



Capital Market Review
As of June 30, 2019

2Q19 Market Recap

Markets continue to climb despite trade tensions and geopolitical uncertainty. We are now in the longest bull market in history. Growth is significantly outpacing value style investing, with a 63% premium. But the yield curve is inverted, historically a foreshadow of darker days ahead. And the Fed has given us the impression that they might lower rates this year, in an effort to stimulate inflation. How much longer might this expansion continue?

We do feel it is a good time to be tilted towards value, to be properly diversified away from the US stock market based on your risk tolerance and to have 6 months spending reserves in a money market fund. We have proactively been trimming profits from the growth side of client portfolios and will continue to do so as the market allows.

Enjoy the rest of your summer, we look forward to seeing you soon!

The Allium Team

Market Dashboard¹ – As of June 30, 2019

Asset Class	Second Quarter	2Q19	YTD
Domestic Equity (S&P 500)	<ul style="list-style-type: none"> • 10 of the 11 S&P 500 sectors generated positive results, led by strong performance within financials (+8.0%) and Materials (+6.3%). Energy was the only negative for the quarter (-2.8%). • Stocks finished the quarter with positive results as the Fed signaled possible rate cuts. U.S. economic growth remained positive and fears of further escalation in the U.S.-China war began to subside. 	4.3%	18.5%
International Equity (EAFE)	<ul style="list-style-type: none"> • Developed international markets generated positive results but lagged the U.S. equity market during the quarter. The U.S. dollar provided mixed results against most major currencies. • In local currency terms, results were mostly positive. Australia (+8.6%) and Switzerland (+6.1%) were the best performers, while Japan (-1.7%) and Hong Kong (+0.6%) performed the worst. 	3.7%	14.0%
Emerging Market Equity (MSCI Emerging Markets)	<ul style="list-style-type: none"> • Russia (+12.8%) and Brazil (+5.5%) were the top performers on a local currency basis over the quarter, while China (-4.3%), India (+0.1%) and Mexico (+0.1%) were the worst performers on a local currency basis. • Emerging Markets currencies were mostly positive relative to the U.S. dollar for the quarter. The Russian Ruble, Brazilian Real and Indian Rupee appreciated, while the Chinese Yuan depreciated. 	0.6%	10.6%
Fixed Income (BB Capital Aggregate)	<ul style="list-style-type: none"> • Returns were positive as interest rates decreased across the yield curve. • Long Term Credit (+6.6%) and Long Term Government (+6.0%) were the strongest sectors for the quarter as yields continued to drop. 	3.1%	6.1%
International Debt (JPM Global Bond Unhedged)	<ul style="list-style-type: none"> • Developed markets debt returned positive for the quarter as interest rates remained low in aggregate across developed countries. • Draghi and the European Central Bank (ECB) surprised markets and sent government bond yields lower when he suggested there was room to expand the bank's stimulus. • As the Fed turned dovish, most major currencies gained against the softer U.S. Dollar. 	3.5%	5.9%
Real Estate Investment Trusts (DJ Wilshire REIT)	<ul style="list-style-type: none"> • REITs posted positive performance during the second quarter but slowed after a strong first quarter. • Industrial (+8.3%) and Residential (+3.5%) REITs were the best performing sectors for the quarter. Retail (-6.8%) and Office (-4.1%) were the only negative sectors during the quarter. 	0.7%	16.0%

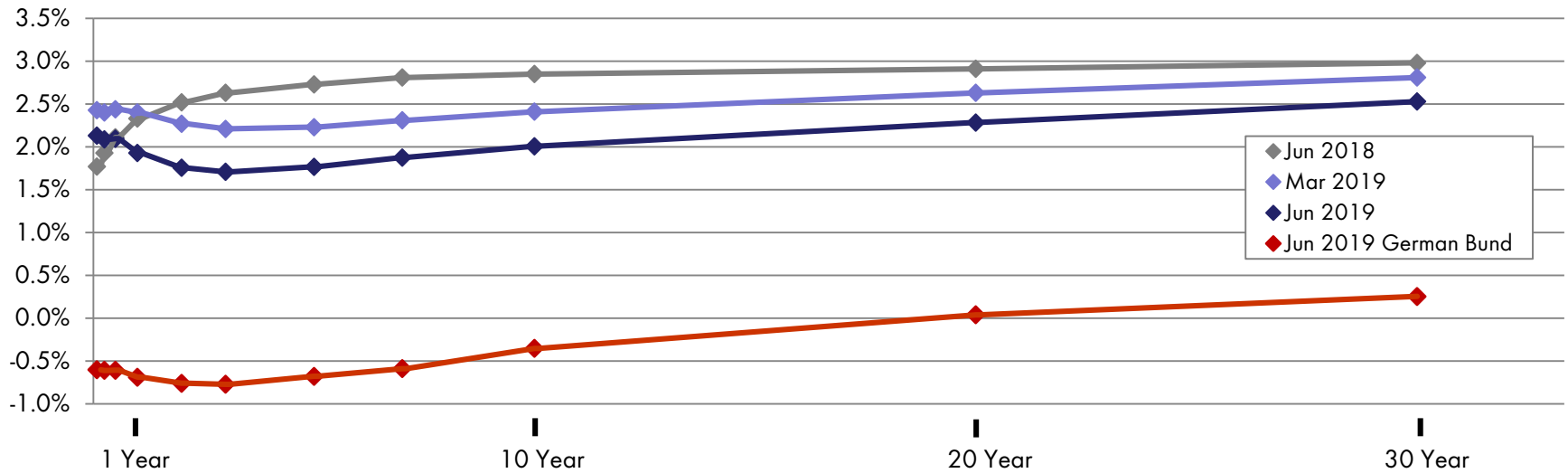
Economic Dashboard – As of June 30, 2019

	Jun -19	Mar - 19	Jun - 18	10-Year Average
Economic Growth (GDP)	–	3.1%	4.2%	2.3%
Unemployment Rate	–	3.8%	4.0%	6.6%
Labor Participation Rate	–	63.0%	62.9%	63.4%
Core Inflation	–	2.0%	2.3%	1.8%
Inflation (Headline)	–	1.9%	2.9%	1.7%
Consumer Confidence	121.5	124.2	127.1	87.7
WTI Crude Oil (per barrel)	\$58.47	\$60.14	\$74.15	\$73.59
Natural Gas	\$2.31	\$2.66	\$2.92	\$3.41
Volatility	15.1	13.7	16.1	17.6
Gold	\$1,414	\$1,293	\$1,255	\$1,325
LIBOR	2.37%	2.40%	1.90%	0.56%
Federal Funds Target Rate ¹	2.50%	2.50%	2.0%	0.65%
ECB Refinancing Rate	0.00%	0.00%	0.00%	0.44%
10-Year U.S. Treasury Yield	2.01%	2.41%	2.86%	2.45%
10-Year German Bund Yield	-0.33%	-0.07%	0.30%	1.27%
S&P 500 Index	2,941.8	2,834.4	2,718.4	1,869.6
EUR/USD Exchange Rate	1.137	1.122	1.1168	1.248
USD/JPY Exchange Rate	107.9	110.9	110.8	100.4

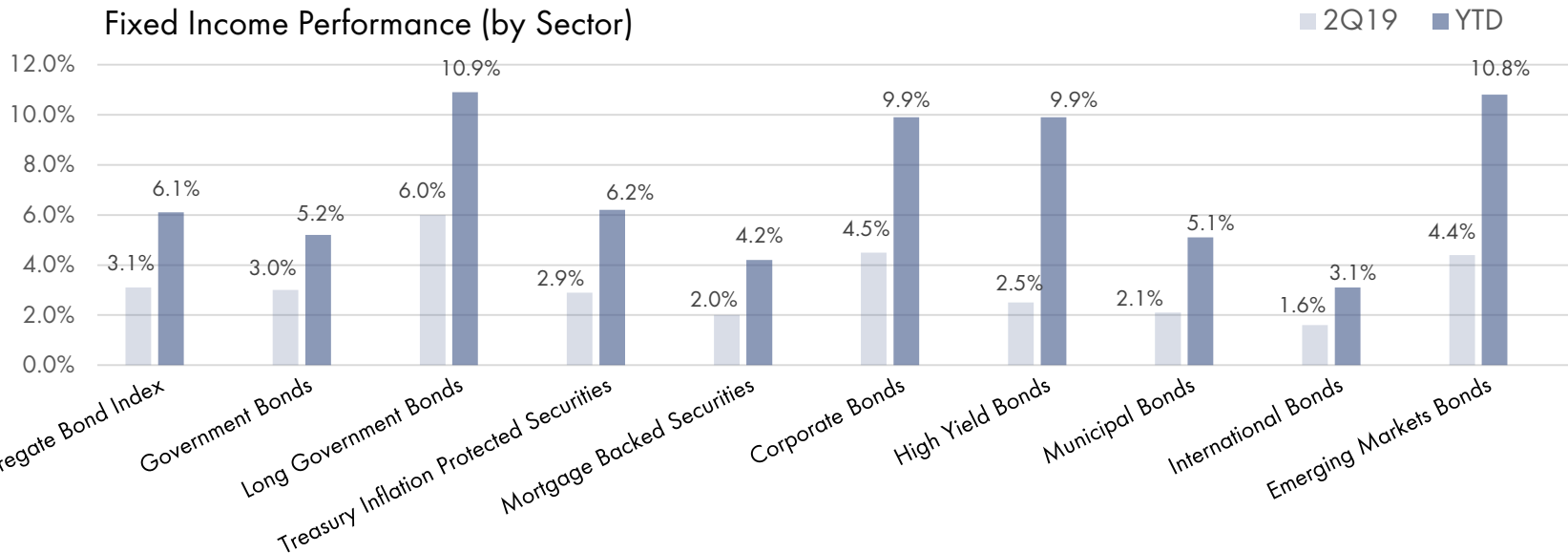
¹Fed Funds rate is a target range of 2.25% – 2.50%

Source: Bloomberg

Treasury Yield Curve and Bond Sector Returns

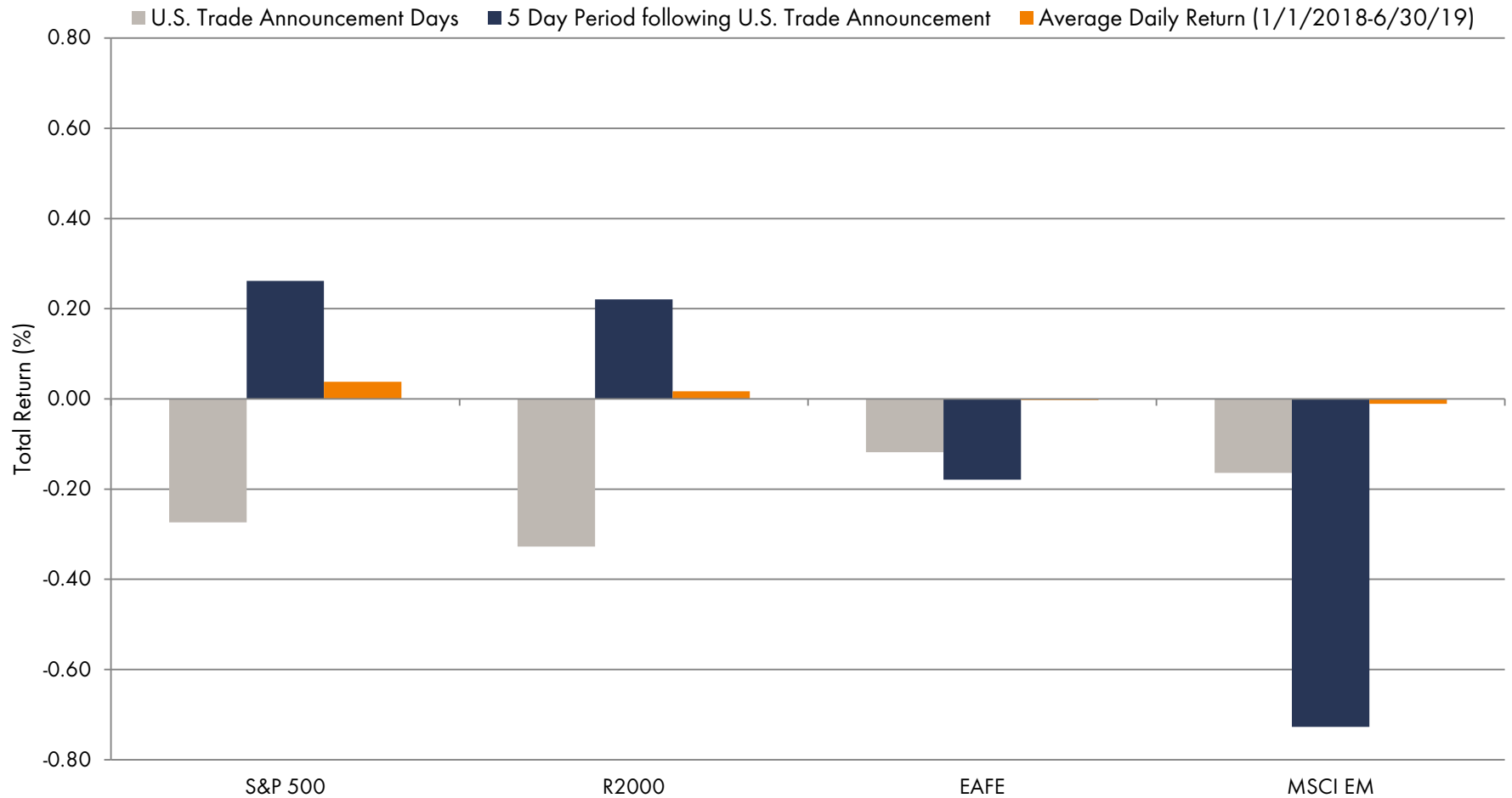


Fixed Income Performance (by Sector)

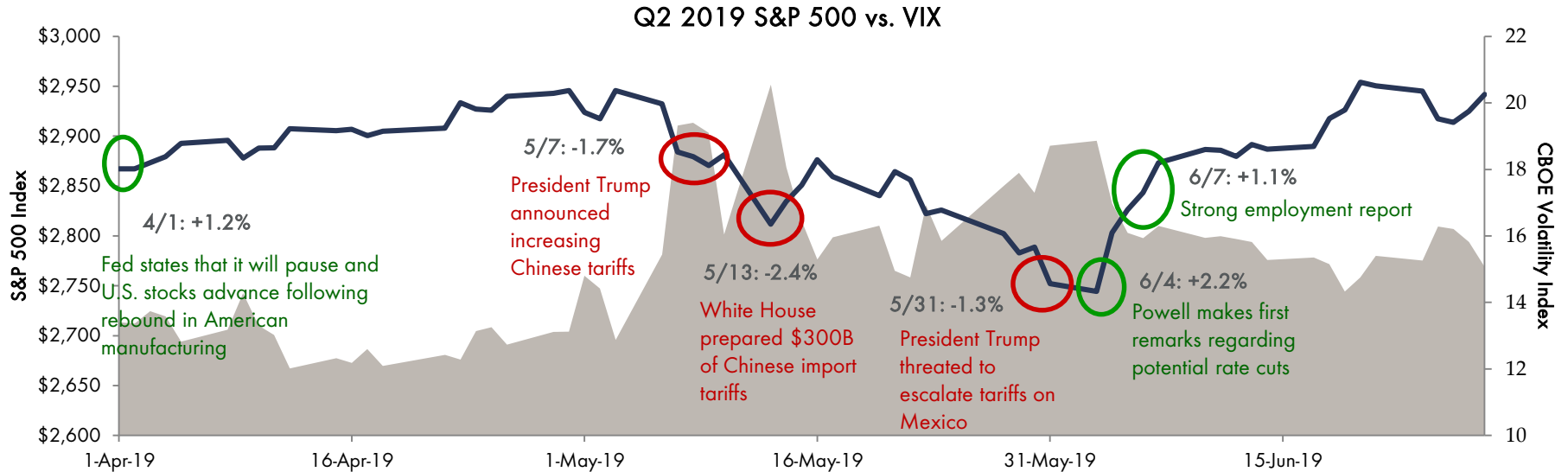


Source: U.S. Treasury, Bloomberg, Barclays

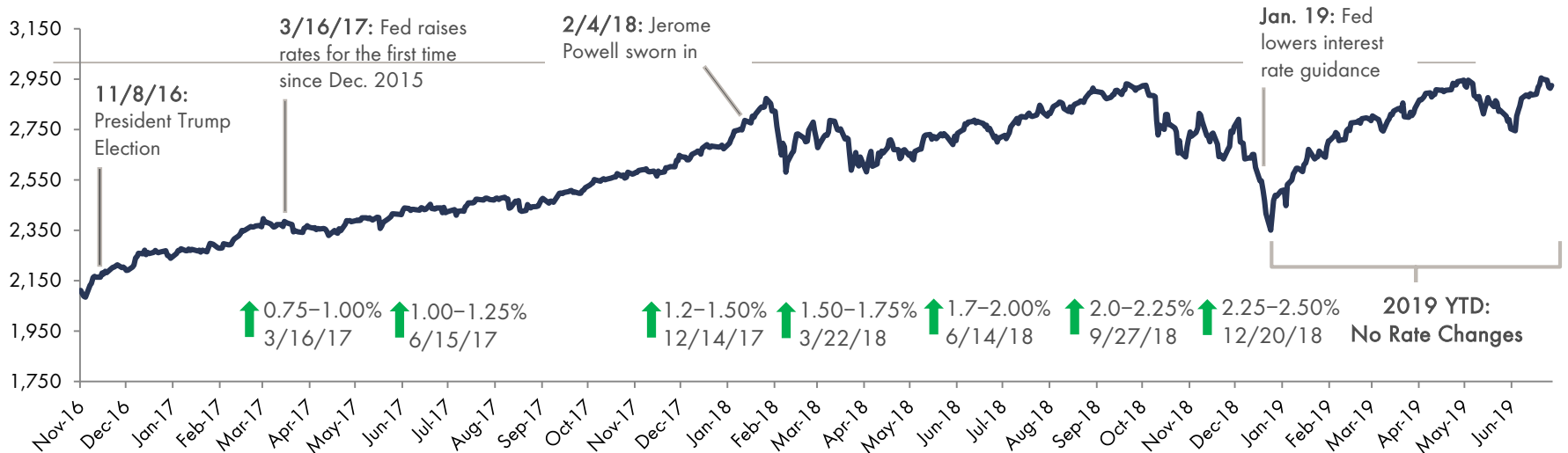
U.S. Market Resilience in the Face of a Trade War *(Jan 1, 2018 – Jun 30, 2019)*



Trump Tweet vs. Powell Put

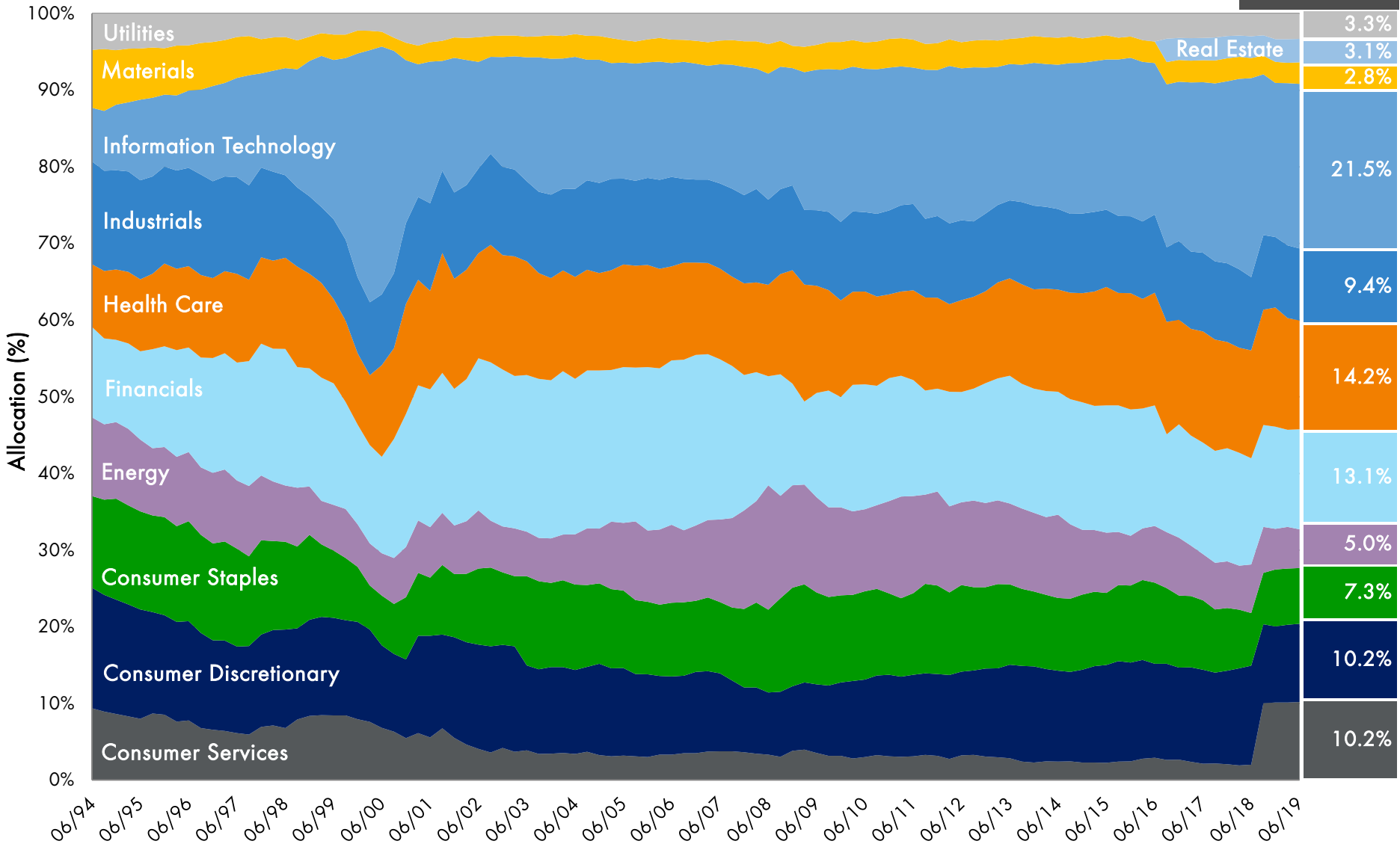


S&P 500 since President Trump's 2016 Election

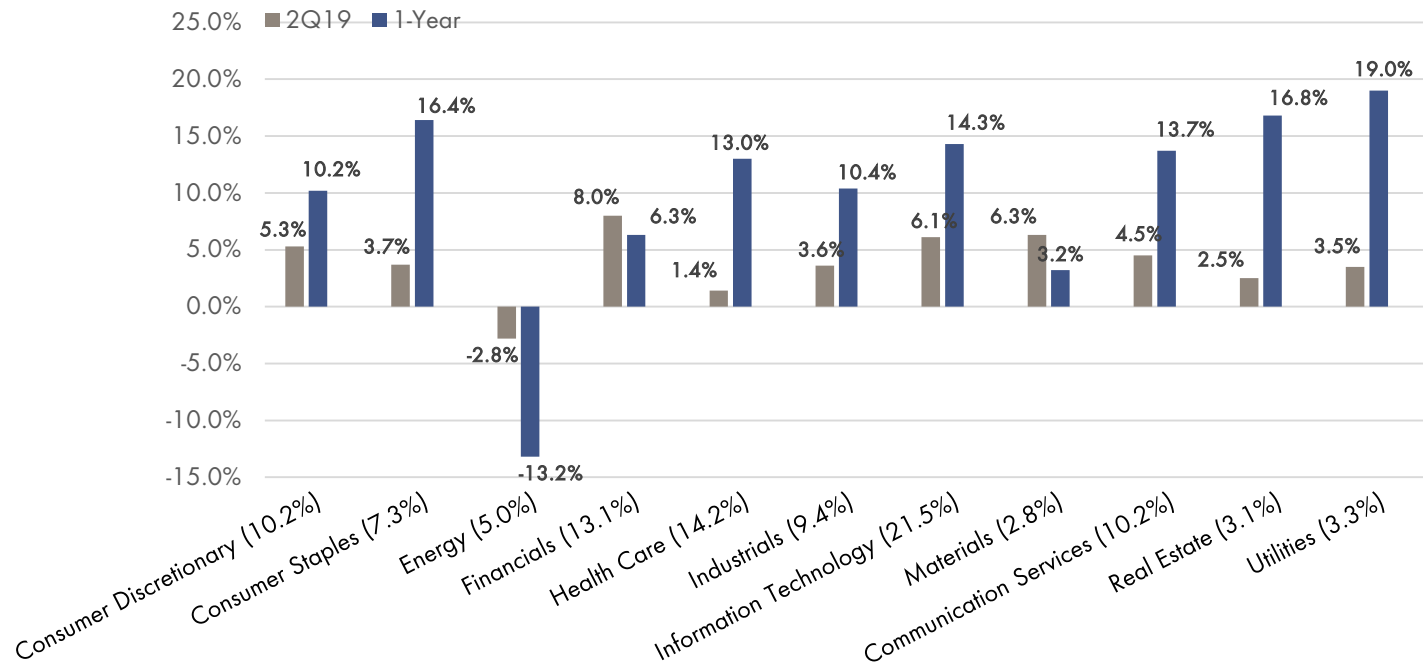


Historical Composition of the S&P 500

Current Weight
as of
6/30/2019

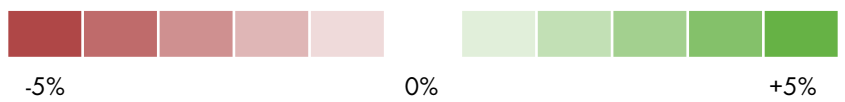


U.S. Equity Market – Sector and Style



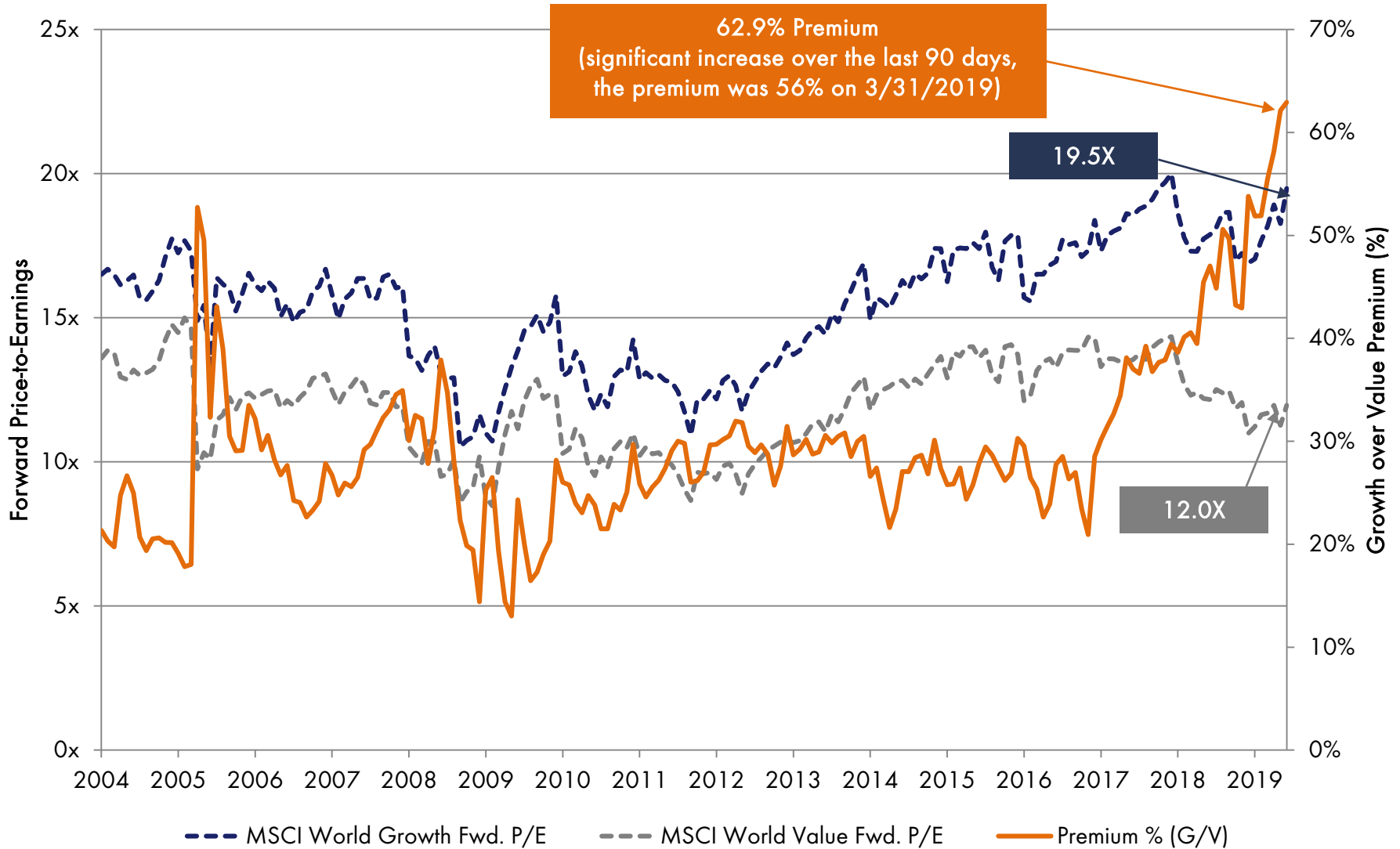
	2Q19		
S&P 500	4.3%		
Russell 3000	4.1%		
Large	3.8%	4.2%	4.6%
Mid	3.2%	4.1%	5.4%
Small	1.4%	2.1%	2.7%
	Value	Core	Growth

	1-Year		
S&P 500	10.4%		
Russell 3000	9.0%		
Large	8.5%	10.0%	11.6%
Mid	3.7%	7.8%	13.9%
Small	-6.2%	-3.3%	-0.5%
	Value	Core	Growth



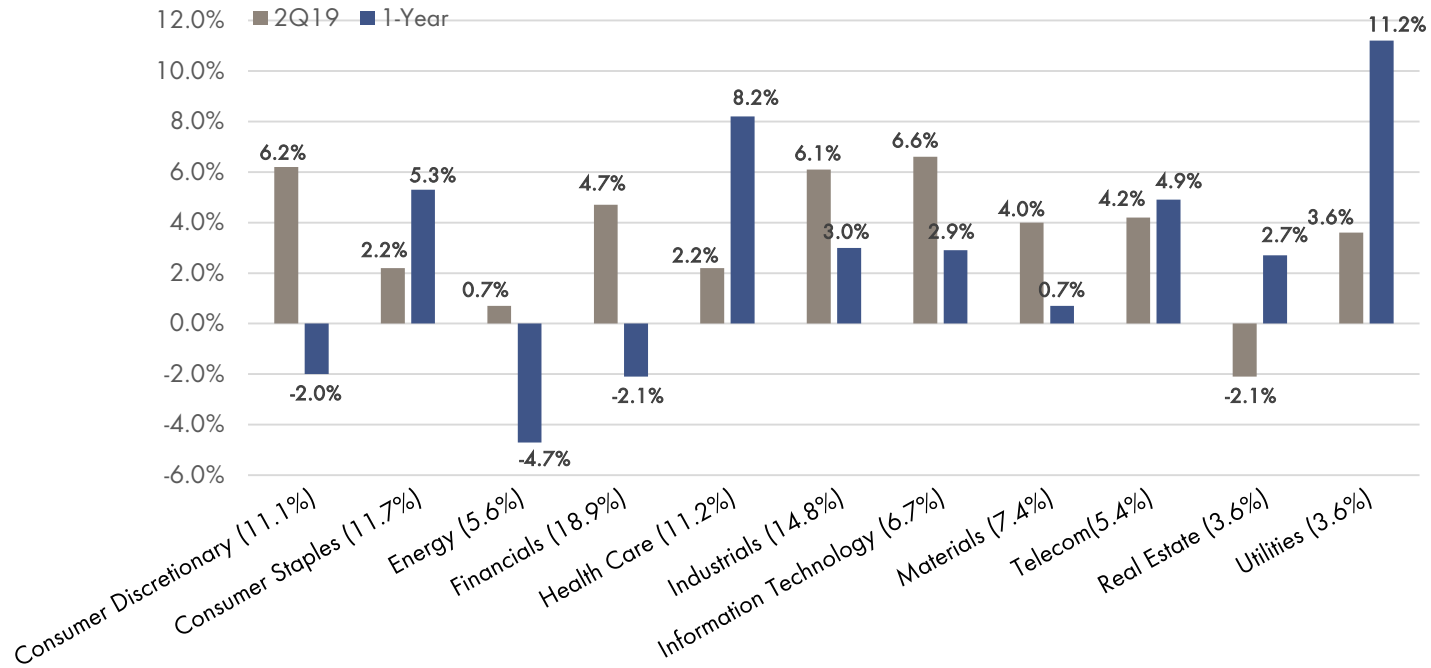
Source: Bloomberg, S&P, Russell

Growth vs. Value – divergence further expands



International Equity Market – Sector and Style

EAFE Sector Performance

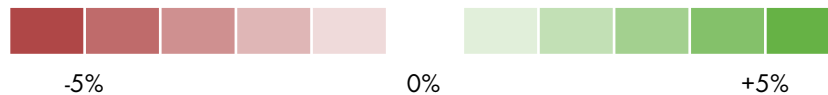


1Q19

EAFE	12.0%	10.0%	7.9%
ACWI ex U.S.	12.3%	10.3%	8.3%
Emerging Markets	12.0%	9.9%	7.8%
	Value	Core	Growth

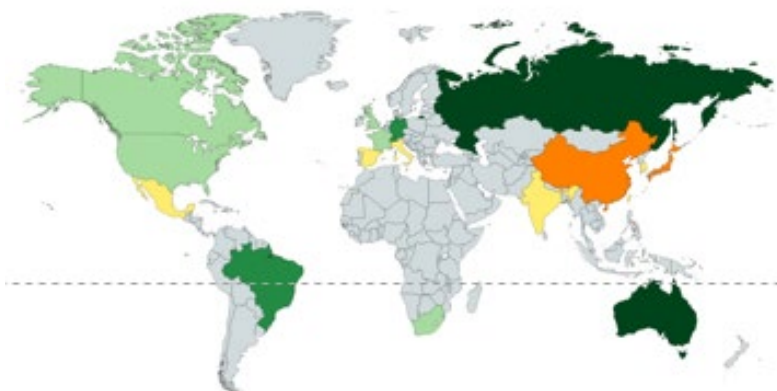
1-Year

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

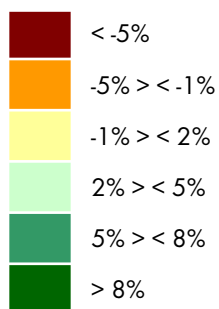


Global Equity Returns

Second Quarter Relative Strength

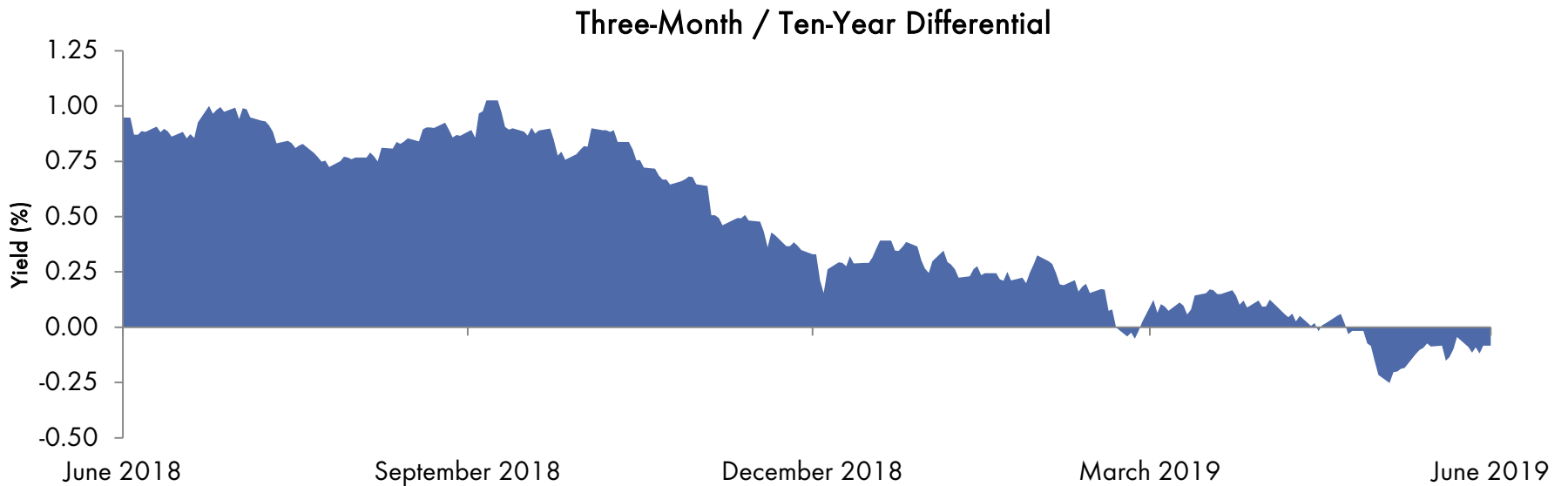
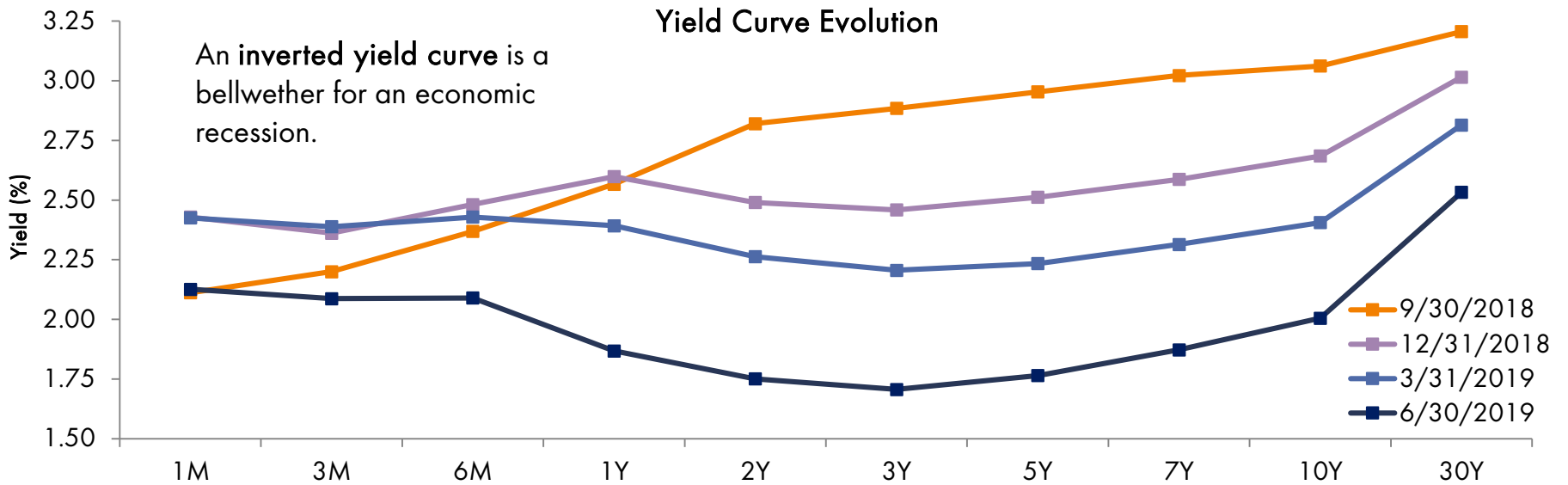


Relative Strength



	2Q2019		1 Year	
	Local Return	USD Return	Local Return	USD Return
North America				
Canada	2.6%	4.9%	15.8%	21.0%
United States	4.3%	4.3%	18.5%	18.5%
Europe				
France	5.0%	6.5%	18.3%	17.9%
Germany	5.6%	7.1%	15.0%	14.5%
Italy	1.5%	2.9%	18.3%	17.9%
Spain	1.2%	2.6%	10.2%	9.8%
Switzerland	6.1%	8.4%	21.3%	22.6%
United Kingdom	3.3%	0.9%	13.0%	12.9%
Asia Pacific				
Australia	8.6%	7.3%	19.9%	19.5%
Hong Kong	0.6%	1.0%	16.5%	16.8%
Japan	-1.7%	1.0%	5.8%	7.7%
International Developed Markets Index				
MSCI EAFE Index	2.8%	3.7%	13.7%	14.0%
Emerging Markets				
Brazil	5.5%	7.2%	14.6%	15.9%
China	-4.3%	-4.0%	12.8%	13.0%
India	0.1%	0.5%	6.5%	7.7%
Korea	0.8%	-0.9%	7.5%	3.9%
Mexico	0.1%	1.1%	4.1%	6.7%
Russia	12.8%	16.9%	20.8%	31.1%
South Africa	4.2%	6.6%	9.1%	11.3%
Taiwan	1.6%	0.9%	11.1%	9.9%
Emerging Markets Index				
MSCI EM Index	0.2%	0.6%	10.0%	10.6%

Inverted Yield Curve



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	Overweight	Conservative "dry powder" for rebalancing purposes
Fixed Income	Underweight	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 – 2Q 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 21.3	US Mid Cap 9.8
	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 8.8
	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 17.0	Emg Mkts 8.7
	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 13.6	US Small Cap 8.2
	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	Emg Mkts 10.6	Intl Equity 5.9
	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 6.7	Long/Short Eq 5.8
	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	US Bonds 6.1	US Bonds 4.3
	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 2.0	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

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