Trumbower Financial Advisors, LLC
2nd Quarter 2019
Investment Market Commentary

Tenacious Investors Rally Financial Markets

Bouts of volatility marred the 2nd quarter but in the end major equity indices revealed the 2019 rally was still kicking. Large Cap US stocks sprinted up 4.3% leaving Emerging Markets, up just .61%, in the dust. Mid and Small Cap US markets advanced 3.05% and 2.1%, respectively. Developed Foreign equities followed suit up 2.5%.

As highlighted in the table below progress made so far this year has yet to shake off the damage done to US Mid/Small Caps and International equities during the second half of 2018. Laden with crowd favorites, the S&P 500 and Nasdaq indices are up nicely over the last 12 months.

Investors are still enamored with Growth as evidenced by spreads between Growth and Value indices ranging from 2.21% to .54%. Traditional Growth sectors like Technology and Consumer Discretionary returned 6% and 5.15% in contrast to Value staples Energy down -2.76% and Utilities up 3.42%.

Once again, the S&P 500 was propelled ahead by its largest constituents. Just 5 companies - Microsoft (+14%), Facebook (+15.78%), Amazon (+6.34%), Disney (+25.77%) and Apple (+4.6%) - accounted for nearly 33% of Q2 gains. Investors clamored for mega-cap stalwarts that have exhibited a penchant for organic growth in sluggish environments. Active managers who didn't overweight a handful of widely held superstars could not keep pace with the index.

Bond prices also pressed forward during Q2 as yields tumbled globally. The 10-year Treasury yield, approaching "normal" territory (3.3%) in the fall of 2018, finished Q2 at 2% after briefly dipping even lower. It was the most dramatic decline over a similar period since 2012. This was a world-wide spectacle. For example, 10-year German bunds offered .24% at the beginning of 2019 but declined into negative territory (-.33%) by quarter-end. More than $13 trillion worth of global bonds bear underwater yields. There are confounding explanations

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Selected Benchmark and Category Average Returns

Large Cap Equity

*Benchmark Indx & Category Average**	*(Total Return)* **2nd Q 2019**	**12 Mos.**
S&P 500 Growth	4.56	12.02
Large Cap Gr Avg	4.76	10.39
S&P 500 Value	4.02	8.67
Large Cap Val Avg	3.15	5.69
S&P 500 Index	4.30	10.42
Large Cap Blnd Avg	3.81	7.24

Mid Cap Equity

*Benchmark Indx & Category Average**	*(Total Return)* **2nd Q 2019**	**12 Mos.**
S&P MC 400 Growth	3.56	1.94
Mid Cap Gr Avg	6.29	11.58
S&P MC 400 Value	2.49	0.79
Mid Cap Val Avg	2.78	0.18
S & P 400 Index	3.05	1.36
Mid Cap Blnd Avg	3.27	1.97

Small Cap Equity

*Benchmark Indx & Category Average**	*(Total Return)* **2nd Q 2019**	**12 Mos.**
Russell 2000 Growth	2.75	-0.49
Small Cap Gr Avg	3.78	2.83
Russell 2000 Value	1.38	-6.24
Small Cap Val Avg	0.95	-7.75
Russell 2000	2.10	-3.31
Small Cap Blnd Avg	2.41	-3.68

International Equity

*Benchmark Indx & Category Average**	*(Total Return)* **2nd Q 2019**	**12 Mos.**
MSCI EAFE	2.50	-1.86
Intl Equity Avg	3.24	-1.36

* **Category average** calculated using *Morningstar Direct*. Fund universe screened to include funds that meet the following criteria:

A. M-Star Category consistent with designated asset class and management style.
B. M-Star Style Box consistent with designated management style.
C. Fund's Objective consistent with asset class.
D. Excludes Index Funds.

We have not independently verified *Morningstar* data.

2nd Quarter Equity Market Results

	2nd Qtr. % Chg.	12-mo. % Chg.
S&P 500	4.30	10.42
S&P 400	3.05	1.36
Nasdaq	3.87	7.78
Russ 2000	2.10	-3.31
MSCI EAFE	2.5	-1.86
MSCI Emg Mkt	0.61	1.21

Rally Continues
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and questions about the implications.

The Fed's willingness to start reversing rate hikes was echoed in the outgoing ECB chair's statement that additional stimulus may be needed despite the zone's -.4% yield. Australia's central bankers think further easing is more likely than not and Japan could take another chip out of its -.1% yield. Demand for ultra-safe sovereign debt under any terms is a sign that investors are seeking refuge. In Europe, the pressure on rates has been exacerbated by diminished supply as the ECB absorbed a big chunk of German bunds in its easing program. Investors looking for an alternative to scarce blue-chip sovereigns have flocked to France and even Portugal driving rates down near zero.

Retreating interest rates typically reflect tepid inflationary expectations and concerns about stalled global growth. Are they signaling recession? If so, one would expect wider credit spreads. Yet, steadfast jobless rates coupled with escalating consumer spending are at odds with fading business confidence. Trade tensions continue to exacerbate uncertainty and restrain corporate capital spending which ultimately takes a toll on earnings and further stifles growth. Stock investors seem impervious to these contradictions responding to the prospect of lower rates with a buying frenzy. The problem is that even cheaper money won't have the desired effect on economic activity if people are too afraid to spend it.

The yield curve remained inverted since it tipped in May. The Fed raised short-term rates while capital flooded into Treasury safety nets at the long end bending 1 to 10-year rates below the Fed Funds rate. According to Moody's, there have been 42 months since 1985 when the Fed Funds rate topped 10-year Treasury yields by 0.1% or more, as is currently the case. Recessions emerged within the following two years 93% of the time.

Can we dodge the inversion bullet this time? When the curve inverted in 1998 amidst similar economic conditions the Fed cut rates and recession was averted. Can they pull it off again? The Fed Funds Rate's is at a very low starting point compared to previous cycles. Initial rates have ranged from 9.5% to 5.25% in the past. The current cycle of economic expansion has been extended but relatively meek, partly because rates coming out of 2008 had yet to fully recover from easing implemented in the wake of the 2000 crash and partly because of other factors that inhibited spending.

Paltry bond yields have boosted the appeal of other assets. Gold, for one, reached a five-year high in June. Gold is favored as a store of value during times of uncertainty, despite extreme near-term price volatility. Investors have very short memories and are piling it up. Even cryptocurrency has benefitted. Bitcoin rallied over 60% in June and is up more than 300% since December lows. It is gaining acceptance among institutional investors with private school endowments recently hopping on the bandwagon. Cryptos remain highly speculative as junkies were reminded during a flash crash on June 27th. The market lost $58 billion and Bitcoin plummeted -15%. Not a viable alternative to conventional securities quite yet – in our opinion.

The bull equity market is historically long-in-the-tooth and some argue overvalued. While the S&P 500's forward P/E is above its 20-year average the trailing P/E remains near its long-term average. Wells Fargo notes a high negative correlation between interest rates and P/Es so maybe valuations are reasonable. If July earnings show trade battle scars and take analysts near zero growth estimates down a notch, a corporate earnings recession could rattle stock enthusiasts.

The G-20 summit in late-June put trade discussions back on track. The US agreed to postpone additional tariffs on Chinese goods indefinitely and remove some restrictions on the sale of US equipment to Huawei Technology. China, in return, will start buying from US farmers. A weaker USD may be an ancillary benefit to a trade truce as China will be less inclined to devalue the yuan which would strengthen other Asian currencies. USD finished the first half of 2019 unchanged compared with the euro and British pound while the yuan was -0.2% lower.

As of this writing, all eyes are on the June employment report due Friday, July 5th. It could be the next market mover with analysts expecting a non-farm payroll increase of 150,000 and unchanged jobless rate at 3.6%. If the US remains fully employed, earnings hold their course and the yield curve has accurately projected modest inflation, the rally could continue. But, there are plenty of "Ifs" that could disrupt the crowd.