MARKET COMMENTARY & OUTLOOK

Second Quarter, 2019

LAMCO ADVISORY SERVICES, INC.

Though the perma-bears continue to grumble, the United States Economy hit an important milestone to end the second quarter. The economy has grown uninterrupted for 121 consecutive months, surpassing the record 120-month expansion between March 1991 and March 2001. Buoyed by an accommodative monetary policy and expansionary fiscal policy, home prices have soared over much of the last decade, and the stock market has notched a 14.7% annualized return[1], leading to a substantial increase in investor wealth.

Despite these advances, daily news headlines may lead market participants to believe the economy is facing an immediate threat. Financial data suggest that economic growth is slowing; however, there is no apparent excess in the market to cause immediate concern.

The second quarter saw some dramatic swings in month-to-month equity returns. In April, improving economic data and trade optimism led to an equity rally. This reversed at the end of the month as job creation came in well below estimates and trade negotiations broke down during a summit in Beijing. At the beginning of June, the market reinterpreted the negative news as a catalyst for the Federal Reserve (Fed) to lower rates. Again, markets rallied.

This quarter is a prime example why investors should avoid trading on short-term volatility, and instead focus on a long-term investment plan that will help them achieve their goals. So, with all of the noise, where do we stand?

GDP growth was solid in the first quarter at 3.1%[2]. Growth over the course of this expansion has been "slow and steady," but this is still a quality number relative to past data. Looking forward, it is likely we will get a dip in GDP growth as manufacturing slows down due to a stockpile of inventory. For reference, historical average GDP growth has been around 2.7%, and average during the current expansion has been 2.3%[3]. Additionally, unemployment is at 3.7%, which is near a 49-year low for the United States. Job creation also beat expectations in June after a disappointing May report.

Although growth appears to be softening, the consumer still looks good. Balance sheets are healthy and consumer confidence is at a good level. The household debt service ratio, which measures the amount of debt service payments to disposable personal income, is at a level of 9.9%. To put this in perspective, this number was over 13.0% in 2007 prior to the Great Recession. Consumer confidence broke the 100 level in May,[4] which is a sign that there is positive conviction in markets and the economy. The level has fluctuated lower since the May release of data, but not significantly.

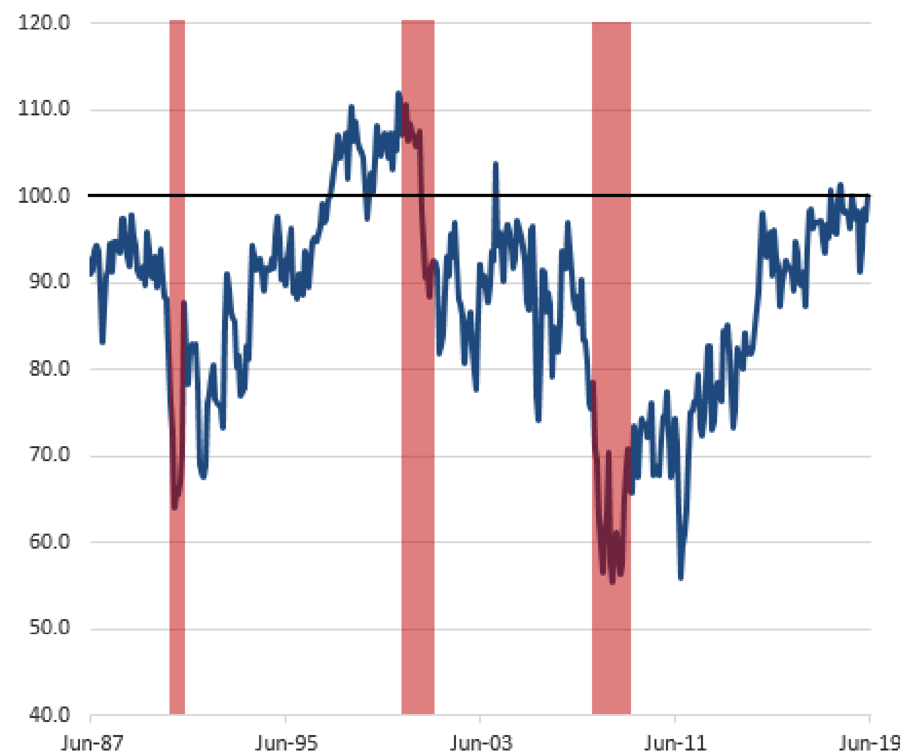
[1] As measured by the S&P 500
[2] Second quarter GDP is released at the end of July
[3] JP Morgan: Guide to the Markets
[4] University of Michigan Consumer Sentiment Index

Economic Statistics

	Current	One Year Ago
Real GDP Growth (Annl. % Change From Prior Qtr.)	3.10%	2.87%
Unemployment Rate	3.80%	4.00%
Labor Force Participation Rate	62.80%	62.80%
Core CPI (Year-Over-Year)	2.04%	2.10%
Real Personal Income Growth (Year-over-Year)	2.58%	2.03%
10 Year Treasury Rate	2.57%	2.84%

Data Source: Federal Reserve, LAMCO Advisory

Consumer Confidence Index



Observations

- Equity markets held on to their gains during the second quarter despite increasing volatility and negative returns in the month of May. May's returns were due to poor job numbers and a re-ignition of U.S. and China trade tensions. Stocks rebounded in June as the Fed implied a more dovish outlook. Overall, U.S. equity returns for the quarter, as measured by the S&P 500 Index, were 4.16%, bringing the total year-to-date return to 18.5%.

- From a capitalization perspective, large-cap stocks led the way with returns of 4.29%. This compares to 4.13% for mid-cap stocks and 2.10% for small caps.

- From a style perspective, growth stocks continued to outperform value stocks. The Russell 3000 Growth Index outperformed the Russell 3000 Value Index by 82 basis points. This is consistent with year-to-date returns, where growth has returned 21.41%, over 500 basis points more than value.

- Research from JP Morgan shows that the current forward P/E ratio on the S&P 500 Index is around 16.74x, while the 25-year average is 16.19x. Valuations have continued to move higher in U.S. equities, albeit at modest rates. Despite the potential for higher valuations to put pressure on equities, investors do not seem to be worried about the prospects of overvalued stocks. During the second quarter, overvalued stocks returned 7.71% while undervalued stocks returned 1.89%.

- Using the same JP Morgan study, small cap-value continues to be the only undervalued segment of the market. The current P/E ratio is 14.2x versus a 20-year average of 16.1x. Again, large cap-growth is the most overvalued, based on a current P/E ratio of 36x versus a 20-year average of 29.2x.

- Trade and geopolitical tension will continue to cause volatility in U.S. equities.

Major US Market Averages

	Q2 2019	YTD	1 Year	3 Year	5 Year	2018	2017	2016
Russell 3000 Index	4.1%	18.7%	9.0%	14.0%	10.2%	21.1%	12.7%	0.5%
FTSE RAFI US 3000 Index	3.4%	16.0%	5.3%	11.5%	8.2%	16.2%	18.1%	-2.7%
Russell 3000 Equal Weighted	0.5%	15.5%	-4.3%	11.6%	6.3%	15.6%	21.6%	-6.2%
S&P 500 Index	4.3%	18.5%	10.4%	14.2%	10.7%	21.8%	12.0%	1.4%
Russell Mid Cap Index	4.1%	21.3%	7.8%	12.2%	8.6%	18.5%	13.8%	-2.4%
Russell 2000 Index	2.1%	17.0%	-3.3%	12.3%	7.1%	14.6%	21.3%	-4.4%
NASDAQ 100	4.2%	21.9%	10.2%	21.6%	16.1%	33.0%	7.3%	9.8%

Russell 3000 Style & Cap Summary

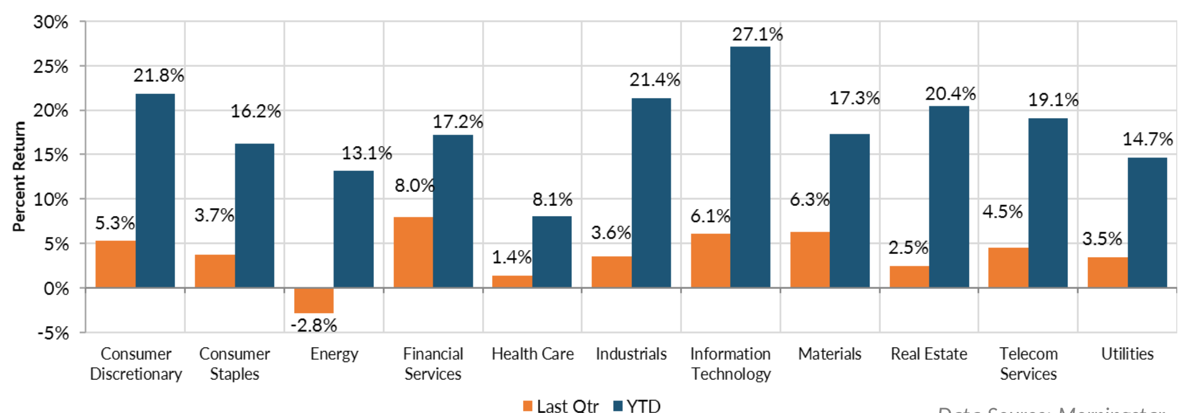
Second Quarter Results

	Mo.	Qtr	Value		Core		Growth	
Large	Apr		3.67%		4.13%		4.52%	
	May	Q1	-6.43%	4.16%	-6.46%	4.29%	-6.49%	4.41%
	Jun		7.38%		7.08%		6.82%	
Mid	Apr		3.30%		3.81%		4.50%	
	May	Q1	-6.42%	3.19%	-6.14%	4.13%	-5.75%	5.40%
	Jun		6.75%		6.87%		7.02%	
Small	Apr		3.78%		3.40%		3.05%	
	May	Q1	-8.17%	1.37%	-7.78%	2.10%	-7.42%	2.75%
	Jun		6.37%		7.07%		7.70%	

Year To Date Results

	Value	Core	Growth
Large	15.41%	17.91%	20.15%
Mid	18.02%	21.35%	26.08%
Small	13.47%	16.98%	20.36%

S&P 500 Sector Performance



Data Source: Morningstar

US Equity Market

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Dividend Yield [a]

	Avg. Weight %	Return %	Contribution to Return %
Dividend Yield % [10.00 - +∞)	0.22%	-3.79%	-0.01%
Dividend Yield % [5.00 - 10.00)	2.98%	-0.91%	-0.03%
Dividend Yield [2.00 - 5.00)	38.83%	3.18%	1.24%
Dividend Yield [0.00 - 2.00)	57.70%	4.97%	2.87%
Attribution Total	**99.73%**		**4.07%**

*Avg. Weight excludes cash (0.27%)

Capitalization [a]

	Avg. Weight %	Return %	Contribution to Return %
Mega Cap (>$85 Billion)	48.22%	4.66%	2.25%
Large Cap ($18 Billion -$85 Billion)	28.96%	4.21%	1.22%
Mid Cap ($3 Billion - $18 Billion)	16.56%	3.88%	0.64%
Small Cap ($700 Million - $3 Billion)	5.23%	0.35%	0.02%
Micro Cap (< $700 Million)	0.74%	-7.49%	-0.06%
Unclassified	0.03%	3.26%	0.00%
Total	**99.73%**		**4.07%**

*Avg. Weight excludes cash (0.27%)

Valuation [a]

	Avg. Weight %	Return %	Contribution to Return %
Fairly Valued	19.67%	3.05%	0.60%
Overvalued	33.78%	7.71%	2.61%
Undervalued	46.22%	1.89%	0.88%
Unclassified	0.06%	5.23%	0.00%
Attribution Total	**99.73%**		**4.08%**

*Avg. Weight excludes cash (0.27%)

(a) = ishares Russell 3000 ETF
(b) = SPDR S&P 500 ETF

Data Source for all data in tables: Morningstar Direct

Top Weights [b]

	Weight	Return	Contribution
Microsoft Corp	4.00%	14.00%	0.56%
Apple Inc	3.55%	4.60%	0.16%
Amazon.com Inc	3.17%	6.34%	0.20%
Facebook Inc A	1.80%	15.78%	0.28%
Berkshire Hathaway Inc B	1.67%	6.11%	0.10%
Johnson & Johnson	1.53%	0.32%	0.00%
Alphabet Inc Class C	1.49%	-7.88%	-0.12%
JPMorgan Chase & Co	1.48%	11.28%	0.17%
Alphabet Inc A	1.46%	-7.99%	-0.12%
Exxon Mobil Corp	1.37%	-4.08%	-0.06%

Top Contributors [b]

	Weight	Return	Contribution
Anadarko Petroleum Corp	0.14%	55.81%	2.23%
Arconic Inc	0.04%	35.24%	1.12%
Advanced Micro Devices Inc	0.10%	19.00%	0.67%
Cerner Corp	0.09%	28.45%	0.42%
Allegion PLC	0.04%	22.18%	0.40%
American International Group Inc	0.17%	24.48%	0.37%
Broadridge Financial Solutions Inc	0.06%	23.59%	0.34%
Air Products & Chemicals Inc	0.18%	19.15%	0.29%
CarMax Inc	0.06%	24.40%	0.27%
Ball Corp	0.08%	21.26%	0.25%

Top Detractors [b]

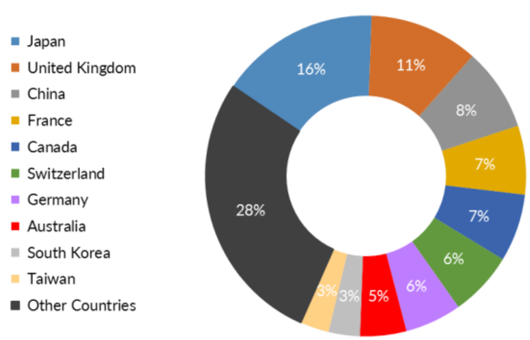
	Weight	Return	Contribution
3M Co	0.45%	-15.85%	-0.63%
A.O. Smith Corp	0.03%	-11.20%	-0.40%
Alliance Data Systems Corp	0.03%	-19.56%	-0.16%
Affiliated Managers Group Inc	0.02%	-13.67%	-0.15%
AbbVie Inc	0.50%	-8.57%	-0.14%
Abiomed Inc	0.05%	-8.79%	-0.13%
Albemarle Corp	0.03%	-13.68%	-0.13%
Advance Auto Parts Inc	0.05%	-9.58%	-0.11%
Altria Group Inc	0.42%	-16.26%	-0.11%
Arista Networks Inc	0.06%	-17.44%	-0.08%

International Equity

Observations

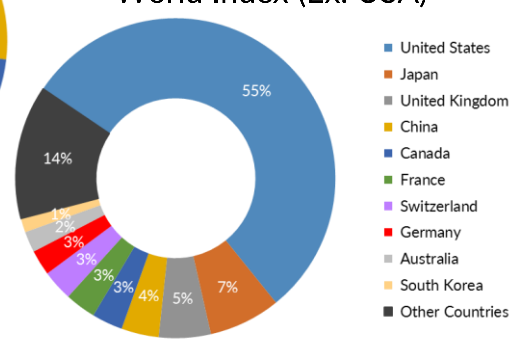
- Both developed and emerging-market equities saw a decrease in returns from the first quarter, but remained positive. Developed markets outperformed emerging markets, with the MSCI EAFE Index (developed countries) returning 3.97% while the MSCI Emerging Markets Index returned 0.74%.
- Uncertainties around global trade relationships and complexities such as Brexit—that we'd hoped to have put past us by now—continue to hang around as the world economy slows down.
- The trade dispute between the United States and China continued to loom as the second quarter came to a close. While it seemed as though the two nations were close to an agreement back in March, negotiations were halted for most of the second quarter. However, President Trump and President Xi of China agreed to resume trade talks at the G-20 summit in the last weekend of June. While this is good news, it still may be some time before we see a deal, as it took quite a bit of negotiating just to get the two nations back to talking trade. In return for resuming negotiations, Mr. Trump agreed to refrain from imposing new tariffs on $300 billion in Chinese imports, and China agreed to buy more U.S. farm goods. Both sides clearly have a ways to go before an agreement is reached, but with China's current economic struggles and the 2020 election creeping up on Mr. Trump, it is likely that both presidents would prefer to have a deal done as soon as possible.
- Trade tensions also continued between the U.S. and the European Union over illegal subsidies towards domestic airline manufacturers. The World Trade Organization (WTO) has found that both sides unfairly subsidize their aircraft. They will make a decision later in the year that would possibly allow the U.S. and EU to use tariffs to countermeasure these unfair subsidies. The U.S. has announced it is considering tariffs on EU items with a trade value of around $21 billion a year. The EU will be sure to respond with tariffs of their own following the WTO decision.
- With Brexit set to take place at the end of October, delayed from an original date of March 29th, Theresa May is still serving as U.K. Prime Minister while the Conservative party chooses her replacement. May announced her resignation after once again failing to get her Brexit deal through Parliament back in early June. With much of Brexit's future in the hands of the next prime minister, uncertainty continues to surround the U.K.'s future. This uncertainty, coupled with the slowdown of the world economy, has taken its toll on the nation, as UK manufacturing had its worst month since June 2013.

Country Weights



MSCI All Country World Index

MSCI All Country World Index (Ex. USA)



Data Source: Morningstar and iShares ETFs as the representative index proxies. Weights are average for Q2.

International Equity Market Performance

	Q2 2019	YTD	1 Year	3 Year	5 Year
MSCI EAFE	3.97%	14.49%	1.60%	9.65%	2.74%
MSCI EAFE Value	1.89%	10.12%	-1.48%	9.11%	0.63%
MSCI EAFE Growth	5.96%	18.87%	4.67%	10.12%	4.79%
MSCI EM	0.74%	10.78%	1.61%	11.06%	2.87%
MSCI ACWI Ex. USA.	3.22%	14.00%	1.80%	9.91%	2.65%

	Last Quarter			Year To Date		
	Local	USD	Impact Of US Dollar [a]	Local	USD	Impact Of US Dollar [a]
MSCI ACWI Ex USA	2.37%	3.22%	0.85%	13.28%	14.00%	0.71%
MSCI Europe	4.46%	4.91%	0.45%	16.73%	16.45%	-0.27%
MSCI Europe Ex UK	4.88%	6.42%	1.54%	18.11%	17.76%	-0.35%
MSCI United Kingdom	3.33%	0.93%	-2.40%	13.03%	12.95%	-0.08%
MSCI Pacific Ex Japan	5.76%	5.19%	-0.57%	18.12%	18.10%	-0.02%
MSCI Japan	-1.64%	1.05%	2.69%	6.02%	7.97%	1.94%
MSCI France	5.81%	7.31%	1.50%	19.34%	18.89%	-0.45%
MSCI Switzerland	6.68%	8.97%	2.29%	22.37%	23.73%	1.36%
MSCI Germany	6.32%	7.83%	1.51%	15.82%	15.38%	-0.44%
MSCI Canada	2.81%	5.11%	2.30%	16.25%	21.50%	5.25%
MSCI China	-4.21%	-3.92%	0.29%	12.90%	13.08%	0.18%
MSCI India	0.14%	0.50%	0.36%	6.48%	7.70%	1.21%
MSCI Brazil	5.58%	7.21%	1.63%	14.73%	16.02%	1.29%
MSCI Russia	13.19%	17.28%	4.08%	21.63%	32.03%	10.40%

Assumes Gross Reinvestment Of Dividends

Data Source: Morningstar

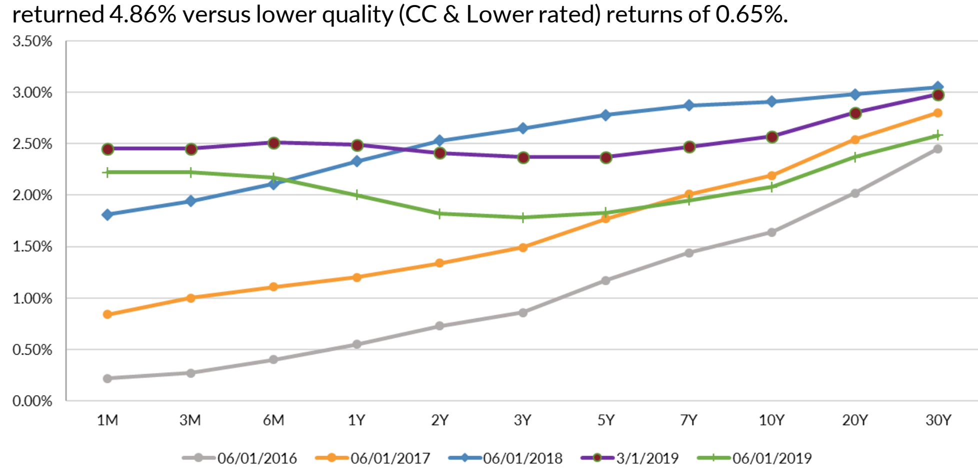
(a) Impact of Dollar: For a US investor, a strengthening dollar has a negative impact on non-US asset returns when converted to US dollars since the conversion requires more of a foreign currency to purchase the more expensive US dollar. A weakening dollar has the opposite effect; the foreign currency can buy more US dollars.

Fixed Income

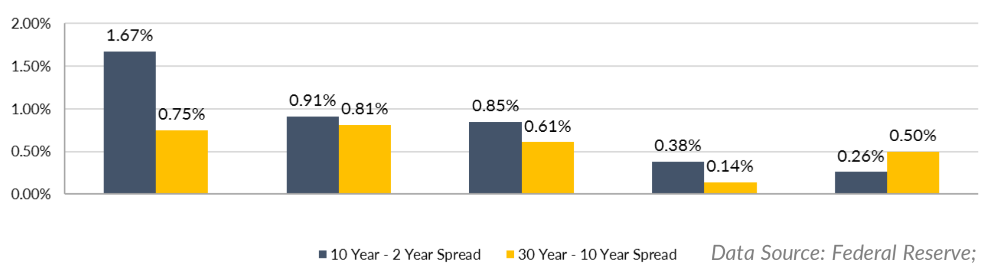
Observations

- There continues to be heightened speculation about the direction of monetary policy as markets grapple with whether the Fed will cut interest rates in 2019. Federal Reserve Chairman Jerome Powell has been heavily criticized by President Donald Trump, who recently stated, “We have a man that doesn’t do anything for us.” These comments by a President regarding the Fed, which is an independent government agency, are uncommon. Meanwhile, Powell has remained undeterred, raising interest rates four times in 2018. However, recent economic data and geopolitical conditions have led to what many have coined the “Fed Pause.” Now markets and economists have priced in at least 2 potential rate cuts for 2019.
- The market is clearly reacting to any news that could mean a potential rate cut. When the May jobs report came out, job additions had greatly missed projections, but equities actually rallied as the poor report supported the case for rate cuts. We will have to wait and see how economic data and continued trade conflict influences the Fed moving forward.
- The yield curve remains inverted after an initial inversion occurred in late March. A yield curve inversion occurs when short-term rates are higher than long-term rates. An inverted yield curve has preceded each of the past seven recessions and has resulted in two false positives.
- As we mentioned in our prior commentary, an inverted curve does not imply an immediate risk to the U.S. economy or equity markets. The peak can be more than a year away from when the yield curve actually inverts. For the 3-month-to-10-year spread, historically the S&P 500 Index has peaked 1 to 22 months after inversion (median: 16 months). For the near-term forward spread, historically the S&P 500 Index has peaked 2 to 20 months after inversion (median: 13 months).
- From a credit perspective, the highest credit qualities outperformed this quarter, as AAA returned 4.86% versus lower quality (CC & Lower rated) returns of 0.65%.

Yield Curve



Spread Analysis



Data Source: Federal Reserve; LAMCO Advisory

Major Market Averages

	Q2 2019	YTD	1 Year	3 Year
ICE BofAML US 3M Treasury Bill	0.64%	1.24%	2.31%	1.38%
Bloomberg Barclays US Govt/Credit 1-3 Yr	1.48%	2.71%	4.27%	1.59%
Bloomberg Barclays US Govt Interm	2.34%	3.96%	6.15%	1.34%
Bloomberg Barclays US Govt/Credit Interm	2.59%	4.97%	6.93%	1.99%
Bloomberg Barclays US Govt/Credit	3.53%	6.90%	8.52%	2.41%
Bloomberg Barclays US Agg Interm	2.39%	4.73%	6.73%	2.03%
Bloomberg Barclays US Agg Bond	3.08%	6.11%	7.87%	2.31%
Bloomberg Barclays Global Agg Bond	3.29%	5.57%	5.85%	1.62%
Bloomberg Barclays US Treasury	3.01%	5.18%	7.24%	1.34%
Bloomberg Barclays US Treasury US TIPS	2.86%	6.15%	4.84%	2.08%
Bloomberg Barclays US Corporate IG	4.48%	9.85%	10.72%	3.94%
Bloomberg Barclays High Yield Corporate	2.50%	9.94%	7.48%	7.52%
Bloomberg Barclays Municipal	2.14%	5.09%	6.71%	2.55%
Bloomberg Barclays Municipal 7 Yr 6-8	1.96%	4.70%	6.70%	2.35%

Credit Quality

B of A/Merril Lynch US Corporate AAA	4.86%	10.08%	11.58%	3.57%
B of A/Merril Lynch US Corporate AA	3.53%	7.39%	9.31%	2.98%
B of A/Merril Lynch US Corporate A	4.12%	8.90%	10.24%	3.40%
B of A/Merril Lynch US Corporate BBB	4.66%	10.50%	11.00%	4.67%
B of A/Merril Lynch US Corporate BB	3.16%	10.77%	9.99%	6.71%
B of A/Merril Lynch US Corporate B	2.42%	9.87%	7.05%	7.74%
B of A/Merril Lynch US Corp. CCC & Lower	0.65%	8.60%	0.13%	9.83%

Data Source: Morningstar

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