Newport Capital Group

Economic and Capital Markets Overview

2nd Quarter 2019

U.S. Economic Overview

- The U.S. economy expanded at an annualized 3.1% rate in the first quarter of 2019, greater than the 2.2% rate experienced in the fourth quarter of last year, but below the long-term average of 3.2% between 1947 and 2019.

- The unemployment rate ticked down slightly from 3.8% at the end of the first quarter to 3.7% at the end of the second, remaining near a fifty-year low. This was below the long-term average of 5.8% going back to 1948. For the second quarter, nonfarm payrolls averaged a gain of 171K per month as compared with 174K in first quarter.

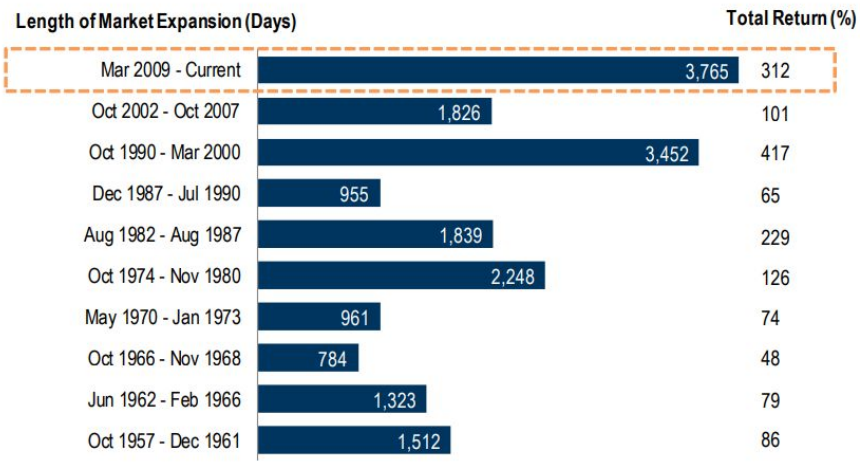
- Inflationary pressures remained muted during the second quarter. The June Consumer Price Index (CPI) was up 1.6%. Core PCE (excluding food and energy) was up 1.6% yr/yr in May, which was subdued relative to the 1.8% rate reported in January and below the U.S. Federal Reserve's 2.0% target.

- Wage growth also slowed in the quarter, with hourly wages up 3.1% yr/yr in June as compared with 3.2% growth in March.

- The Federal Reserve's Open Market Committee left rates unchanged at its May and June meetings. The target Fed Funds rate remained at the 2.25% to 2.50% range.

- Concerned about the impact of slower global economic growth on the U.S. economy and effects of U.S.-China trade dispute, the FOMC dropped language from its June FOMC minutes alluding to a "patient" rate policy and in its place adding comments about taking necessary action toward sustaining the economic expansion.

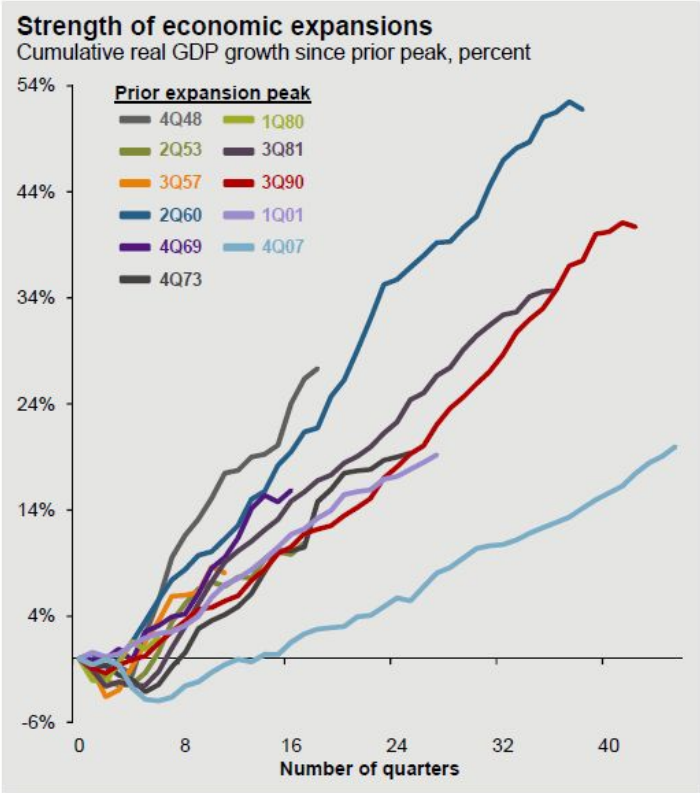
- As of the end of June, the U.S. entered its 121st month of economic expansion since the 2008-2009 financial crisis. This marks the longest U.S. expansion on record dating back to 1854.



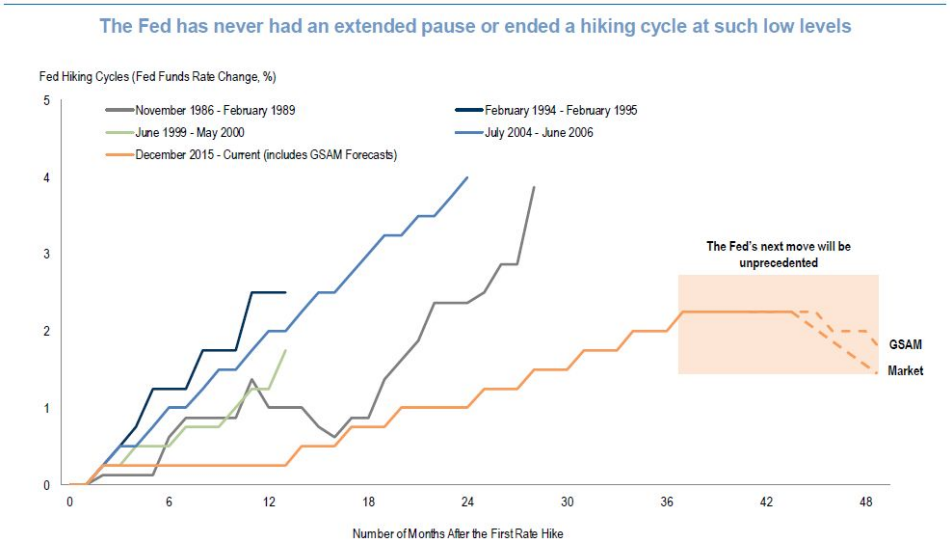
Source: Bloomberg, NBER, and GSAM. Current as of June 30, 2019. Market performance is represented by the S&P 500 Index. Expansion refers to the period from the market bottom corresponding to a NBER-defined recession to the subsequent market peak.

Source: Goldman Sachs Asset Management – Markets and Economic Perspectives

Economic Trends



Source: JPMorgan Guide to the Markets as of June 30, 2019



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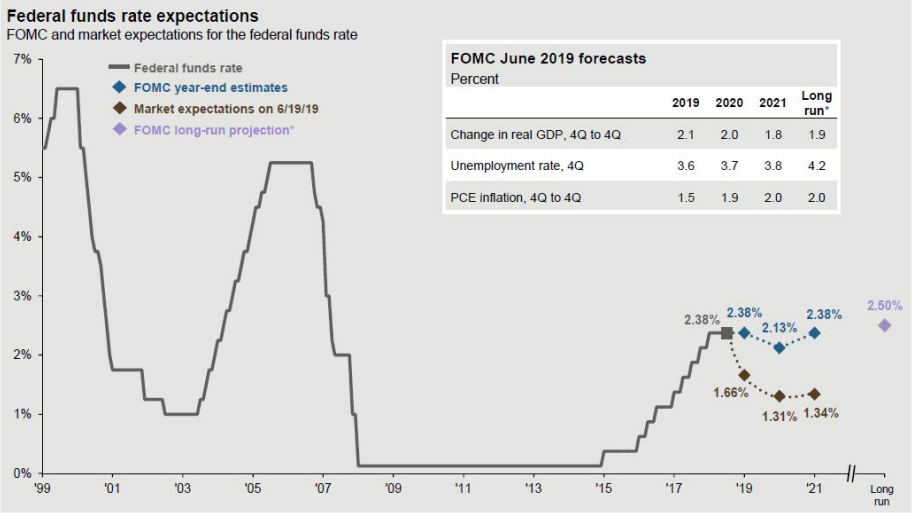
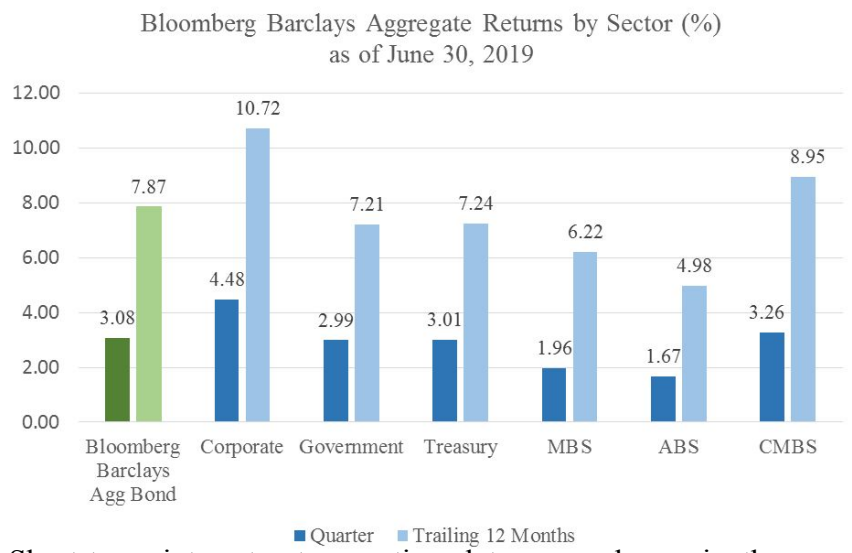


FOMC June 2019 forecasts
Percent

	2019	2020	2021	Long run*
Change in real GDP, 4Q to 4Q	2.1	2.0	1.8	1.9
Unemployment rate, 4Q	3.6	3.7	3.8	4.2
PCE inflation, 4Q to 4Q	1.5	1.9	2.0	2.0

Source: JPMorgan Guide to the Markets as of June 30, 2019

U.S. Fixed Income Market Overview



Returns by Quality (%)

	Qtr	YTD	1 Yr	3Yr	5 Yr
Barclays Aggregate Bond	3.08	6.11	7.87	2.31	2.95
Aaa	5.04	10.31	11.86	3.71	4.66
Aa	3.43	7.24	9.03	2.85	3.58
A	4.18	9.08	10.15	3.28	3.92
Baa	4.86	10.87	11.38	4.71	4.24
High Yield	2.50	9.94	7.48	7.52	4.70

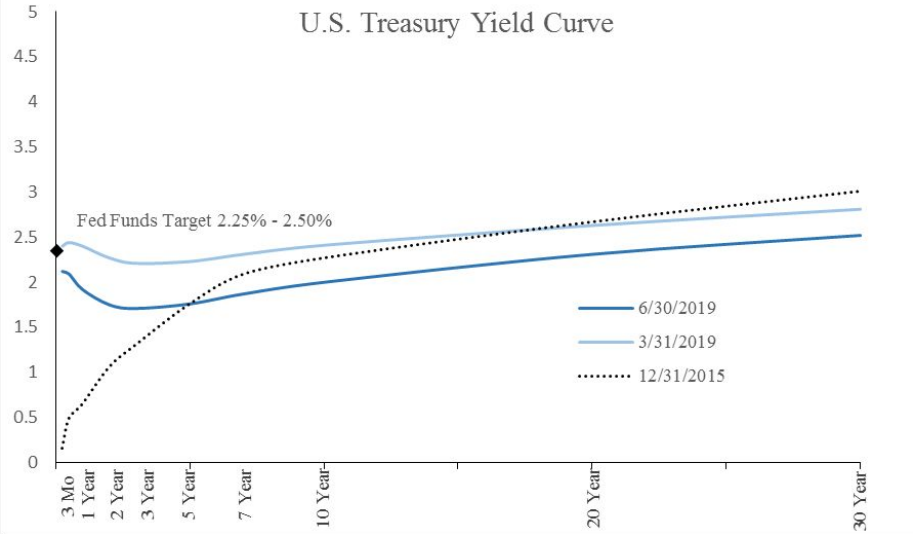
Returns by Maturity (%)

	Qtr	YTD	1 Yr	3Yr	5 Yr
3 Month T-Bills	0.60	1.22	2.36	1.47	0.92
1-3 Yr	1.49	2.72	4.28	1.61	1.47
3-5 Yr	2.25	4.43	6.50	1.97	2.33
5-7 Yr	2.57	5.23	7.46	2.15	2.67
7-10 Yr	3.64	6.84	8.98	2.10	3.27
>10 Yr	6.59	13.46	13.94	3.73	5.67

- Short-term interest rates continued to move lower in the second quarter on fears of slowing economic growth. The U.S. 2-year Treasury yield was down 42 basis points ending the quarter at 1.75% while the 10-year Treasury bond saw yields down 40 basis points, ending the quarter at 2.01%, implying a continued flattening of the yield curve.

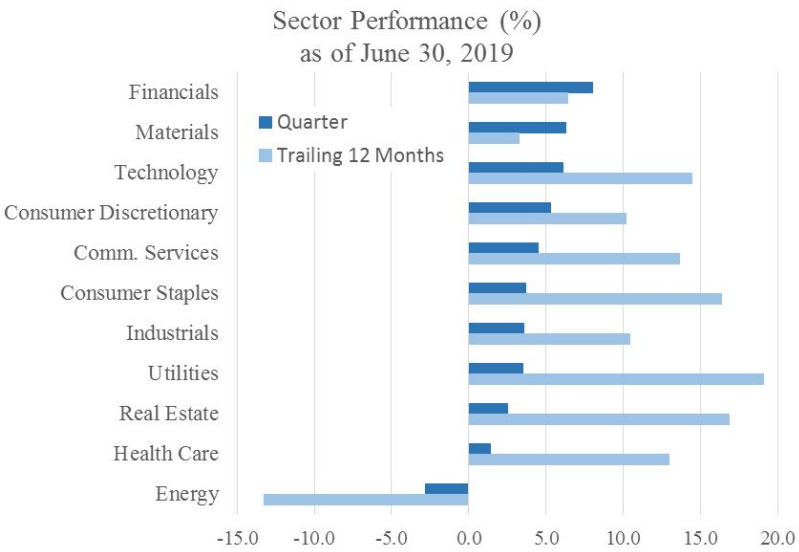
- Slowing global growth rates and well contained inflationary trends have significantly aided fixed income returns. The Bloomberg Barclays U.S. Aggregate Index was up 3.1% in the quarter led by Corporate Bonds (+4.5%) and Commercial Mortgage Backed Securities (CMBS) (+3.3%).

- The strongest returns in the fixed-income market have come from Emerging Market Debt and High Yield (up 10.6% and 9.9% year to date, respectively).



U.S. Equity Market Overview

Domestic Equity Performance (%)					
Large Cap	**Qtr**	**YTD**	**1 Yr**	**3Yr**	**5 Yr**
Russell 1000 Value	3.84	16.24	8.46	10.19	7.46
S&P 500	4.30	18.54	10.42	14.19	10.71
Russell 1000 Growth	4.64	21.49	11.56	18.07	13.39
Mid Cap	**Qtr**	**YTD**	**1 Yr**	**3Yr**	**5 Yr**
Russell Mid Cap Value	3.19	18.02	3.68	8.95	6.72
Russell Mid Cap	4.13	21.35	7.83	12.16	8.63
Russell Mid Cap Growth	5.40	26.08	13.94	16.49	11.10
Small Cap	**Qtr**	**YTD**	**1 Yr**	**3Yr**	**5 Yr**
Russell 2000 Value	1.38	13.47	-6.24	9.81	5.39
Russell 2000	2.10	16.98	-3.31	12.30	7.06
Russell 2000 Growth	2.75	20.36	-0.49	14.69	8.63



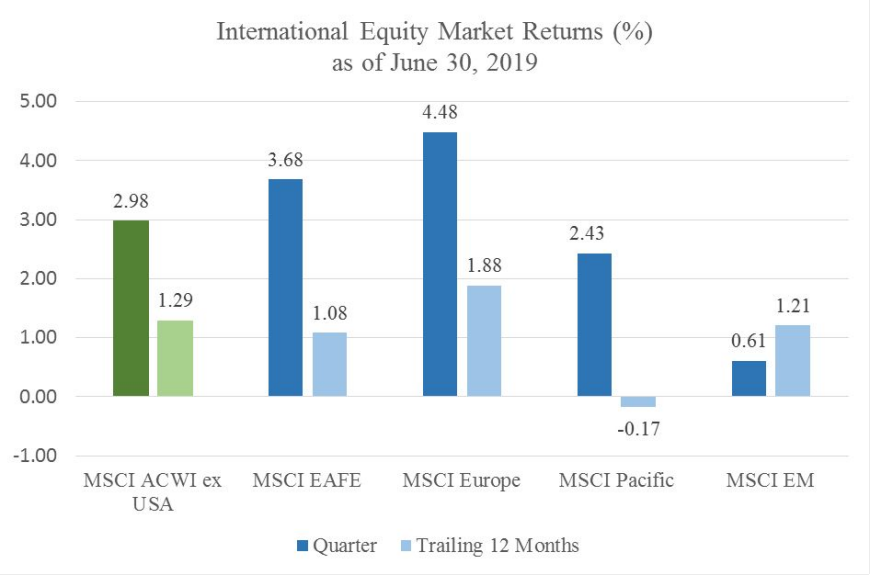
- US stocks rebounded from a May selloff with the S&P 500 Index ending the quarter up 4.3%, bringing the year-to-date return to a robust 18.5%. Small stocks, as measured by the Russell 2000 Index, lagged the S&P 500 Index but still advanced 17.0% for the year-to-date period.

- Large cap stocks outperformed mid and small cap issues and growth outperformed value in each of the capitalization categories. As with the first quarter, mid cap growth stocks represented the best performing relative market segment (+5.4%).

- Financials (+8.0%), Materials (+6.3%) and Technology (+6.1%) were the best performing S&P sectors for the quarter. Energy (-2.8%), Health Care (+1.4%) and Real Estate (+2.5%) were the weakest performers.

- Trade tensions with China continued during the second quarter leading to increased market volatility. The U.S. increased tariffs on $200 billion in Chinese imports during the quarter while China responded with $60 billion in tariffs on U.S. goods. An additional $325 billion in U.S. tariffs on Chinese imports was put on hold following the G20 meeting in Japan late in the quarter as negotiations continued.

International Markets Overview



10-Yr Govt Bond Yield (%)		Exchange Rate	
United States	2.01	DXY	96.11
United Kingdom	0.83	Pound/USD	1.27
Germany	-0.33	Euro/USD	1.14
France	0.00		
Japan	-0.16	USD/Yen	107.88
China	3.28	USD/Yuan	6.87
Brazil	7.47	USD/Real	3.85
Data as of 6/30/19			

- International stocks were underperformers relative to the U.S. in the second quarter primarily on slower economic growth and trade concerns. The MSCI EAFE Index up was up 3.7% while the MSCI Emerging Markets Index gained 0.6%.
- The US dollar (DXY) weakened by 1.2% in the second quarter and gained 1.6% year over year on stronger relative U.S. economic growth.
- Developed markets advanced 14.0% in the first half of 2019 while emerging markets returning 10.6%.
- The majority of other global Central Banks remained accommodating in their monetary policies over concerns for weaker economic growth and uncertainty surrounding Brexit and potential tariffs. The recent dovish tone adopted by a number of central banks, including the US Federal Reserve, all suggest that policy rate hikes are unlikely across most regions in the near future.
- Trade tensions between the U.S. and its trading partners, predominantly China, Mexico and the EU, continued during the quarter.
- President Trump and Chinese President Xi appear to have called a truce for the time being with no further tariff escalations and some reductions in Huawei purchase restrictions in exchange for some unspecified agricultural purchases from China.

Disclosures

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