



FULLEN FINANCIAL GROUP

Quarterly Market Summary – Q3 2019

Market Results as of the Third Quarter of 2019

Selected Index Results for Q3 – 2019

<u>Index⁽¹⁾</u>	<u>%Growth For FY 2018</u>	<u>%Growth For YTD 2019</u>	<u>%Growth For Q3 2019</u>
DJIA	-5.63%	15.39%	1.19%
Barclays Aggregate Bond Index (U.S. multi-sector bond)	-2.60%	6.27%	1.63%
S&P 500 (large cap)	-6.24%	18.74%	1.19%
S&P 400 (mid cap)	-12.50%	16.38%	-0.52%
Russell 2000 (small cap)	-12.18%	12.96%	-2.76%
MSCI EAFE Index (developed international)	-16.40%	10.94%	-0.79%
iShares MSCI Emerging Market Index	-17.11%	4.63%	-4.75%
iShares Dow Jones US Home Construction	-31.29%	44.17%	13.32%
MSCI US REIT Index	-8.64%	23.15%	6.66%
Amex Oil Index	-13.21%	4.28%	-5.17%
Barclays Global Agg ex-US Corp Bond Index	-6.79%	1.09%	-2.60%

These results do not include reinvesting dividends.

Q3 Quick Summary

- The equity ascension in 2019 was interrupted in the third quarter as global economic data suffered under the weight of U.S./China trade worry and caution from the business community. Questions over a mid-cycle slowdown or a full-blown economic stall were elevated in the period.
- During Q3, international developed market and emerging market indices were down, while the S&P 500 Index added 1.2%. The Bloomberg Barclays Treasury Index and the Bloomberg Barclays Investment Grade Corporate benchmark both rose, leading to a 1.6% gain in the Barclays aggregate bond index.
- In September, both the European Central Bank (ECB) and the Federal Reserve moved to lower rates, and the ECB relaunched its quantitative easing program. The ECB pledged to begin buying €20 billion of sovereign debt per month. Also in September, the Peoples Bank of China eased its policy by again reducing the required reserve ratio for its major banks. The policy moves, in aggregate, had been generally expected by market participants.
- Economically, investors focused on what has been an eroding trajectory of manufacturing and services activity across the globe. Meanwhile, the U.S. consumer has remained relatively strong and is keeping the U.S. economy in better relative condition.



S&P 500 Index Sector Returns – Q3 2019

Source: Bloomberg

Sector	Cyclical or Defensive	Total Return	Sector	Cyclical or Defensive	Total Return
Consumer Discr.	Cyclical	0.5%	Info Tech	Cyclical	3.3%
Consumer Staples	Defensive	6.1%	Materials	Cyclical	-0.1%
Energy	Cyclical	-6.3%	Real Estate	Cyclical	7.7%
Financials	Cyclical	2.0%	Telecom	Cyclical	2.2%
Health Care	Defensive	-2.2%	Utilities	Defensive	9.3%
Industrials	Cyclical	1.0%			

Equity Gains Decelerate; Bond Prices Firm

Relative to Q1 and Q2, global equity gains were decidedly subdued in the third quarter and outright negative in foreign developed and emerging economies. Further signs of economic weakness in global manufacturing and services activity proved to be the primary reason for pause. The concerns offset additional monetary accommodation from the Federal Reserve, the European Central Bank, and the Peoples Bank of China; action that had largely been expected by market participants. Investors again focused their global investing to favor U.S. equity exposure. Relative differences in the overall health of global economies (U.S. seen as the strongest) again prompted U.S. outperformance. This has been a persistent pattern over the last 18+ months.

The S&P 500 Index gained 1.2% for Q3, while the MSCI EAFE and the MSCI Emerging Markets indices fell 0.8% and 4.8%, respectively. Notably, value stocks got an outsized bid during the quarter as the style showed some of the best relative performance since late 2016. While growth did recover during the quarter; the slight adjustment to sentiment may be something to watch. Clearly, the mid-cycle economic weakness we have seen helped provoke a slight value-stock resurgence.

The prevailing economic worry was enough to prompt steady gains across the U.S. bond market as the Bloomberg Barclays U.S. Aggregate Bond Index rose 1.6% for the period. Long-term Treasury yields continued to slide as the 10-year yield fell to 1.67%. The benchmark managed to hit a closing yield low of 1.46% in early September. The yield pressure can be linked, in part, to the persistent weakness in manufacturing activity. Finally, investment grade U.S. corporates led all bond segments; the Bloomberg Barclays U.S. Investment Grade Corp Index was up 3.0% for the quarter. Investors took advantage of the corporate yield pick-up which offset some widening in corporate spreads. High-yield corporate gains were more modest as spreads widened a bit there as well.



U.S. Consumer a Point of Economic Strength

While the manufacturing and services sector hand-wringing is understandable, investors may want to recall that the consumer still makes up the largest component of the U.S. economy. With employment strong and oil prices low, the U.S. consumer has shown an increased penchant to spend what has been a recent surge in disposable income per capita. Retail sales, while not quite as robust as 12-18 months ago, remain quite strong. Tack on the potential benefit of a recent drop in mortgage rates and a renewed uptick in housing activity, and it seems a call for a U.S. economic downturn may be a bit premature.

Current consumer and housing data, plus early signs of a turn in leading economic indicators, may signal that the U.S. economy is stronger than recent headlines would indicate. Weak manufacturing and services activity should not be ignored; however, a modest manufacturing and services resurgence, rather than a full economic downturn, seems most likely in the near term.

That resurgence could be pushed by eventual trade news, given that both President Trump and President Xi Jinping need a substantive deal to alleviate political and economic pressure. Experts still believe the trade relationship between the U.S. and China will be an evolution rather than a quick fix, but we would not be surprised to see some agreements announced over the next 3-6 months.

Meanwhile, there appear to be no immediate, overarching concerns in the economy, and the consumer is perhaps too strong to call an end to the current business cycle. The current economic softness may indeed be resolved as a mid-cycle slowdown, and conditions could modestly improve. The risk in the U.S. of a more significant economic downturn continues to exist, however, and should not be discounted.

Central Bank Effect

After an approximate two-year period of tightening, led primarily by the Federal Reserve, central bank bias globally has turned toward easing. The Fed has begun a program that could see two or more rate cuts over the next 3-6 months, while the Peoples Bank of China has been easing aggressively since mid-2015. The European Central Bank got back in the act with a cut in the deposit rate in September, but kept rates unchanged in October. Nevertheless, more policy adjustments from the ECB may be expected. Policies have been reinvigorated to stave off economic weakness in many regions. Central banks have been the most active in Latin America and Asia, where weakness in Brazil and China has been felt most acutely. Brazil has haltingly recovered from a material recession in 2015 and 2016, while China's GDP has been on a downward slide for some time.

Central Bank Policy Rates

Bank	Rate (%)	Latest Change	Next Meeting	Bias
U.S. Federal Reserve	1.75%	-0.25%	12/10/2019	Neutral
European Central Bank	0.0%	0.0%	12/12/2019	Lower
Bank of Japan	-0.1%	0.0%	12/19/2019	Lower
Reserve Bank of Australia	0.75%	0.00%	12/3/2019	Lower
Reserve Bank of India	5.15%	-0.25%	N/A	Lower
Central Bank of Brazil	5.00%	-0.50%	12/9/2019	Lower

Source: Bloomberg (Bias based on Bloomberg consensus forecast of central bank policy rates)



Broadly we believe the easier policy will help global economies and could elongate the business cycle. However, given current low rates in much of the developed world, central bank policy in much of the global economy is at risk of having a diminishing effect on economic fundamentals.

Outlook

We expect that equities will outperform bonds as we look through Q4 and into 2020, driven by some progress on the trade front, likely further monetary policy accommodation, and a modest resurgence in economic activity. For the latter, we are anticipating a moderate reversal in manufacturing and services activity, which could be driven, in part, by trade progress. To be sure, we are not anticipating a robust investment environment given that corporate profit margins and equity multiples are at or near peak levels already. And given the importance of trade to the global economy, a lack of progress on key trade deals would likely have a dampening effect on economic growth and equity valuations.

In light of the above, investors should maintain a slight bias toward equities, but remain mindful of equity risk. Globally, we expect that U.S. equities will continue to outperform, although investors will have to pay a premium for U.S. exposure, relative to EAFE and EM countries, given better economic and corporate health in the U.S.

On the bond side, investors were reminded in Q3 why we believe that straying too far from core bond exposure is a bad idea. We still believe this, although a near-term back-up in yields may be expected if we do get positive trade developments and economic improvement. Broadly, U.S. interest rates could continue to grind lower over the intermediate term, so duration exposure should be kept relatively short.

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 and the effectiveness of strategic and tactical portfolio approaches.

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 continues to exist. 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 this 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 Aigool Zhumasheva at aigool@fullenfinancial.com and requesting such. Alternatively, you can go to our website at www.fullenfinancial.com, click on Resources, then on Client Forms.



Important Disclosures: This material is for informational purposes only. It is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction or investment strategy.

Judgement or recommendations found in this report may differ materially from what may be presented in a long-term investment plan and are subject to change at any time. This report's authors will not advise you as to any changes in figures or views found in this report.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.