potentially foreshadow lower returns. Whenever U.S. stock returns have been low over a 10 year period, international stocks have stepped up and outperformed.



Source: BlackRock Student of the Market, Morningstar. US Stocks represented by the S&P 500 and International stocks represented by the MSCI EAFE Index. Past performance does not guarantee or indicate future results. Data as of June 30, 2019.

Mature U.S. and Global Business Cycles

Global growth momentum continued to slow, and most major economies have progressed toward more advanced stages of the business cycle. The U.S. is firmly in the late-cycle phase but with low near-term risk of recession. Policy stimulus in China has stabilized that country's growth trajectory, but most economic indicators in Europe continue to point to lackluster activity.



Source: Fidelity Investments (AART). The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. *A growth recession is a significant decline in activity relative to a country's long-term economic potential. Data as of June 30, 2019.

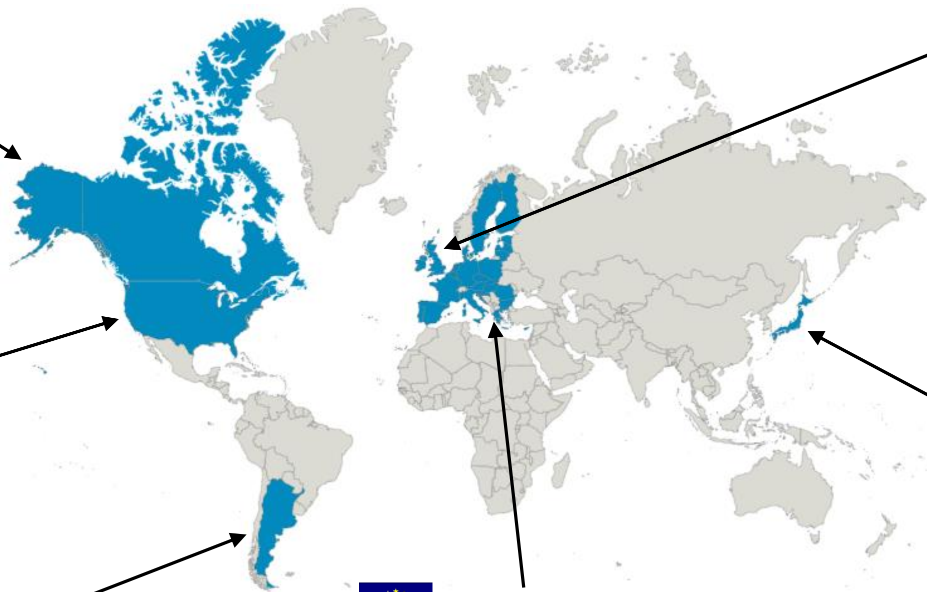
Global Macroeconomic Outlook

Global Economy	European GDP appears to be stabilizing at an annualized pace of 1.2%. Growth in Japan improved in early 2019, but trade issues and an upcoming sales tax hike are clouding the outlook. Ongoing trade tensions and slowing growth in developed markets remain a threat to EM growth.
U.S. Economy	U.S. economy grew at a better-than-expected 3.1% annualized pace in the first quarter, largely due to net exports. Expect growth to moderate toward 2.0%-2.5% given the likely slowing effects from tariffs.
Inflation	U.S. inflation steadies near 2% with slower growth likely to offset any rising inflation due to tariffs. Prices decline in Europe due to falling energy and service costs. Inflation is higher but still weak in Japan due to productivity gains and stagnant wages.
Monetary Policy	Investors expect at least one Fed rate cut by the end of July. U.K. tightening on hold until Brexit unfolds. Rates to remain unchanged in Japan.
Interest Rates	Treasury yields to remain low due to global trade tensions and slowing global growth. The ECB's commitment to keeping rates at historical lows for an extended period likely means government bond yields in Europe will remain unusually low.

Source: American Century Investments

Save the Dates

Events to watch in 2019



Canada
Federal election
By Oct. 21

U.S.
Fed meetings
June 18-19
July 30-31
Sept. 17-18
Oct. 29-30
Dec. 10-11

Argentina
General election
Oct. 27

European Union
ECB meetings
June 6
July 25
Sept. 12
Oct. 24
Dec. 12
ECB President Mario Draghi's term ends Oct. 31

UK
New Prime Minister
July
UK to leave European Union
Oct. 31

Japan
Bank of Japan meetings
July 29-30
Oct. 30-31

Source: BlackRock Investment Institute, with data from Bloomberg, December 2018.

Major Takeaways

1. The stock market was whipsawed by the evolving trade conflict in the second quarter, but the benchmark indices still managed to record another gain.

2. Real GDP growth looks to be on the verge of slowing in the quarters ahead, but only after an extended uptrend that has taken it to its fastest pace in nearly four years.

3. Globally, most major central banks are now trending toward more accommodative monetary policy after a pause in tightening this year due to slowing economic growth across the world.

4. Investor focus remains squarely on the back half of 2019 and into 2020 given trade concerns, an upcoming presidential election year, and slowing economic data.

Thank You!

Our team of professionals would like to thank you for the opportunity to earn your trust and confidence in the services provided by Windsor Wealth Management.

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