

MARKET COMMENTARY

Q2 2019 in Perspective

Loring Ward's Asset Class Investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

The global stock market rally that began in the first quarter continued in the second quarter. All major stock and bond categories we track posted gains over the past three months. While we never know for sure what caused the recovery to continue, reduced fears of a slowing economy, progress on U.S. trade negotiations and accommodative positioning from the Federal Reserve and other central banks all seemingly helped investors feel comfortable investing in stocks.

For the quarter, U.S. stocks (as measured by the S&P 500 Index) gained 4.3%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) gained 3.8%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) gained 0.6%.

U.S. interest rates fell during the quarter as the Federal Reserve indicated that the next move for short-term interest rates may be lower. Updated interest rate forecasts from the June 2019 Federal Open Market Committee meeting showed a growing preference among Fed officials to lower interest rates from their current range of 2.25 – 2.50%. Since changes in interest rates and bond prices are inversely related, the decline in interest rates helped increase the quarterly return for bond asset classes.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, slightly declined in the second quarter – with the U.S. dollar declining by -1.2% compared to foreign currencies. Over the past 12 months, the U.S. dollar appreciated 1.1%.

U.S. Economic Review

Positive economic growth in the U.S. continued in the first quarter of 2019. The final reading for first-quarter GDP showed an increase in economic growth of 3.1%. The June 2019 reading of the unemployment rate remained near a four-decade low at 3.7%. Domestic inflation remains tame as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, stayed below the Fed's target of 2.0% with a reading of 1.6% in May 2019.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Department of the Treasury, Morningstar Direct 2019.

Financial Markets Review

The stock market recovery that began in the first quarter continued in the second quarter. While there were some up and down price movements during the quarter, all the asset classes we track ended the quarter with a gain. During the quarter, U.S. large-cap stocks performed the best, followed closely by U.S. value stocks. After a strong first quarter, U.S. real estate investment trust (REIT) stocks posted the smallest gain. U.S. short-term bonds and global bonds both advanced 1.5%.

U.S. Large-Cap Stocks	U.S. Value Stocks	U.S. Small-Cap Bonds	U.S. REIT Stocks	Int'l Value Stocks	Int'l Small-Cap Stocks	EM Value Stocks	U.S. Short-Term Bonds	Global Bonds
+4.3%	+3.8%	+2.1%	+0.8%	+1.7%	+1.8%	+1.0%	+1.5%	+1.5%
U.S. STOCKS				INTERNATIONAL STOCKS			BONDS	

Source: Morningstar 2019. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (S&P 500 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), U.S. Short-Term Bonds (BofA ML Corp&Govt 1-3 Yr TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., large-cap stocks outperformed small-cap stocks in all style categories. Growth stocks outperformed value stocks in all size categories. Among the nine style boxes, mid-cap growth stocks performed the best, and the smallest gain occurred in small value stocks.

U.S. Stocks Q2 2019

	Value	Core	Growth
Large	3.8%	4.2%	4.6%
Mid	3.2%	4.1%	5.4%
Small	1.4%	2.1%	2.7%

Source: Morningstar Direct 2019. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value and Growth, Mid: Russell Mid Cap, Value and Growth, Small: Russell 2000, Value and Growth).

In developed international markets, the results were similar to the United States. Large-cap stocks outperformed small-cap stocks, and growth stocks outperformed value stocks. Among the nine style boxes, large-cap growth stocks gained the most, and mid-cap value stocks gained the least.

International Stocks Q2 2019

	Value	Core	Growth
Large	2.0%	3.9%	6.1%
Mid	0.3%	3.2%	4.8%
Small	0.9%	1.8%	2.6%

Source: Morningstar Direct 2019. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

With stocks and bonds advancing globally, a diversified index mix of 65% stocks and 35% bonds would have gained 2.3% during the first quarter.

65/35 Index Mix: 2% Cash (BofA ML 3M US Treasury Note TR), 16% ST U.S. Fixed Income (BofA ML Corp&Govt 1-3 Yr TR), 17% Global Bonds (FTSE WGBI 1-5 Yr Hdg USD), 15% U.S. Large (S&P 500 Index), 12% U.S. Value (Russell 1000 Value Index), 8% U.S. Small (Russell 2000 Index), 4% U.S. REITs (Dow Jones U.S. Select REIT Index), 14% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 5% Emerging Markets Value (MSCI Emerging Markets Value Index (net div.)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

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