



Capital Market Review  
As of September 30, 2019

## 3Q19 Market Recap

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Despite increased geopolitical tensions, the initiations of impeachment proceedings against President Trump and mixed economic data, the U.S. stock market ended the quarter in positive territory, with the S&P 500 up +1.7%. International stocks were -1.1% for the quarter, primarily due to a strengthening dollar, as the international benchmark was positive in local currency terms. The emerging markets were negative (-4.2%), driven largely by China (33% of the benchmark) which was -4.7% in U.S. dollars, and -4.3% in local currency. Growth in the U.S. is losing speed, and depends heavily on the U.S. consumer. The "cease fire" with the Chinese trade war has provided temporary relief and optimism for the future, but there is still much work to be done until a long-term solution is agreed upon.

Overall, the S&P 500 is not cheap, but value stocks, in general, are. Buy low, sell high.

The Fed has both the employment and inflation rates under control so is now focused on the interconnectedness of the global economy. It is expected that we will see more rate cuts in the near future. Returns in the bond market were positive this quarter as interest rates decreased across the yield curve. We cannot ignore the inverted yield curve and the negative yields in other parts of the world. Those negative yields drive international investors to the U.S. bond market driving our yields lower. We are keeping a close eye on the growing BBB corporate bond bubble and the potential opportunity this may eventually create.

We believe being cautious is not a bad thing at this point in the market cycle.

The Allium Team

# Market Dashboard<sup>1</sup> – As of September 30, 2019

Asset Class	Third Quarter	3Q19	YTD
<b>Domestic Equity</b> (S&P 500)	<ul style="list-style-type: none"> <li>• Eight of the eleven S&amp;P 500 sectors generated positive results over the quarter, led by strong performance within Utilities (+9.3%) and Real estate (+7.7%). Energy (-6.3%) and Health Care (-2.2%) provided the lowest results for the quarter.</li> <li>• Domestically, stocks finished the quarter with positive results among slowing but positive U.S. economic growth, continued developments in the U.S.-China trade war, and two rate cuts by the U.S. Fed during July and September.</li> </ul>	1.7%	20.6%
<b>International Equity</b> (EAFE)	<ul style="list-style-type: none"> <li>• Developed International markets generated negative results over the quarter, lagging U.S. equities but outperforming Emerging Markets. The U.S. dollar appreciated against most major currencies.</li> <li>• In local currency terms, results were mostly positive for Developed International Markets. Italy (+4.4%) and Japan (+3.5%) were the best performers, while Hong Kong (-11.7%) and Germany (+0.2%) performed the worst.</li> </ul>	-1.1%	12.8%
<b>Emerging Market Equity</b> (MSCI Emerging Markets)	<ul style="list-style-type: none"> <li>• South Africa (-6.0%) and China (-4.3%) were the bottom performers on a local currency basis over the quarter, while Taiwan (+5.1%) and Brazil (+3.7%) were the best performers.</li> <li>• Emerging Markets currencies depreciated relative to the U.S. dollar for the quarter. The Brazilian Real, followed by the Chinese Yuan and South Korean Won experience the greatest depreciation over the quarter.</li> </ul>	-4.2%	5.9%
<b>Fixed Income</b> (BB Capital Aggregate)	<ul style="list-style-type: none"> <li>• Returns were positive as interest rates decreased across the yield curve.</li> <li>• Long Term Government (+7.8%) and Long Term Credit (+5.6%) were the strongest sectors for the quarter as yields continued to drop.</li> </ul>	2.3%	8.5%
<b>International Debt</b> (JPM Global Bond Unhedged)	<ul style="list-style-type: none"> <li>• Developed markets debt was a positive performing fixed income sector this quarter as interest rates remained low in aggregate across developed countries.</li> <li>• The European Central Bank (ECB) delivered a 10 basis point deposit rate cut and outlined its extensive stimulus package, which was in-line with expectations.</li> <li>• At quarter end, Emerging Markets bonds carried a yield of 4.8%, a 336 bps spread over the U.S. 10-year Treasury.</li> </ul>	1.1%	6.6%
<b>Real Estate Investment Trusts</b> (DJ Wilshire REIT)	<ul style="list-style-type: none"> <li>• REITs posted solid results during the third quarter, up 20.7% over the past one-year period.</li> <li>• Residential (+10.8%) and Health Care (+10.1%) REITs were the best performing sectors for the quarter. Resorts/Lodging (-0.9%) was the only negative sector during the quarter.</li> </ul>	7.7%	28.5%

<sup>1</sup>LCG Associates

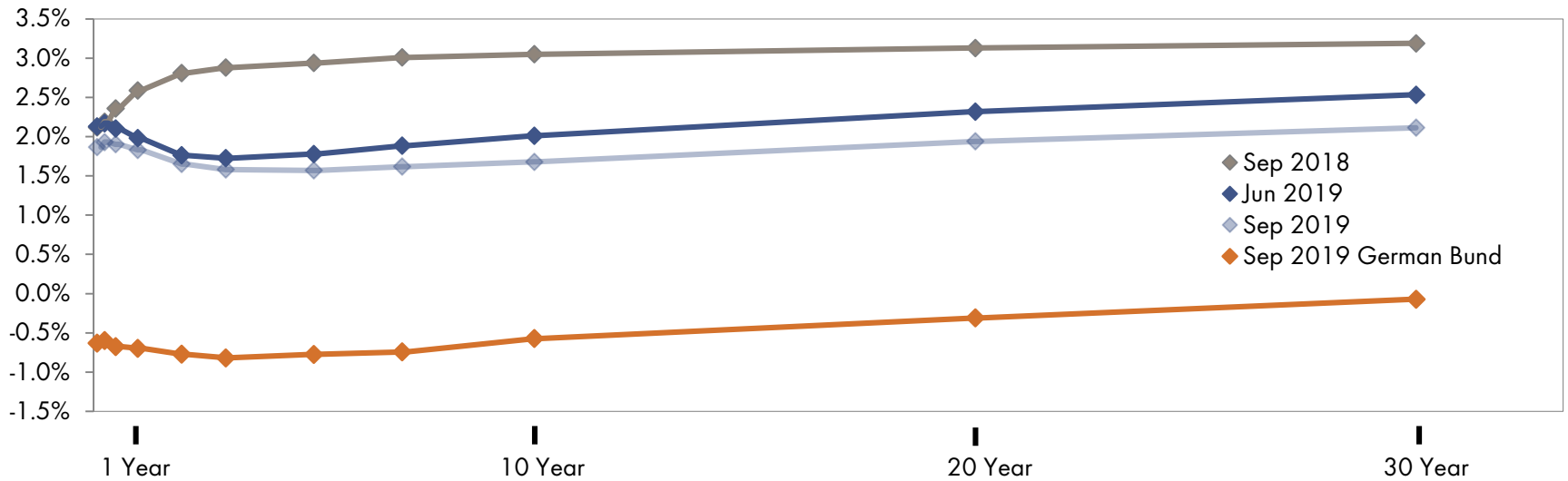
## Economic Dashboard – As of September 30, 2019

	Sep -19	Jun - 19	Sep - 18	10-Year Average
Economic Growth (GDP)	–	2.0%	2.9%	2.3%
Unemployment Rate	-3.5%	3.7%	3.7%	6.4%
Labor Participation Rate	63.2%	62.9%	62.7%	63.3%
Core Inflation	2.4%	2.1%	2.2%	1.8%
Inflation (Headline)	1.7%	1.6%	2.3%	1.8%
Consumer Confidence	125.1	124.3	135.3	89.7
WTI Crude Oil (per barrel)	\$54.07	\$58.47	\$73.25	\$73.24
Natural Gas	\$2.33	\$2.31	\$3.01	\$3.38
Volatility	16.2	15.1	12.1	17.4
Gold	\$1,466	\$1,414	\$1,192	\$1,337
LIBOR	1.8%	2.4%	2.2%	0.60%
Federal Funds Target Rate <sup>1</sup>	2.0%	2.5%	2.3%	0.70%
ECB Refinancing Rate	0.00%	0.00%	0.00%	0.41%
10-Year U.S. Treasury Yield	1.66%	2.01%	3.06%	2.41%
10-Year German Bund Yield	-0.57%	-0.33%	0.47%	1.17%
S&P 500 Index	2,976.7	2,941.8	2,914.0	1,918.0
EUR/USD Exchange Rate	1.090	1.137	1.160	1.239
USD/JPY Exchange Rate	108.1	107.9	113.7	100.8

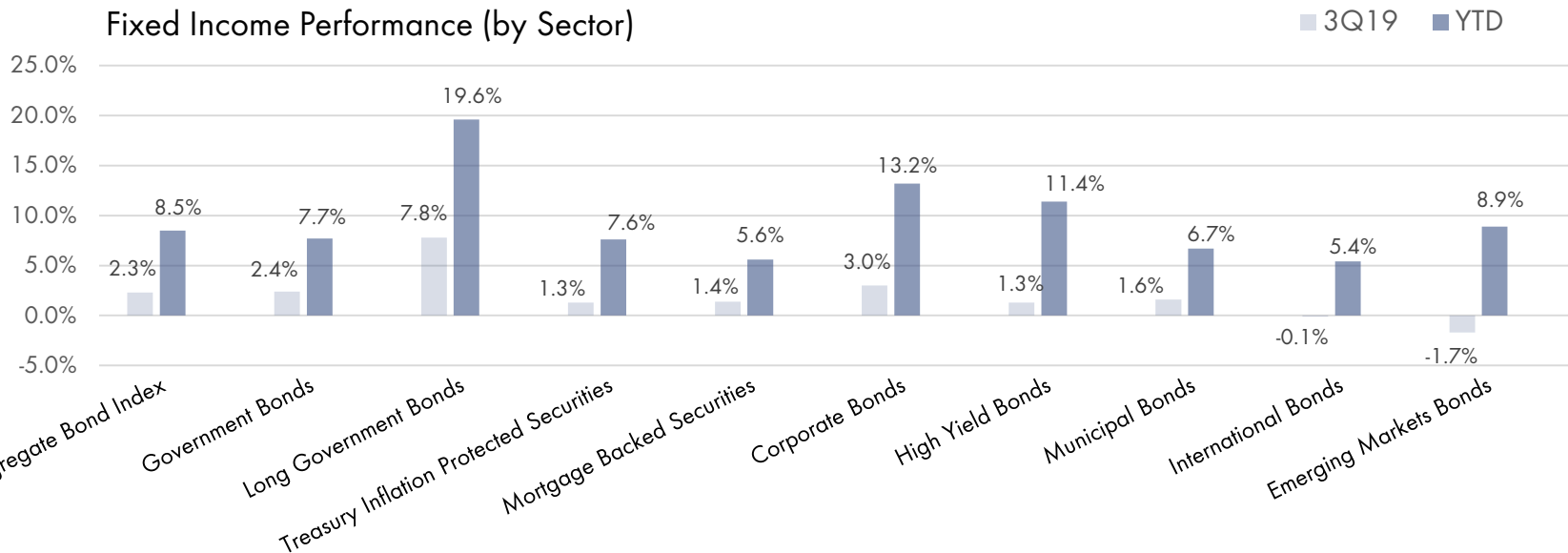
<sup>1</sup>Fed Funds rate is a target range of 1.75%-2.00

Source: Bloomberg

# Treasury Yield Curve and Bond Sector Returns

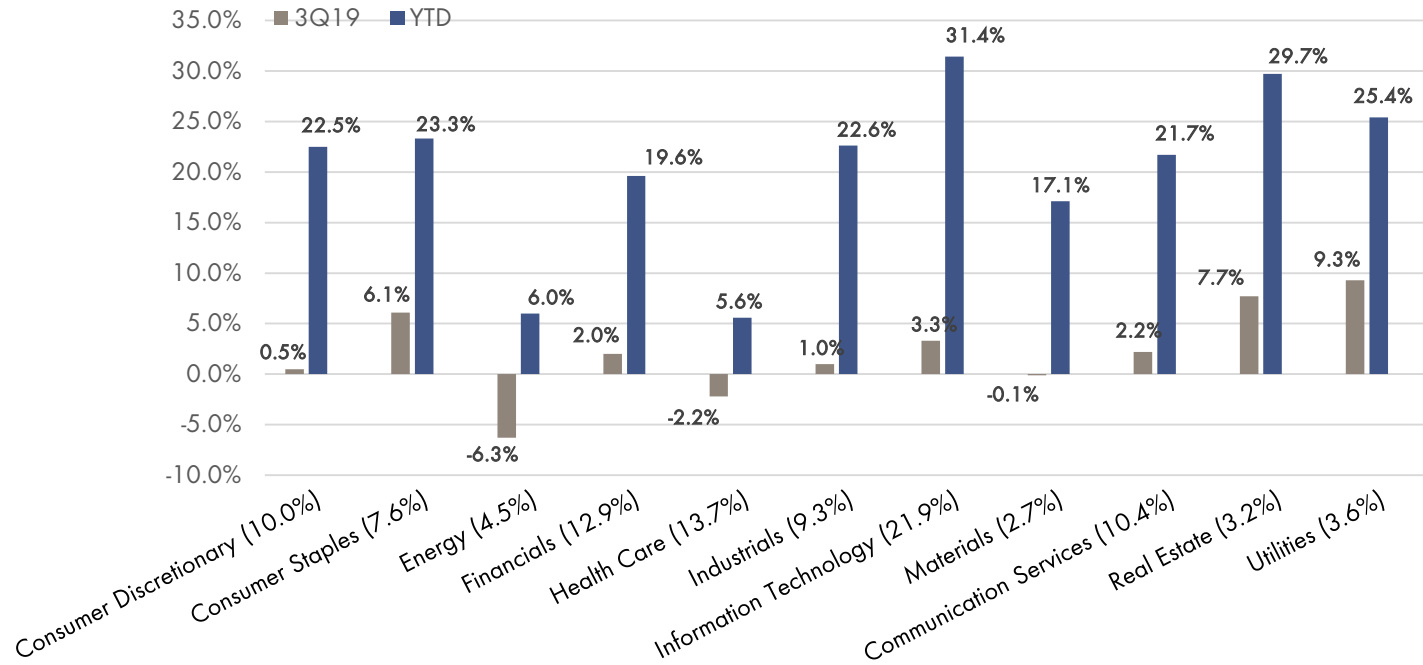


## Fixed Income Performance (by Sector)



Source: U.S. Treasury, Bloomberg, Barclays

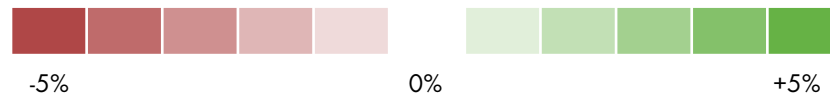
# U.S. Equity Market – Sector and Style



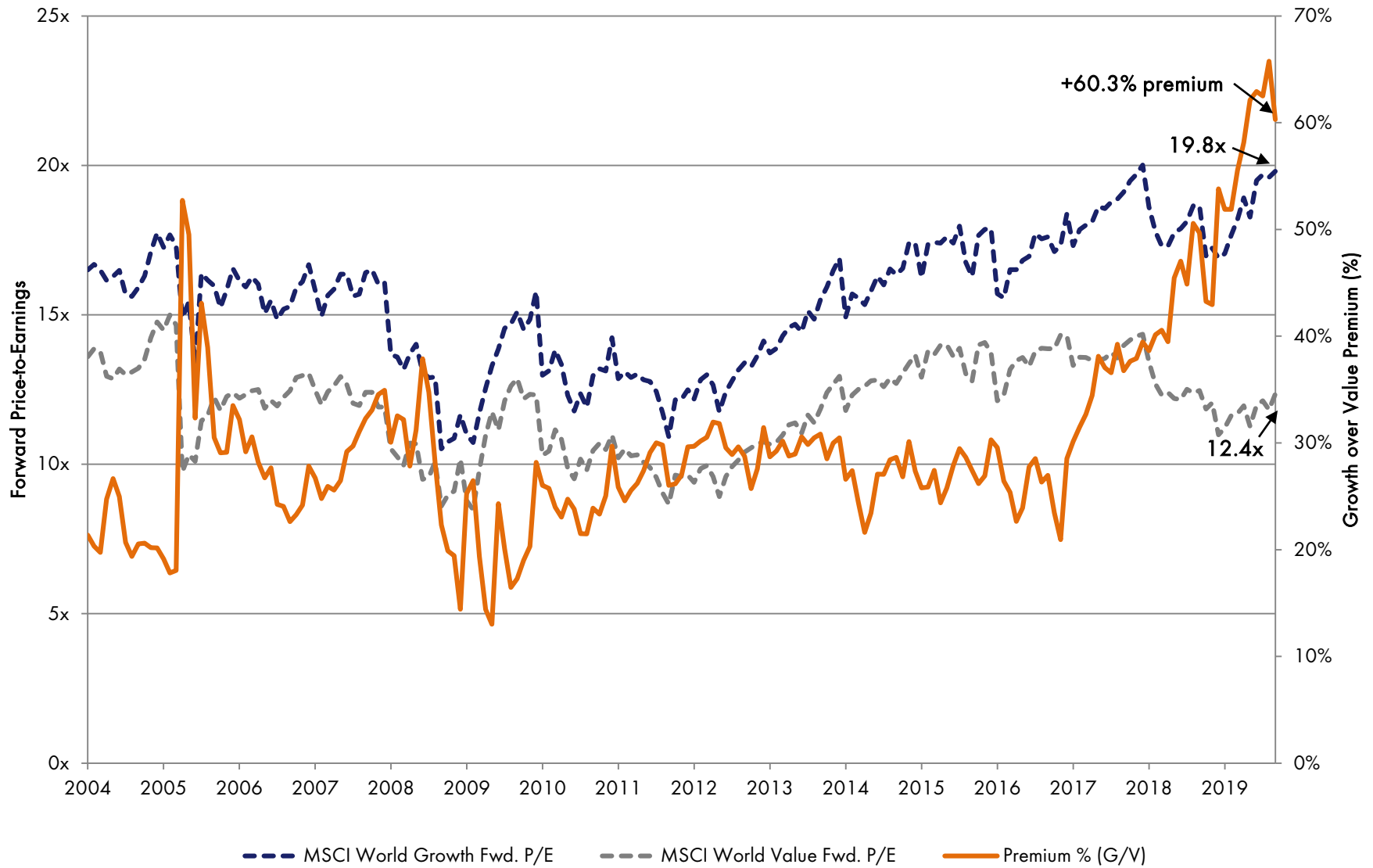
	3Q19		
S&P 500	1.7%		
Russell 3000	1.2%		
Large	1.4%	1.4%	1.5%
Mid	1.2%	0.5%	-0.7%
Small	-0.6%	-2.4%	-4.2%
	Value	Core	Growth

	YTD		
S&P 500	20.6%		
Russell 3000	20.1%		
Large	17.8%	20.5%	23.3%
Mid	19.5%	21.9%	25.2%
Small	12.8%	14.2%	15.3%
	Value	Core	Growth

3Q was the first time in 2019 that value outperformed growth

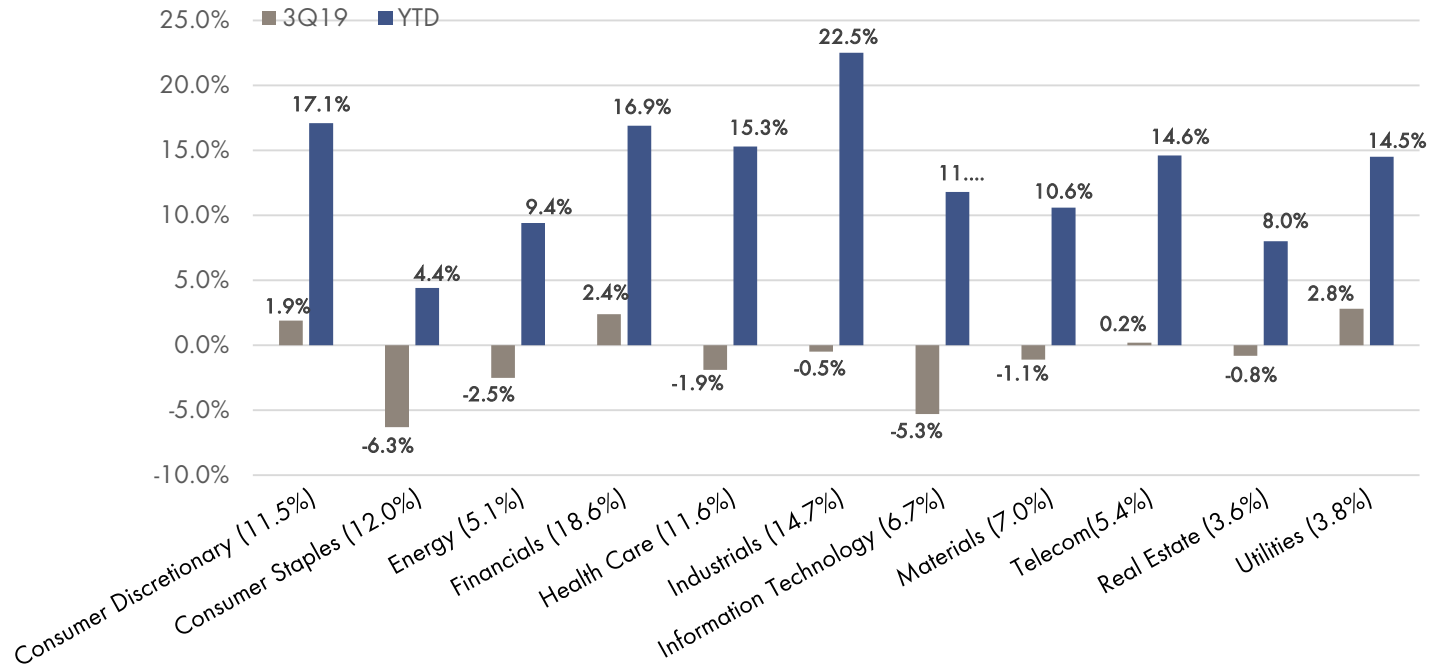


# Growth vs. Value – the divergence continues on



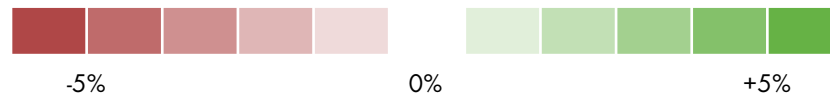
# International Equity Market – Sector and Style

## EAFE Sector Performance



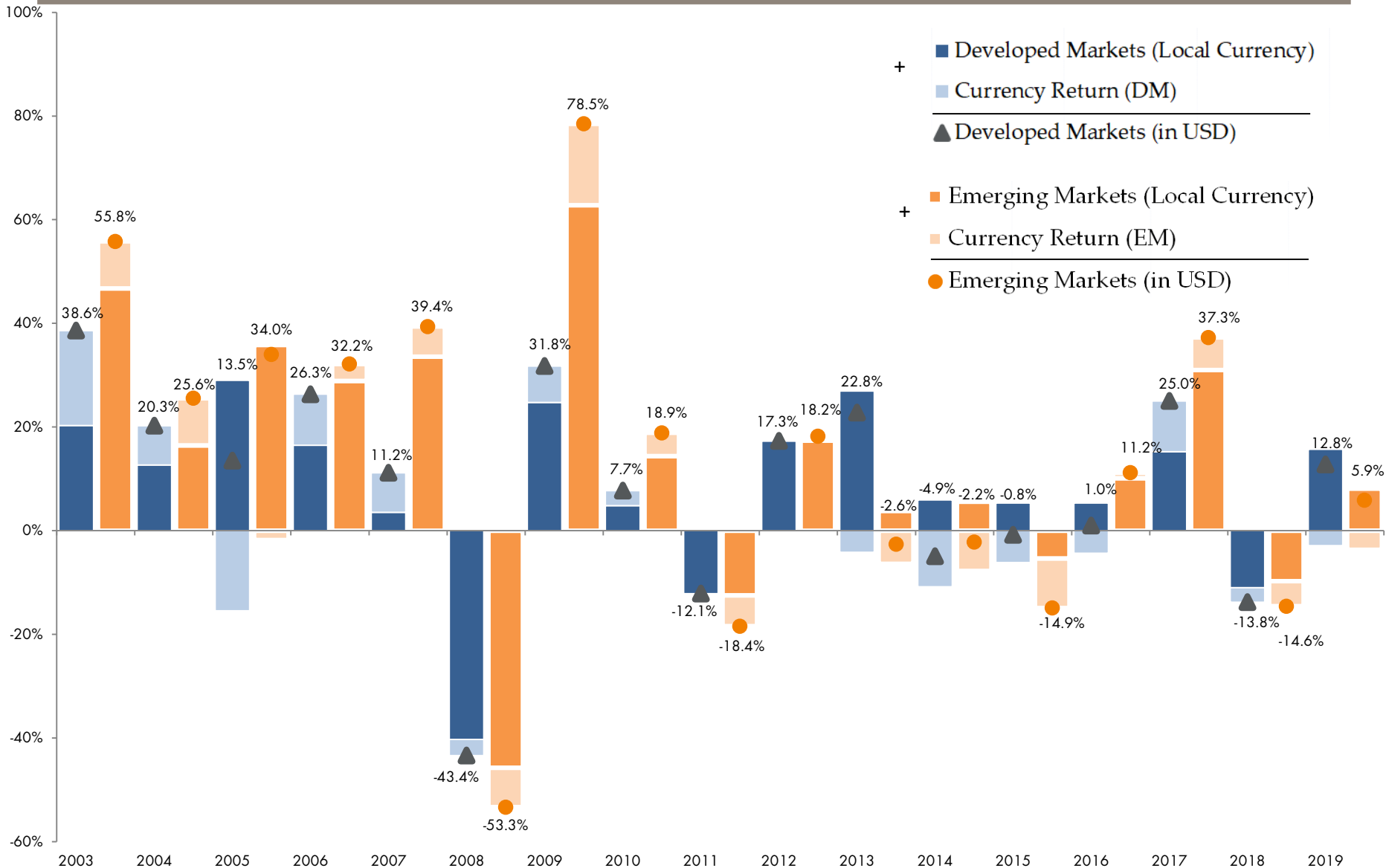
	3Q19		
EAFE	-1.7%	-1.1%	-0.4%
ACWI ex U.S.	-2.8%	-1.8%	-0.8%
Emerging Markets	-6.5%	-4.2%	-2.0%
	Value	Core	Growth

	YTD		
EAFE	-1.3%	-3.7%	-6.1%
ACWI ex U.S.	-3.0%	-4.2%	-5.4%
Emerging Markets	-9.5%	-7.4%	-5.3%
	Value	Core	Growth



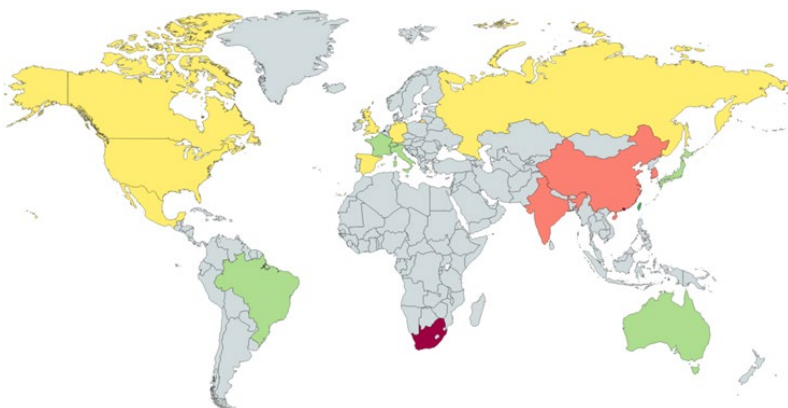


# Currency Impact on International Equity Returns

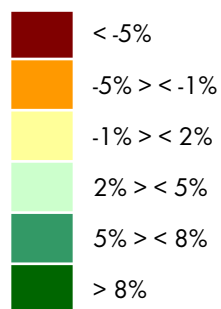


# Global Equity Returns

## Third Quarter Relative Strength



### Relative Strength



	3Q2019		YTD 2019	
	Local Return	USD Return	Local Return	USD Return
<b>North America</b>				
Canada	1.8%	0.5%	17.8%	21.6%
United States	1.7%	1.7%	20.6%	20.6%
<b>Europe</b>				
France	2.7%	-1.7%	21.5%	15.9%
Germany	0.2%	-4.0%	15.2%	9.9%
Italy	4.4%	-0.1%	23.5%	17.8%
Spain	0.5%	-3.8%	10.8%	5.6%
Switzerland	2.5%	0.3%	24.4%	22.9%
United Kingdom	0.7%	-2.5%	13.8%	10.1%
<b>Asia Pacific</b>				
Australia	2.6%	-1.4%	19.9%	17.9%
Hong Kong	-11.7%	-11.9%	16.5%	2.8%
Japan	3.5%	3.1%	5.8%	11.1%
<b>International Developed Markets Index</b>				
MSCI EAFE Index	1.8%	-1.1%	15.7%	12.8%
<b>Emerging Markets</b>				
Brazil	3.7%	-4.6%	18.9%	10.6%
China	-4.3%	-4.7%	7.9%	7.6%
India	-2.6%	-5.2%	3.7%	2.1%
South Korea	-1.1%	-4.5%	6.4%	-0.8%
Mexico	1.0%	-1.7%	5.1%	4.9%
Russia	1.0%	-1.4%	22.0%	29.3%
South Africa	-6.0%	-12.6%	2.5%	-2.7%
Taiwan	5.1%	5.2%	16.7%	15.6%
<b>Emerging Markets Index</b>				
MSCI EM Index	-2.1%	-4.2%	7.8%	5.9%

## Tactical Positioning 2Q19

Asset Class	Underweight Overweight Neutral to Target	Comments
Cash	Overweight for clients with regular spending	Money market funds when possible in lieu of cash reserves
Low Duration	Neutral	Conservative "dry powder" for rebalancing purposes
Fixed Income	Neutral	Active management and higher quality preferred, diversified including global bonds, international bonds – 20% or less of overall fixed income exposure
Credit Alternatives	Overweight	Important to recognize added risk for increased return potential, illiquidity
Large Cap	Underweight	Finding greater opportunity in value vs. growth due to valuations
Mid Cap	Neutral	Finding greater opportunity in value vs. growth due to valuations
Small Cap	Overweight	Finding greater opportunity in value vs. growth due to valuations
International	Neutral	Prefer active management
Emerging Markets	Overweight	Attractive from a valuation standpoint
Liquid Alternatives	Neutral	Seeking convertible bonds as a hedge opportunity
Long/Short Equity	Neutral to overweight	We remain convicted in the important risk management role of this asset class
Private Equity	Neutral	Multiples remain high, new opportunities are limited and selective, invest with top-quartile managers only as they may be able to weather a downturn better
Private Real Estate	Neutral	Geographical diversification, selective opportunities

# Annual Total Returns of Key Asset Classes 2008 – 3Q 2019

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD 2019	15 Year Annualized
Best ↑	US Bonds 5.2	Emg Mkts 78.5	US Small Cap 26.9	Real Estate 16.0	Emg Mkts 18.2	US Small Cap 38.8	US Large Cap 13.7	Real Estate 15.0	US Small Cap 21.3	Emg Mkts 37.3	Real Estate 8.3	US Mid Cap 21.9	US Mid Cap 9.9
	Inflation 0.1	Intl Equity 41.4	US Mid Cap 25.5	US Bonds 7.8	US Mid Cap 17.3	US Mid Cap 34.8	US Mid Cap 13.2	Long/Short Eq 3.6	US Mid Cap 13.8	Intl Equity 27.2	Inflation 1.9	US Large Cap 20.6	US Large Cap 9.0
	Real Estate -10.0	US Mid Cap 40.5	Emg Mkts 18.9	Inflation 3.0	Intl Equity 16.8	US Large Cap 32.4	Real Estate 12.5	US Large Cap 1.4	US Large Cap 12.0	US Large Cap 21.8	US Bonds 0.0	US Small Cap 14.2	US Small Cap 8.2
	Long/Short Eq -19.8	US Small Cap 27.2	Real Estate 16.4	US Large Cap 2.1	US Small Cap 16.3	Long/Short Eq 17.7	US Bonds 6.0	Inflation 0.7	Emg Mkts 11.2	US Mid Cap 18.5	US Large Cap -4.4	Intl Equity 11.6	Emg Mkts 7.8
	US Small Cap -33.8	US Large Cap 26.5	US Large Cap 15.1	US Mid Cap -1.5	US Large Cap 16.0	Intl Equity 15.3	Long/Short Eq 5.5	US Bonds 0.5	Real Estate 8.8	US Small Cap 14.6	Long/Short Eq -4.6	US Bonds 8.5	Long/Short Eq 5.7
	US Large Cap -37.0	Long/Short Eq 19.5	Intl Equity 11.2	US Small Cap -4.2	Real Estate 10.9	Real Estate 13.9	US Small Cap 4.9	US Mid Cap -2.4	Intl Equity 4.5	Long/Short Eq 13.4	US Mid Cap -9.1	Long/Short Eq 6.8	Intl Equity 5.7
	US Mid Cap -41.5	US Bonds 5.9	Long/Short Eq 9.3	Long/Short Eq -7.3	Long/Short Eq 8.2	Inflation 1.5	Inflation 0.8	US Small Cap -4.4	US Bonds 2.6	Real Estate 7.6	US Small Cap -11.0	Emg Mkts 5.9	US Bonds 4.2
	Intl Equity -45.5	Inflation 2.7	US Bonds 6.5	Intl Equity -13.7	US Bonds -2.0	US Bonds -2.0	Emg Mkts -2.2	Intl Equity -5.7	Inflation 2.1	US Bonds 3.5	Intl Equity -14.2	Inflation 2.2	Inflation 2.0
Worst ↓	Emg Mkts -53.3	Real Estate -29.8	Inflation 1.5	Emg Mkts -18.4	Inflation 1.7	Emg Mkts -2.6	Intl Equity -3.9	Emg Mkts -14.9	Long/Short Eq -3.4	Inflation 2.1	Emg Mkts -14.6		

Note Real Estate return data lags the timing of our quarterly updates. It will be included on an annual basis.

Source: Morningstar

## Important Disclosures

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