



FULLEN FINANCIAL
GROUP

Quarterly Market Summary – Q2 2019

Market Results as of the Second Quarter of 2019

Selected Index Results for Q2 – 2019

<u>Index⁽¹⁾</u>	<u>%Growth For FY 2018</u>	<u>%Growth For YTD 2019</u>	<u>%Growth For Q2 2019</u>
DJIA	-5.63%	14.03%	2.59%
Barclays Aggregate Bond Index (U.S. multi-sector bond)	-2.60%	4.56%	2.09%
S&P 500 (large cap)	-6.24%	17.35%	3.79%
S&P 400 (mid cap)	-12.50%	16.99%	2.60%
Russell 2000 (small cap)	-12.18%	16.17%	1.74%
MSCI EAFE Index (developed international)	-16.40%	11.82%	1.34%
iShares MSCI Emerging Market Index	-17.11%	9.86%	-0.02%
iShares Dow Jones US Home Construction	-31.29%	27.23%	8.46%
MSCI US REIT Index	-8.64%	15.46%	0.30%
Amex Oil Index	-13.21%	9.97%	-2.09%
Barclays Global Agg ex-US Corp Bond Index	-6.79%	3.79%	3.14%

These results do not include reinvesting dividends.

Q2 Quick Summary

- Indication that major central banks could begin easing policy in the months ahead prompted Q2 gains across most equity asset groups. A definitive fall in major global interest rates also was evidence of monetary policy expectations.
- During Q2, the S&P 500 Index added 3.8%, and the Dow Jones Industrial Average was up 2.6%, while the MSCI EAFE Index grew by a more modest 1.3%. Bond benchmarks also rose, benefiting from friendly commentary and action from key central banks.
- Federal Reserve policy expectations and concerns over global economic slowing aided the U.S. bond market overall. The Bloomberg Barclays U.S. Aggregate Bond Index rose 2.1% for the period, boosted in part by a gain in U.S. Treasuries.
- Economically, global conditions continued to soften, as highlighted by weakness in purchasing managers' index numbers and other leading indicators. Meanwhile, economic indicators in the U.S. also have begun to trend lower.



S&P 500 Index Sector Returns – Q2 2019

Source: Bloomberg

Sector	Cyclical or Defensive	Total Return	Sector	Cyclical or Defensive	Total Return
Consumer Discr.	Cyclical	5.3%	Info Tech	Cyclical	6.1%
Consumer Staples	Defensive	3.7%	Materials	Cyclical	6.3%
Energy	Cyclical	-2.8%	Real Estate	Cyclical	2.5%
Financials	Cyclical	8.0%	Telecom	Cyclical	4.5%
Health Care	Defensive	1.4%	Utilities	Defensive	3.5%
Industrials	Cyclical	3.6%			

Central Bank Support

It has now become a familiar pattern: market and/or economic conditions weaken, and central bankers step in with either commentary or policy support to soothe financial market concern. Policymakers have seemingly evolved policy from reacting after a trend has developed to more of a preemptive behavioral economic approach. In doing so, they have essentially conditioned market participants to look for policy support upon early symptoms of market or economic weakness. And repeatedly now, central bankers have stepped in to deliver that support and ease investor concern. Like a broken record, the European Central Bank and the Federal Reserve most notably, repeated that same refrain in Q2. Central bankers again micro-managed economic participants with the signaling of policy, or policy action itself, and investors nodded their approval.

In June, the Federal Reserve completed its policy about-face. The Fed went from a tightening bias in December to a more soothing accommodative message in Q1. And during the June FOMC meeting (as well as Jerome Powell’s post-meeting press conference), Fed members confirmed their 180-degree turn toward an easing bias and signaled a potential July rate cut. Given the market’s tendency to be guided by monetary policy, stocks went up as policy changed course. European Central Bank President Mario Draghi cemented the central bank easing bias when he suggested, in one of his last public speeches as ECB head (June 18), European policymakers would also act if economic conditions did not improve. It’s possible that other central banks, in both developed and emerging economies, could continue this trend in the second half of this year.

Global Economy Weakens; Gets Policymakers’ Attention

The now firm shift in monetary policy bias is not without reason. Key economic numbers have continued to weaken, although U.S. data has been somewhat better than much of the world. The surprising strength in Q1 U.S. GDP appears at odds with more recent underlying data. Manufacturing new orders, capacity utilization, construction spending, and industrial production in the U.S. have all turned lower in recent months. The fall in such numbers has been more definitive in other parts of the developed world, and global manufacturing and services activity has also seen a decline. Trade issues can be partially to blame, but pre-existing economic concerns with China, continued Brexit uncertainty, and definitive slowing in



Europe are all weighing on global activity. The subtle drumbeat of economic worry is visible in recent global GDP numbers and growth forecasts as well.

Real GDP Growth (Year over Year %)

Country	Q2 '19E	Q3 '19E	Q4 '19E
U.S.	1.8%	1.9%	1.8%
Germany	0.4%	0.9%	1.1%
U.K.	1.3%	1.1%	1.1%
Japan	0.1%	1.3%	-2.0%
Brazil	0.8%	1.0%	1.7%
China	6.2%	6.2%	6.2%

Source: Bloomberg

E = Bloomberg consensus estimate

Broadly, economic data has provided good reason for central bankers to adjust their views, and it appears policymakers are keen to prolong the cycle. Meanwhile, favorable sentiment data, higher equity prices, and low volatility may reflect investor confidence that policymakers will manage a soft landing for the global economy.

Outlook

Given that central bankers seem ready to apply additional stimulus, we believe investors should maintain a modestly bullish stance on equities. Betting against the heft of central banks historically has not been a good trade. Despite ongoing economic uncertainty, we believe central bankers are determined to steer the economy toward a soft landing and successfully elongate this business cycle. A key risk to this view is corporate earnings, as year-over-year earnings growth declines, expected for Q2 and Q3, could be a bit tough for this market.

Globally, we still favor U.S. equities over the rest of the world. We are cognizant that valuations look better in foreign developed and emerging markets, but current economic prospects in non-U.S. markets may not be as favorable. Meanwhile, one reason valuations are higher in the U.S. is profit margins are indeed higher. In our view, global investors may continue to pay up for access to more profitable, and more innovative U.S. companies.

On the bond side, we believe interest rates will remain below historical levels, and it appears the market is starting to acknowledge that reality. Structural issues influencing inflation, monetary policy, the economy, and the rate market in general should anchor interest rates at low levels. In addition, we believe global rates could still move lower from here, and a 10-year Treasury yield that hovers below 2% rather than above may be the base case by year-end.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other



geopolitical events can have a substantial effect on portfolio performance. Add all this to the fact that, albeit imperfect, historical valuations are at or near all-time highs and it might not take much to spook markets.

Conclusions

Our position continues to be one of caution and measured expectations. Despite continued strength in the U.S. economy and stock market, the possibility of a correction is certainly there. As we have stated previously, there is convincing evidence that over the next few years, investment returns will be lower and market volatility will be higher. Unfortunately, investors who choose to sit out to avoid volatility will likely lose what investment yields are available, even if reduced. While there will be periods of negative returns, history tells us that equity and fixed income yields should still be positive (over time) and are highly likely the best alternative for the vast majority of investors.

If we enter a period of higher volatility, maintaining investment discipline within a lower overall yield environment will be difficult emotionally. As tempting as it may be, trying to time the markets in a lower yield environment has a high probability of creating permanent losses. Compounding the problem, a less favorable investment environment will increase the “sales pitches” designed to appeal to your emotions. Avoid the temptation to act in an undisciplined and consequently damaging way— no matter how slick the advertisements. If a lower yield environment develops, no person or company is going to find a way around it – everyone is investing in the same lower yield environment.

Fullen Financial is always available to help sort out marketing claims so, if you have questions, don't be concerned about asking us.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment market). There is no reason to believe that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs, then those funds should be in short term investments. If you have long-term spending needs (like 10 or more years into retirement) then these savings should be in long-term equity investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to) a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.



Please note that you are entitled to receive Fullen Financial's Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Shelley Harman at shelley@fullenfinancial.com and requesting such. Alternatively, you can go to the www.fullenfinancial.com website and under Client Center, click on Obtain Form ADV.

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