Investment Strategy Update

ASCENTIAL WEALTH ADVISORS
AN INDEPENDENT PRACTICE

Markets Remain Strong

Markets showed a high degree of resiliency in the first half of 2019, finishing strong in the face of uncertainty. Equities were positive across the board, with the US faring slightly better than foreign markets. Within the US, growth outpaced value and the NASDAQ was again the top performer with a 20.7% return through the end of June. Emerging markets have felt the most pressure from ongoing trade negotiations, but the MSCI Emerging Markets Index was still up 10.6%.

Trade negotiations remain of high concern for markets, and there have been growing signs that the global economy is weakening. In the US however, unemployment remains very low at 3.6% and inflation is muted. Foreign GDP growth has slowed and there have been signs of weakening in the global purchasing managers index, suggesting that there may be further decline. Central banks, including the US Federal Reserve, remain vigilant and accommodative, looking to head off a potential recession.

Although the Federal Reserve has made no changes to its benchmark Fed Funds Rate since the beginning of the year, bond yields fell on fears of economic slowdown and in anticipation of impending rate cuts. The bond market has flashed fear about the economic outlook with the yield curve inverting slightly at times, which has historically preceded some recessions. Absent some strong economic data, it is now expected that the Fed will cut rates at least once, and possibly a few times yet this year, with the Fed stating it would do whatever is necessary to keep the expansion going. The yield on the 10-year US Treasury Bond started the year at 2.69% and ended the first half at 2.00%, while the 2-year US Treasury yield has fallen from 2.50% to 1.75%.

Index	*2019 (through 06/30)*
S&P 500	+18.5
DJIA	+15.4
EAFE (Int'l)	+14.0
BC Ttl Bond	+6.1

Dow Jones Relative Risk Benchmarks	
Conservative	+5.6
Moderate	+12.0
Aggressive	+17.1

To date, short term rates have declined less but are likely to take a hit when the Fed cuts rates.

2019 Outlook

FIXED INCOME — The complexity of the fixed income market has been heightened over the past several years as the U.S. Federal Reserve and other global central banks have tried to unwind the stimulus put in place during the last recession. Generally speaking, interest rates have not returned to normal with global central banks distorting the market. In addition, the somewhat unclear direction of the global economy has created abnormally rapid changes in interest rate expectations, directly affecting bond prices. In an environment such as this, we feel that an active bond manager is able to adjust their positioning in a timely manner as the story unfolds, which should add value over owning an unmanaged index of bonds.

Our View — Hold allocation, shift from passive to active management

US EQUITIES — After becoming fairly cheap in the correction at the end of 2018, the recovery this year has left US stocks at their long-term average valuation, with the S&P 500 now trading at about 16.6 times earnings vs the 25-year average of 16.2. Some sectors such as energy and healthcare have been laggards, while technology, consumer discretionary, and industrials were strong. While growth has outperformed value so far in 2019, we still favor a more equal weighting between growth and value, as we expect this trend to reverse and want to be slightly defensive should the economy weaken. Given the lingering uncertainty surrounding trade and falling yields in fixed income, US stocks remain attractive, and we are not recommending any changes to US equity weightings at this time.

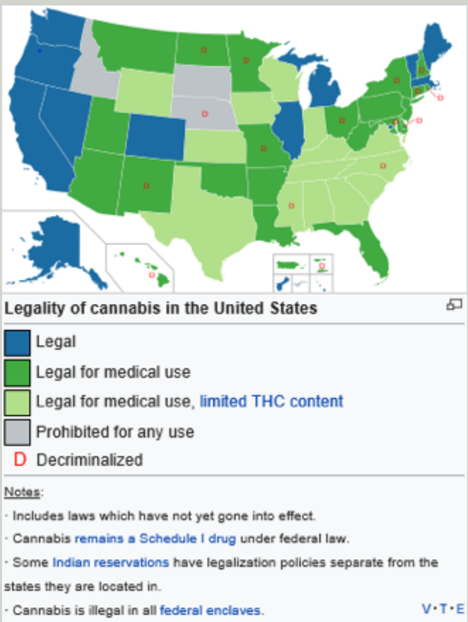
Our View — Maintain allocation, rebalance where needed

INTERNATIONAL EQUITIES — Foreign stocks were able to produce positive returns despite ongoing trade tensions. In May, US tariffs on Chinese goods increased from 10% to 25%, however, new tariffs on Mexican goods were avoided for the time being. Foreign stocks, both developed and emerging markets, look cheap relative to their long-term averages. The market is certainly pricing in the effects of the trade war to some degree, and resolution on this issue would likely be a boost for these stocks. We feel it is important to maintain exposure to foreign markets for diversification, and they remain attractive based on valuations and growth prospects. Consumer spending drives economies, and in emerging markets in particular, there is expected to be continued tremendous growth in middle class consumers which should flow through to equity markets for patient investors.

Our View — Maintain exposure, monitor trade negotiations

CANNABIS CRAZE

Cannabis has been making headlines as more places legalize its use, as Canada did in October 2018. While legal in a handful of states within the US, cannabis remains illegal under federal law, and as such the trading of securities related to its growth, cultivation, production, sale, or distribution is subject to restrictions. Marijuana related securities remain highly speculative, and at this time it is very difficult to quantify the financial opportunity in these companies. While there may be opportunity in the long run, it may be best to wait on the sidelines for more clarity.



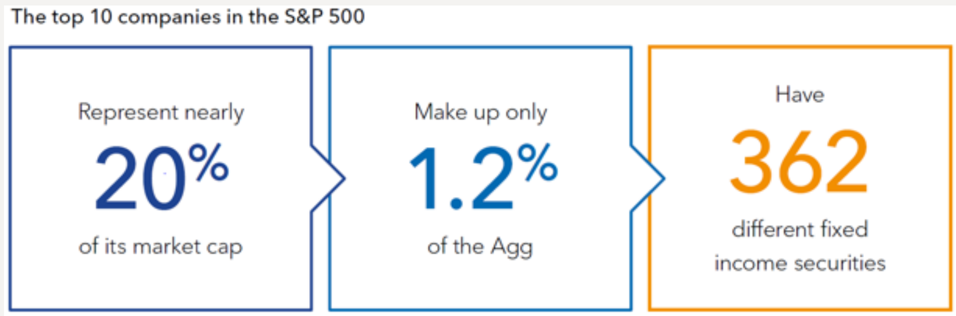
Source: Wikipedia

THE COMPLEX WORLD OF BONDS

When most people think of bonds, they think of a boring, plain vanilla investment. Bonds don't excite like a hot new stock. Bonds, or "fixed income," are typically the less volatile part of an investment portfolio, offering somewhat predictable income, and are not usually the topic of conversation at a cocktail party. The universe of bonds however is much larger and more complex than most people realize, and in fact, fixed income assets hold more dollar value than equities. Consider this:

GLOBAL CAPITAL MARKETS	US CAPITAL MARKETS
Equities = $85 Trillion	**Equities = $32 Trillion**
Fixed Income = $100 Trillion	**Fixed Income = $41.9 Trillion**

Source: SIFMA 2019 Outlook



Source: BlackRock 2017, the "Agg" is the Bloomberg Barclay's U.S. Aggregate Index, a measure of the broad U.S. bond market.

With a bond, there are many variables that affect its performance and behavior. A company that has one stock can have dozens of bond issues outstanding with different coupons (interest rates), maturity dates, call features, and other nuances that will cause each bond to be valued differently in the market. On top of this, there are bonds issued by other entities such as municipalities, government agencies, states, federal governments, and non-profit organizations such as schools and hospitals. The options in fixed income are seemingly endless. The bond market does not make headlines quite like the stock market but don't let that fool you; there is much more there than meets the eye.

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