Market Commentary

As of September 30, 2019

Economy & Market Review

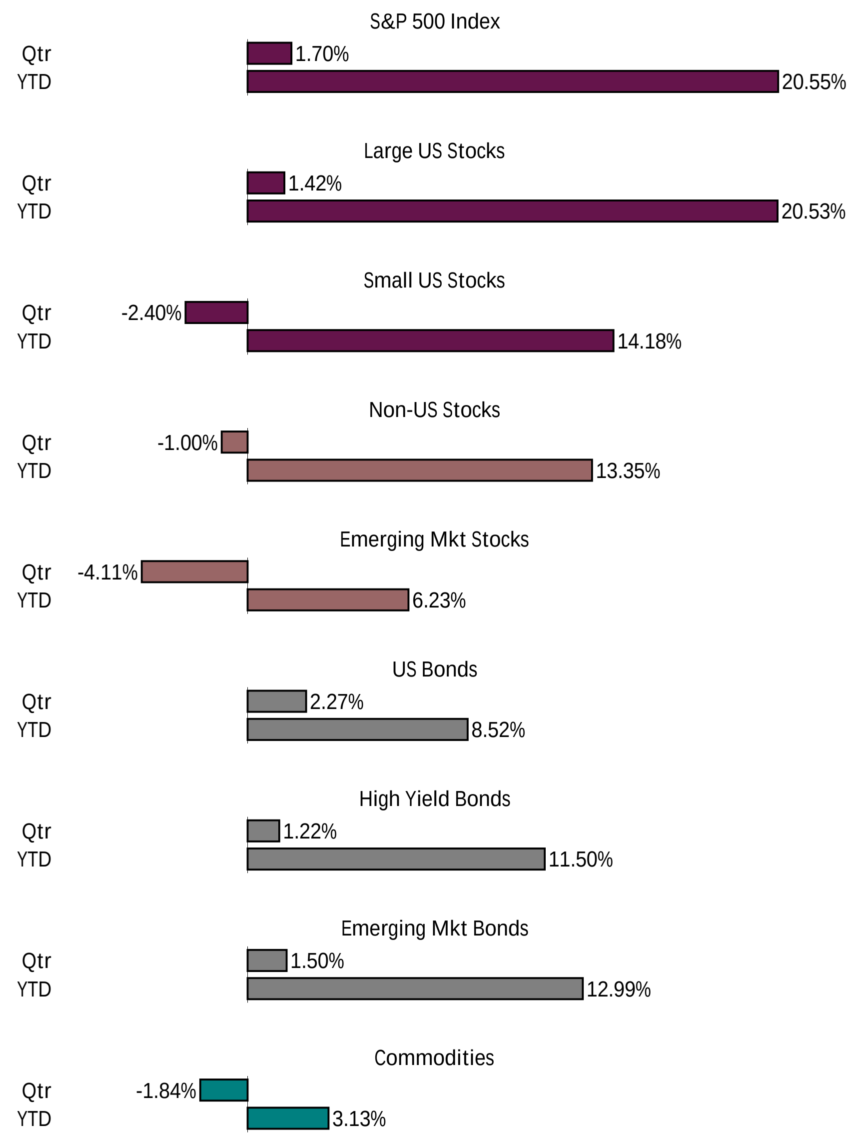
Third Quarter 2019

Most people enjoy the idea of "R and R" (Rest and Relaxation). The financial markets are contemplating "R or R" (Recession or Resilience). If 2020 is a recessionary year, it will be the most anticipated recession ever which is not usually how recessions occur. Uncertainty continues to weigh on the global economy predominately impacting business fixed investment. Trade challenges have definitely had a negative impact on manufacturing as seen through sluggish global Purchasing Managers Index numbers. On the bright side, service activity and consumer spending have persisted. The service economy expanded, but at a slower pace than expected. From a geopolitical perspective, the markets processed Hong Kong protests, a fast approaching Brexit deadline, an attack on Saudi Arabia's oil fields, and US presidential impeachment banter. With geopolitical commotion as a backdrop, US large-cap stocks still gained 1.4% during the quarter but small-cap US stocks produced a negative return of 2.4%. International developed markets were also negative at 1% and emerging markets produced the worst quarterly return down 4.1%.

From the US economic standpoint, GDP growth for the 2nd quarter grew 2.0% compared to first quarter's 3.1% increase. Although slower growth relative to the first quarter, the US still had a faster growth rate than most developed nations. Looking forward slightly, the Atlanta Fed's forecasting model called *GDPNow* estimates 3rd quarter growth at 1.8%. With slowing global growth, the US inflation rate as measured by the Consumer Price Index fell slightly to 1.7% on an annualized basis and the Personal Consumption Expenditure Index was up only 1.4%. Both measures were below the Federal Reserve's targets. Stubbornly low inflation readings continue to give the Fed motives for lower benchmark rates. At its September 18th meeting, the Fed lowered the federal funds rate by 0.25% due to weakened business investments and exports.

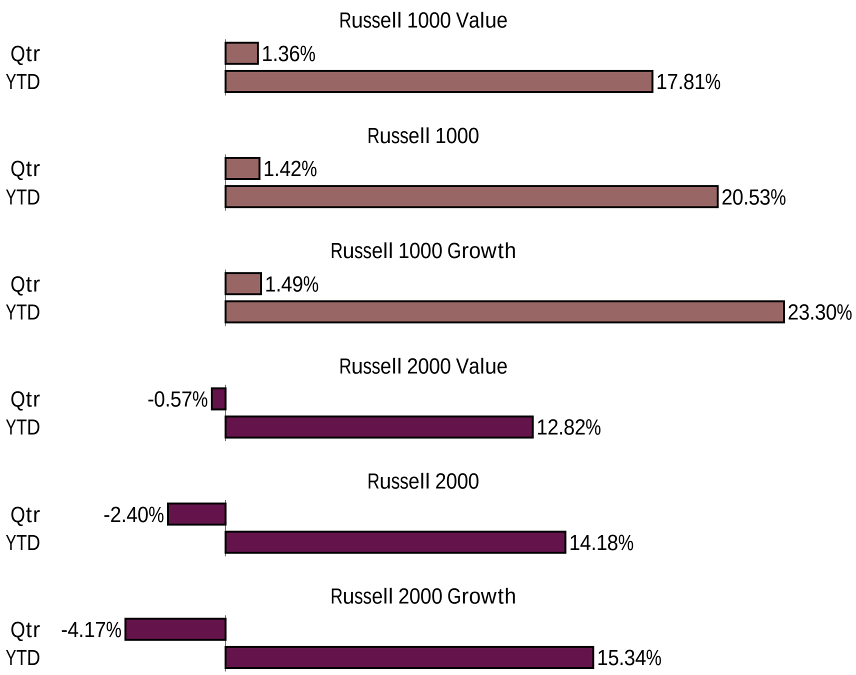
As unemployment remains low and the consumer continues plodding forward, the economy may postpone a recession near-term. The economy will likely need not only monetary policy (central bank intervention) but also fiscal policy (government spending) to diminish negative future economic conditions. From an investment perspective, this is late cycle and volatility will probably increase.

Global Market Performance



U.S. Equity Markets

U.S. Equity Style Performance

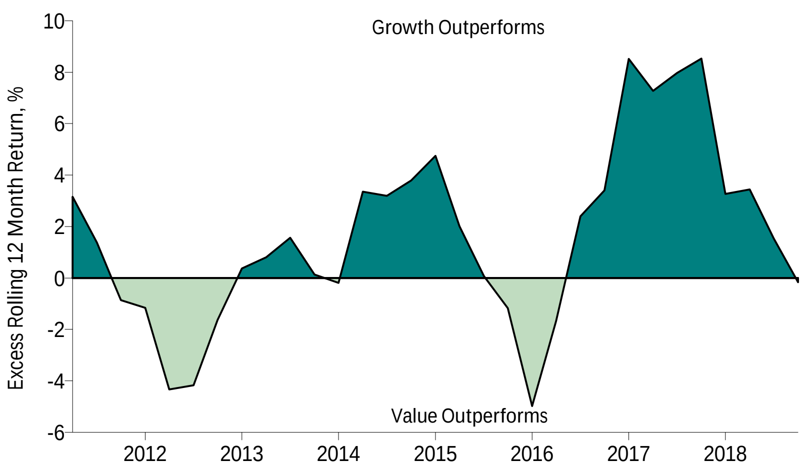


US stocks were mixed this quarter. Although US large-cap stocks notched a third straight quarterly gain, equities have been basically flat over the past 12 months revealing some uncertainty in the markets. Valuations continue to be above longer term averages, but do not appear euphoric. Stints of trade optimism and central bank accommodation may continue to sustain the market, but corporate earnings will still need to be the long-term driver of valuations and returns.

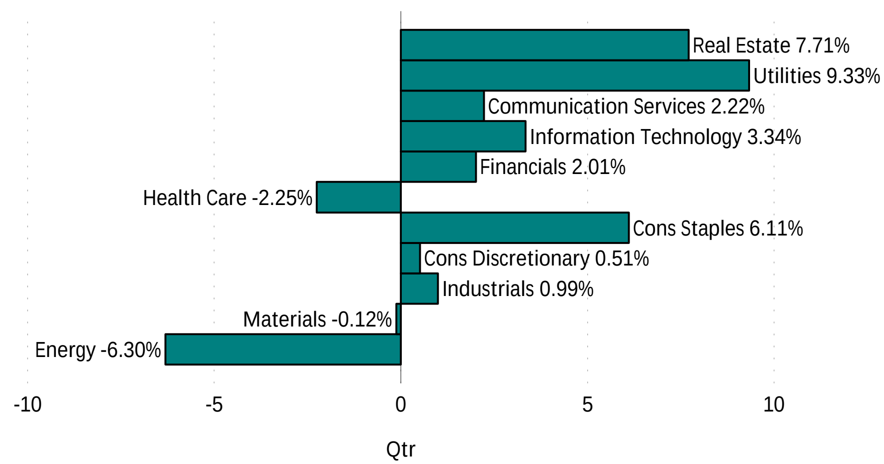
In a role reversal, value stocks outperformed growth stocks in September, but this may simply be a short-lived bounce from a maligned group. During the quarter, the main dispersion was between small-cap versus large-cap equities. Both large-cap value and growth companies provided positive returns while their small-cap brethren produced negative returns. Historically, small-cap will underperform during late cycle periods, but recent charts and articles also highlight they are more highly leveraged than past cycles.

Sector performance during the quarter definitely had a defensive feel with Utilities, Consumer Staples, and Real Estate leading performance. Real Estate was more of a yield play as rates declined than due to defensive buying. Energy, Health Care and Materials were the only three sectors with negative performance from June to September.

Growth Relative to Value (Russell 1000)

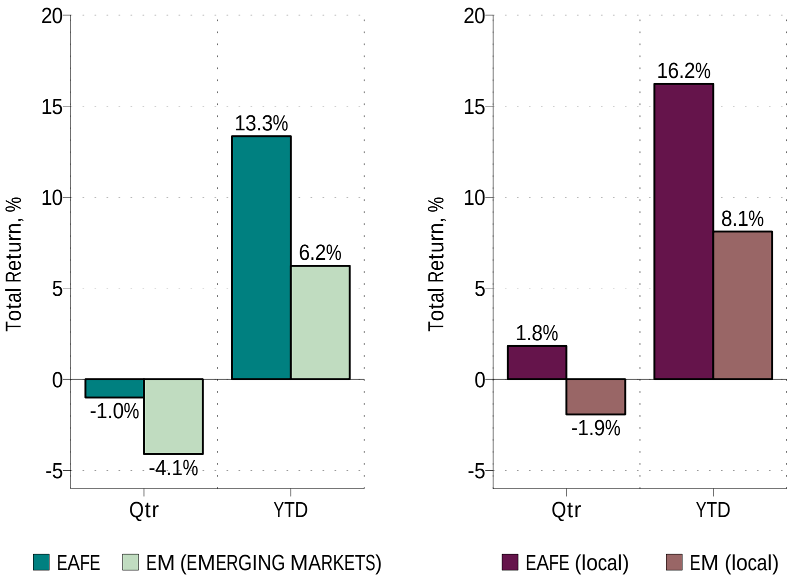


U.S. Equity Sector Performance (S&P 500)



International Equity Markets

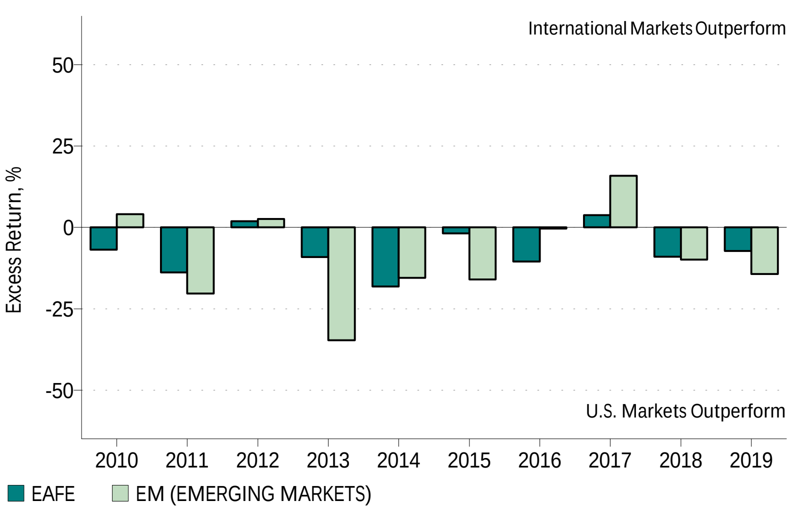
Non-U.S. Equity Performance



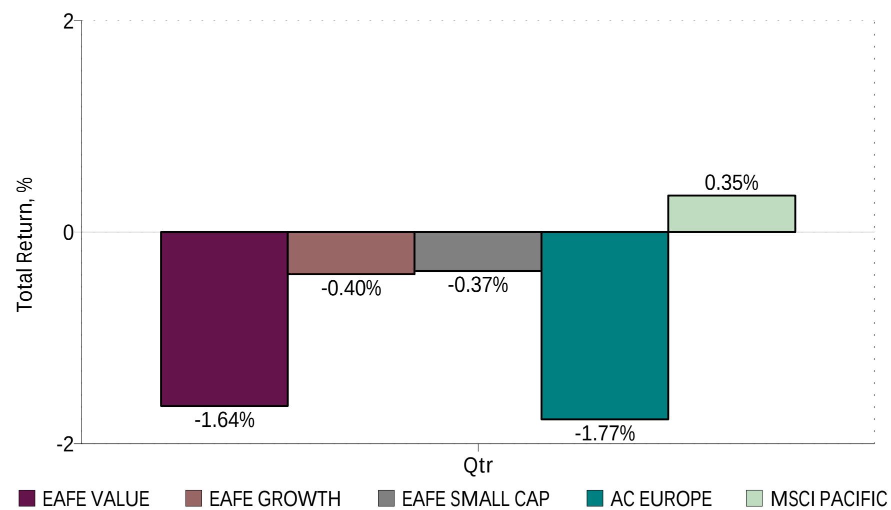
International equities struggled in the third quarter. The MSCI EAFE Index, a proxy for the developed equity market, fell 1% for the quarter. The strong US dollar reduced EAFE returns by nearly 3%. Within developed markets, Japan was the best performer while Hong Kong slumped 12% as protests negatively affected the economy. The European Central Bank stepped in to adopt further expansionary measures as the Eurozone economy continues to languish. German equity markets dropped 4% as challenging economic data persisted.

Continued US dollar strength shaved 2% off returns from emerging market (EM) equities. The broad MSCI Emerging Market Index was down more than 4%. As US-China trade tensions escalated along with slowing global growth, EM underperformed both the US indices and the MSCI World Index. The main performance culprits were Argentina, South Africa, and Indonesia. China underperformed by a more modest margin, but was impacted by 10% tariffs on $300 billion of goods in September and an announced tariff increase from 25% - 30% on $250 billion of Chinese goods in October. China responded with tariffs of $75 billion of US goods.

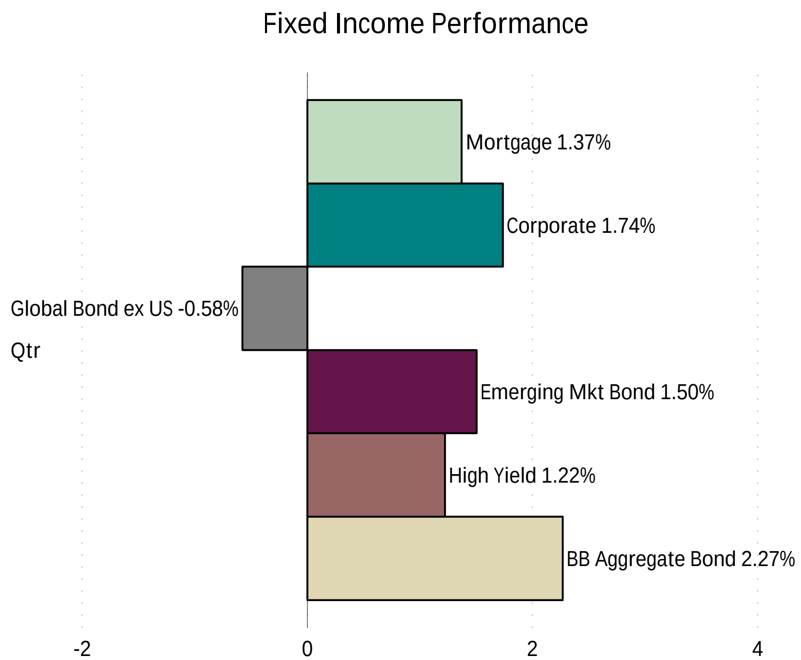
Non-U.S. Equity Returns Relative to U.S. (S&P 500)



Style and Regional Non-U.S. Equity Performance

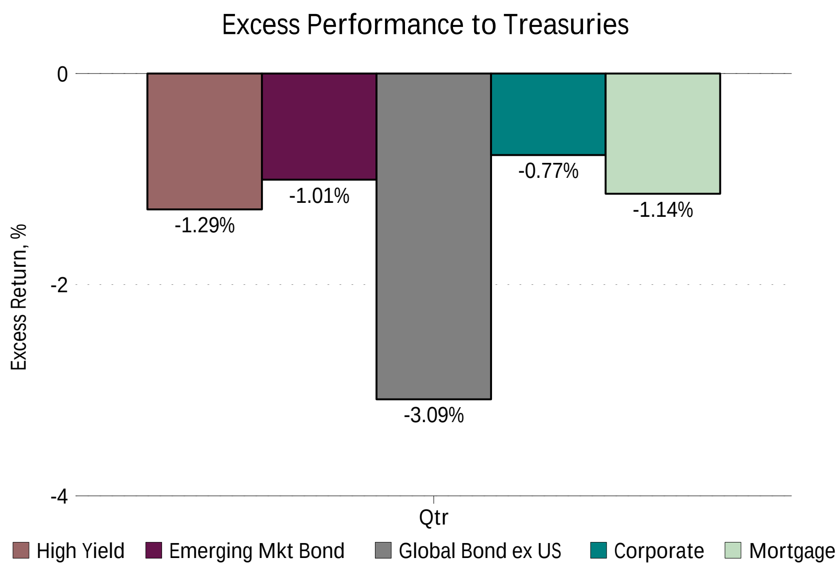


Fixed-Income Markets



Easier monetary policy around the globe to combat waning global growth led to a growing percentage of negative yielding bonds. The US continues offering positive yields even in the face of a strong US dollar. Although rates are still positive, yields have dropped since the beginning of the year. The US Federal Reserve has reduced rates twice this year and may move rates even lower before year end. The Bloomberg Barclays US Aggregate Bond Index, a broad measure of the bond market, increased 2.3% for the quarter. Longer duration sectors did very well as rates continued to fall during the quarter. The 10-year bond fell from 2% to 1.68% in just three months with a low of 1.4%. The European Central Bank (ECB) cut interest rates for the first time since 2016 to -0.5% and restarted the quantitative-easing scheme by buying €20 billion worth of bonds per month.

The US yield curve as measured by the spread between 2-year and 10-year yields has oscillated between positive and inverted. As of quarter end with a slightly positive curve, the 10-year was yielding 1.68% and the 2-year was yielding 1.63%. The 3-month and 10-year comparison was inverted most of the quarter. Historically, the curve inverts 12-18 months before a recession and has been a fairly accurate indicator. An inverted yield curve does remind investors that recessions are inevitable and maintaining proper asset allocation is warranted.



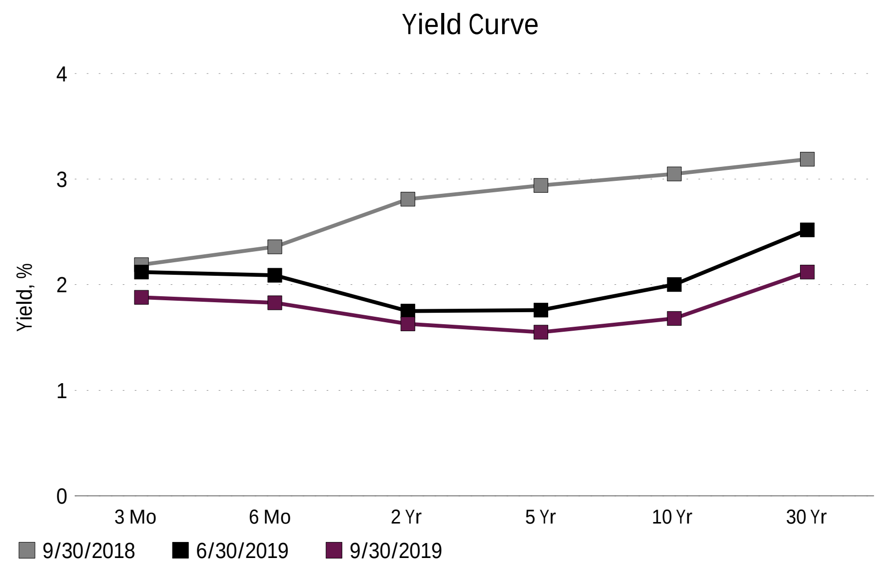


Chart of the Quarter - In Honor of Financial Wellness

These findings are from a poll conducted on behalf of New York Life in August of 2019. Leading the list is an issue talked about often – not saving for retirement earlier. Not only is it the biggest financial regret, it is also the one with the most significant long-term impact at 11 years for recovery. Delaying even a few years requires a higher savings percentage in the years left until retirement. Always remember, it's never too late to start saving for the future.

Lack of adequate emergency funds was another impactful regret. Unexpected expenses will inevitably occur and in this example it took nearly 8 years to recover. Also, not having an emergency fund likely helped lead to the last two regrets based on increased credit usage.

Using a credit card with high rates can provide immediate gratification, but cause longer-term cash flow challenges. It took 8 years to recover from relying too much on a credit card and 5 years to recover from not paying the balance in full each month.

Periodic Table of Investment Returns

Axia Advisory

											Annualized Return
	Gold 29.24%						Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%		Large Cap Stocks 20.53%	14.27
Emerging Mkt Stocks 79.02%	Small Cap Stocks 26.85%		Emerging Mkt Stocks 18.63%				High Yield 17.49%	International Stocks 27.77%		Gold 16.13%	5.10
High Yield 57.51%	Emerging Mkt Stocks 19.20%		International Stocks 17.39%				Large Cap Stocks 12.05%	Large Cap Stocks 21.69%		Small Cap Stocks 14.18%	12.47
International Stocks 42.14%	Commodities 16.83%		Large Cap Stocks 16.42%		Large Cap Stocks 13.24%		Commodities 11.77%	Small Cap Stocks 14.65%		International Stocks 12.06%	7.69
Large Cap Stocks 28.43%	Real Estate 16.36%	Real Estate 15.99%	Small Cap Stocks 16.35%		Real Estate 12.49%		Emerging Mkt Stocks 11.60%	Gold 12.66%		High Yield 11.50%	11.31
Small Cap Stocks 27.17%	Large Cap Stocks 16.10%	Gold 8.93%	High Yield 15.58%	Small Cap Stocks 38.82%	US Bonds 5.97%		Real Estate 8.76%	60/40 Blended Index 12.07%		60/40 Blended Index 11.16%	8.42
Gold 25.04%	High Yield 15.19%	US Bonds 7.84%	60/40 Blended Index 11.09%	Large Cap Stocks 33.11%	60/40 Blended Index 5.51%		Gold 8.10%	Intl/EM Bonds 10.41%		Intl/EM Bonds 8.62%	5.43
60/40 Blended Index 20.62%	60/40 Blended Index 12.84%	Intl/EM Bonds 5.88%	Real Estate 10.94%	International Stocks 15.78%	Small Cap Stocks 4.89%	Real Estate 15.01%	60/40 Blended Index 7.85%	Real Estate 7.62%		US Bonds 8.52%	4.02
Commodities 18.91%	International Stocks 11.60%	High Yield 4.38%	Intl/EM Bonds 10.60%	60/40 Blended Index 14.85%	High Yield 2.50%	Large Cap Stocks 0.92%	Intl/EM Bonds 5.77%	High Yield 7.48%		Emerging Market Stocks 6.23%	8.39
Intl/EM Bonds 18.31%	Intl/EM Bonds 8.60%	Large Cap Stocks 1.5%	Gold 8.26%	Real Estate 13.94%	Intl/EM Bonds 2.08%	US Bonds 0.55%	International Stocks 5.01%	US Bonds 3.54%	Real Estate 8.35%	Real Estate 3.78%	6.86
US Bonds 5.93%	US Bonds 6.54%	60/40 Blended Index 0.49%	US Bonds 4.22%	High Yield 7.42%	Gold 0.12%	60/40 Blended Index 0.11%	US Bonds 2.65%	Commodities 1.70%	3-month T-Bills 1.87%	Commodities 3.13%	-3.25
3-month T-Bills 0.21%	3-month T-Bills 0.13%	3-month T-Bills 0.1%	3-month T-Bills 0.11%	3-month T-Bills 0.07%	3-month T-Bills 0.03%	3-month T-Bills 0.05%	3-month T-Bills 0.33%	3-month T-Bills 0.86%	US Bonds 0.01%	3-month T-Bills 1.81%	0.52
2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	
Real Estate (29.76)%		Small Cap Stocks (4.18)%	Commodities (1.06)%	US Bonds (2.02)%	Emerging Mkt Stocks (1.82)%	Intl/EM Bonds (2.42)%			Gold (0.93)%		
		Commodities (13.32)%		Emerging Mkt Stocks (2.27)%	International Stocks (3.44)%	Small Cap Stocks (4.41)%			High Yield (2.26)%		
		International Stocks (13.33)%		Intl/EM Bonds (4.13)%	Commodities (17.01)%	High Yield (4.64)%			Intl/EM Bonds (3.17)%		
		Emerging Mkt Stocks (18.17)%		Commodities (9.52)%		International Stocks (5.25)%			60/40 Blended Index (3.71)%		
				Gold (27.33)%		Gold (12.11)%			Large Cap Stocks (4.78)%		
						Emerging Mkt Stocks (14.60)%			Small Cap Stocks (11.01)%		
						Commodities (24.66)%			Commodities (11.25)%		
									International Stocks (13.78)%		
									Emerging Market Stocks (14.25)%		

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