OUT OF THE BOX

INVESTMENT COMMITTEE UPDATE
2019 Q2

Faith | Trust | Excellence | Care

Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Investment Committee

Each quarter our Investment Committee meets to review the markets and economy. Three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm. Our quarterly newsletter represents the Committee's general thoughts behind any adjustments.

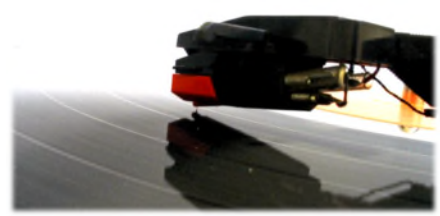
Our Website

On our website you will find easy access to account login, office directions, and more!

www.boxfinancialadvisors.com

Our Team

TRUE SOUNDS OF THE ECONOMY



No one likes the sound of a broken record. The constant repeating of the same word or sound can drive one crazy. Wow! I still remember how upset I was when my little brother put a scratch on my Karen Carpenter record. For the rest of the week, I made sure he didn't play with anything of mine. That lasted until I learned the "true" lesson on forgiveness.

Like a scratch on a record or the iconic movie *Groundhog Day*, it sometimes feels like we have a "scratch" in the US economy — every quarter, we hear the same sound. Will the economy continue with its low, slow growth or will it finally be able to step into the growth that we have been expecting for the last several years? Indeed, many things have changed, yet many things are the same. It seems repetitive. The key to cutting through the uncertainty and volatility and find the true sounds from the economy is to focus on what the fundamentals are saying about where we are in the economic cycle.

ECONOMIC COMMENTARY

A look at What Was, What Is, and What Could Be

What Was

Our first quarter outlook came on the heels of a December pull back that reached near correction levels of 20% down. In the middle of that volatility, we remained firm and called for investors to stay the course and have "patience to find peace" in the middle of the volatility because the fundamentals remained solid. Low inflation, low unemployment, and signs of rising wages meant consumers should begin to feel confident to spend money. Additionally, businesses continued seeing earnings growth. This is not the usual recipe for a downturn. For those who stayed the course, the first three months of 2019 rewarded them as prices returned to near full recovery levels.

At the time, the federal reserve was still speaking about potentially increasing interest rates for 2019, and we were hopeful they would return to the fundamentals and begin to slow down their projected pace of interest rate hikes. Since then we have seen the federal reserve reiterate the return to data dependence. We believe this positive news was a key driver in the recovery we have seen this year.

What Is

Domestically, we have returned to pre-December volatility levels - back to "status quo". Wage pressures, while still a way from causing any economic issues, continue to show signs of growth. Inflation remains low due to subpar global growth and the yield curve's flatness continues to project very little growth for the American economy. These factors continue to help companies maintain earnings. However, we expect 2019 earnings to have some pull back from 2018 levels without the shot in the arm that came from the 2018 tax cuts.

We continue to watch the strength of the US Dollar. (See Figure 1.) Amid our national debt and low, slow growth we would expect to see the dollar begin to weaken compared to other countries. The problem is these other countries have interest rates lower than ours and lower, slower growth. Money continues to look for the best alternative, and the US still owns that territory. Until many of the foreign economies begin to have stable, sustained growth, the dollar may continue its strength.

Fear permeates overseas data, which continues to show struggling growth among major players such as Europe, China, and Japan. Europe's earnings forecasts continued to move sideways making it hard to be excited in the midst of Brexit uncertainty. In the emerging markets, the headwinds of a strong dollar and trade tariffs makes life difficult for countries who thrive on exporting to larger nations.

What Could Be

Equity and bond markets have been reacting meaningfully to Federal Reserve Chairman Jerome Powell. We expect this to continue in 2019. The restrictive comments in early October, stating the Federal Funds rate is a long way from neutral, played a powerful and painful role in the economic environment at the end of 2018, but equally powerful was Powell's pivot to a more accommodating stance in December sending a strong signal to the market that additional movements will be data dependent. Although some economists are calling for a rate cut from either the May or June meetings, we anticipate the Fed will stay put. The four rate increases from last year have slowed the housing and autos sectors

Figure 1

ECONOMIC COMMENTARY, CONT.

but not significantly enough to warrant a rate cut.

Q1 will show lower profits and a slowing economy, but the market has mostly priced this into current prices. If Q1 profits are much weaker than expected, the market could sell off. However, if the profits are stronger than expected, the market could continue greater growth.

We are looking for more completed trade deals. (See Figure 2.) Although the China trade deal is not finished we stated last year that China needs the US more than the U.S. needs China. The markets may also have to stomach another round of trade deal negotiation, this time with the EU. Just like the result of the China negotiations, we are anticipating a positive resolution. The U.S. has been the growth engine of the world for the last several years. Negotiating trade deals at this point in the economic cycle for the U.S. is from a powerful position.

For years now, economists have been calling for recession in 2020, but the closer we get the less likely they will be right. We do foresee greater volatility and headline news being at the forefront as we move towards 2020, but remember it is the fundamentals that change our direction and not fear. We continue being data dependent as we look for signs telling us we are more likely to move on from here. Until then, volatility will be the name of the game as everyone will try to make educated guesses.

Lastly, 5G we be rolled out this year. Remember how frustrating downloading a simple web page or video clip can be? The seemingly endless circular loading symbol was maddening. Now imagine a 5G cell phone's internet as ten times faster streaming full length movies and being a hot spot for others at the same time. Yes, the internet, of all things is coming. It will cause many to upgrade their phones this year, but that is just the start. It will revolutionize our world in ways we could not have dreamt possible. Everything in your world will be able to talk to each other at lightning speeds just like the TV showed us on the Jetson's, and it's not even 2062!

True Sounds of the Economy

Like scratches on a vinyl record, the American economy has become frustratingly repetitive, but patiently watching the fundamentals and responding accordingly is key. We continue to believe that the US economy is in fundamentally good shape due to the strength of the consumer sector. Moreover, with the Fed making it clear that further rate tightening is off the agenda in the short term, the likelihood of a recession has decreased substantially. While global economic growth has slowed, we expect stabilization in the quarters ahead. Overall, we believe the outlook is stronger than current market sentiment and that recession risks are exaggerated. At this point we continue to see low and slow growth with the potential of a small pullback due to emotional, fearful headlines. We are thankful for the trust that you continue to put in us as we continue to watch our models weekly and are able to be agile in decision making. As we said in our last article, patience amid the volatility is often the best solution to times such as these.

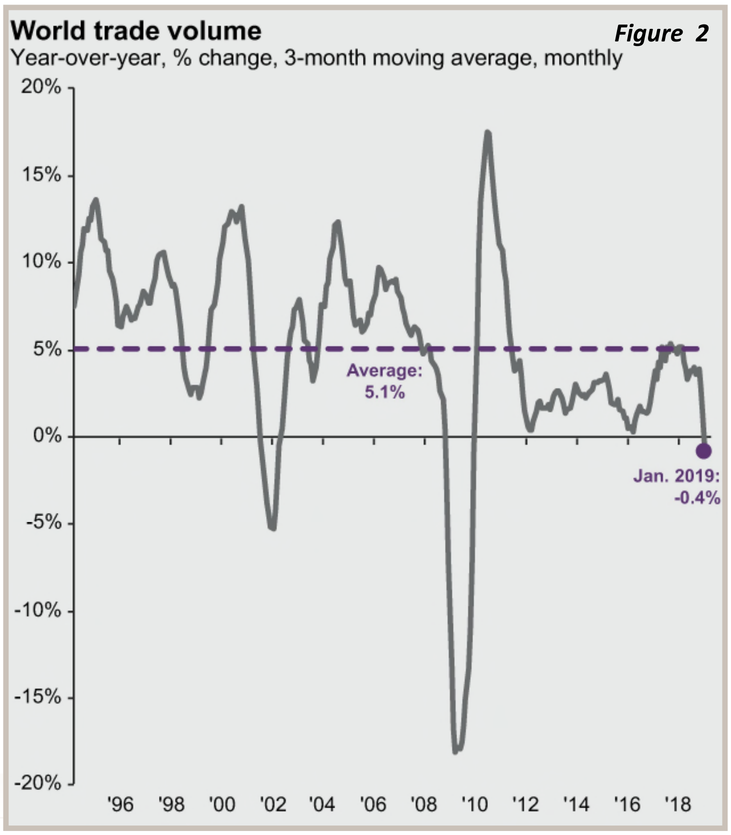


Figure 2

Sources

Figure 1: FactSet, J.P. Morgan Asset Management, Federal Reserve

Figure 2: FactSet, J.P. Morgan Asset Management, CPB Netherlands Bureau for Economic Policy Analysis

MARKET COMMENTARY

With this economic outlook how do we navigate the next 3-6 months in the markets? Because of the crossroads, we do expect that a majority of the gains this year will bring have already been realized. Growth will be hard to come by without a catalyst igniting the economy. The potential catalysts are capital spending by American companies, a trade deal that accelerates growth overseas, better than expected earnings, or a consensus that earnings estimates in 2019 are too low. For US equities, we expect increased volatility and noise to damper returns for the next 3-6 months. For bonds, the headwinds of rising interest rates experienced in 2018 seem to be coming to an end leading us to be more bullish on bonds than we have been in a while. Increasing duration on these bonds becomes a more attractive opportunity to pick up yield especially if the yield curve begins to steepen.

Internationally, we continue to dislike the issues that developed markets are experiencing and continue to be underweight in that space. We like the emerging markets demographics and potential growth opportunities, but future returns hinge on the outcome of a trade agreement as well as stability in US interest rates and the dollar.

BFA TEAM VOLUNTEER EVENT

On Tuesday, May 14, 2019, the Box Financial Advisors team came together to serve an early spring BBQ dinner of BBQ pork sandwiches, hot dogs, chips, potato salad, and more Ronald McDonald House Upper Midwest Cooks for Kids Program. By serving in the Cooks for Kids program, the team was able to support families staying at the Minneapolis Oak Street Ronald McDonald House.

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