angles

your Quarterly Report from alphavest | Q2 : 2019

By the time I finish writing this quarter's update, the team publishes it and compliance approves it, this Q2 report may be long out of date! Needless to say, volatility has returned. Much has happened since Q2 came to a close, most notably, the much talked about yield curve.

Ten years ago, the average person probably didn't know what the yield curve was, and even fewer knew what "yield curve inversion" meant. Those days, it seems, are in the past. The brief inversion of two- and 10-year US Treasury yields, mid-August, was widely cited as the cause of the largest single-day sell-off in the US equities market this year.

Unless you were sailing the open ocean for two months or riding to the moon with Elon Musk or Sir Richard Branson you've heard, read or seen much about the spread between the two-year and 10-year Treasuries being "inverted." Is Recession imminent?

We have typically seen recessions after the yield curve has remained inverted for a sustained period of time. So far, this has not happened. Even then, we have not typically entered a recession for 9 to 18 months after the yield curve inverted, with the US equities market typically advancing in the interim.

So, to summarize, yes, we have often seen inversion of the two-year and 10-year US Treasury yields ahead of recessions. However:

- Recessions have typically only come after an extended period of inversion and even then, they have typically been 9–18 months away.
- The two-ten spread has not yet actually inverted when looking at closing values.
- Looking at the overall level of inversion across the yield curve may be a better metric, especially given the effect that quantitative easing has had on longer-term bond yields.
- The portion of the yield curve that is inverted remains well below that of the levels seen ahead of previous recessions.

Sincerely,

Cokie

Here's A Snapshot View of S&P 500 Index Performance for the First Six Months of 2019

The S&P 500 Index tracks the market capitalization of 500 large domestic stocks. The index is a common benchmark for analyzing performance of the U.S. economy. The S&P ended 2018 at 2,506 and closed the second-quarter of 2019 at 2,941—its best performance in the 1st half since 1997.

Remember, at the beginning of 2019, we were coming off the worst December for the S&P 500 since 1931. By the end of January, however, the S&P 500 had gained nearly 8 percent and experienced its best January in more than 30 years. And by the end of the second quarter, the S&P 500 was up more than 17 percent for the year.

Let's look at some key events that affected stock performance in the first half. As we review these milestones, keep in mind the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

In January, part of the rebound occurred thanks to a change in the Federal Reserve's view of interest rates. Throughout the month, Fed officials indicated they were approaching any decisions on interest rates with caution and patience. Following its two-day meeting that ended on January 30, the Fed announced no change in interest rates. The S&P 500 responded positively to this news.

In February, apparent progress in trade talks between the U.S. and China contributed to the market's momentum. On February 24, President Trump announced that the U.S. would pause new tariffs, which were set to go into effect on March 1.

By the end of March, the S&P 500 had gained 13.1 percent—the best first-quarter performance since 1998.

On April 30, the S&P 500 ended the day at 2945.83, it's highest closing level to date.

Fast-forward to May, trade tensions began to increase again. On May 10, the U.S. more than doubled import taxes on $200 billion of Chinese goods. Three days later, China responded by increasing tariffs on U.S. goods. And by month's end, new tariffs on Mexico also became a possibility. The month of May ended up being the worst month this year in the index. But news that the Federal Reserve was considering an interest rate cut in 2019 helped push the S&P 500 to hit a record high on June 20.

Trade talks and the Federal Reserve are expected to dominate the headlines for the rest of the year. But no matter what's ahead, we want to remind you not to get caught up in the day-to-day headlines. Making long-term choices on short-term news is rarely a good idea. We believe staying focused on the fundamentals and not overreacting to news events is the key to good financial—and mental—health.

SOURCES:

>> https://www.investopedia.com/terms/s/sp500.asp

>> http://quotes.morningstar.com/indexquote/quote.html?t=SPX&region=usa&culture=en-US

>> https://www.cnbc.com/2018/12/31/stock-market-wall-street-stocks-eye-us-china-trade-talks.html

>> https://www.cbsnews.com/news/stocks-today-sp-500-posts-best-january-since-1987/

>> https://www.marketwatch.com/story/stock-futures-edge-lower-ahead-of-inflation-data-2019-01-11

>> https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130a.htm

>> https://www.bostonglobe.com/business/2019/01/31/delivers-biggest-monthly-gain-since/BKTzYZj4uz4D2ApeKaLhWM/story.html

>> https://www.businessinsider.com/trump-china-tariff-increase-delayed-past-march-1-deadline-2019-2?utm_source=markets&utm_medium=ingest?utm_source=markets&utm_medium=ingest

>> https://www.cnbc.com/2019/03/29/stock-market-us-china-trade-talks-in-focus-on-wall-street.html

>> https://www.businessinsider.com/trump-china-trade-war-us-raises-tariffs-200-billion-worth-of-goods-25-percent-2019-5?utm_source=markets&utm_medium=ingest

>> https://markets.businessinsider.com/news/stocks/us-china-trade-war-timeline-updated-tariffs-timeline-2019-5-1028227195

>> https://www.cnbc.com/2019/05/31/trump-says-us-will-impose-5percent-tariff-on-all-mexican-imports-from-june-10.html

>> https://www.barrons.com/articles/s-p-500-set-to-open-at-record-high-federal-reserve-china-trade-51561034391

>> https://www.cnbc.com/2019/06/28/stock-market-trump-xi-meeting-at-the-g-20-summit-in-focus.html?&qsearchterm=first%20half%20since%201997

>> https://www.cnbc.com/video/2019/07/01/sp-500-begins-july-at-a-record-high.html

>> https://www.cnbc.com/2019/06/28/by-the-numbers-best-june-for-the-dow-since-1938-sp-500s-best-first-half-in-two-decades.html

So, we've talked a bit about how the S&P 500 performed during the year's 1st half. But how does that performance compare to expectations?

Let's explore a bit.

At the end of each year, various media outlets compile many of Wall Street analysts' predictions for the year ahead. This **Chart A** shows the variety of projections shared at the end of 2018.

As you can see, their 2019 estimates cover a 670-point range from 2,580 to 3,250—proof that even experts often have differing opinions.

While their results varied, one trend was consistent: All the analysts predicted that the S&P 500 would end 2019 at a higher

2019 FORECAST: S&P 500

FIRM/STRATEGIST	2019 S&P 500 TARGET
BNP Paribas	2,580
Morgan Stanley	2,750
Stifel	2,800
Voya	2,850
Wells Fargo	2,860 - 2,960
Jefferies	2,900
Bank of America	2,900
Credit Suisse	2,925
Goldman Sachs	3,000
BTIG	3,000
JP Morgan	3,100
Brian Wesbury	3,100
Yardeni	3,100
BMO Capital Markets	3,150
Deutsche Bank	3,250
GROUP AVERAGE	2,940 - 2,948 (17.3% - 17.6% growth)

CHART A

SOURCE: https://www.marketwatch.com/story/as-stocks-suffer-a-december-rout-wall-street-strategists-bet-on-2019-gains-2018-12-22

S&P 500

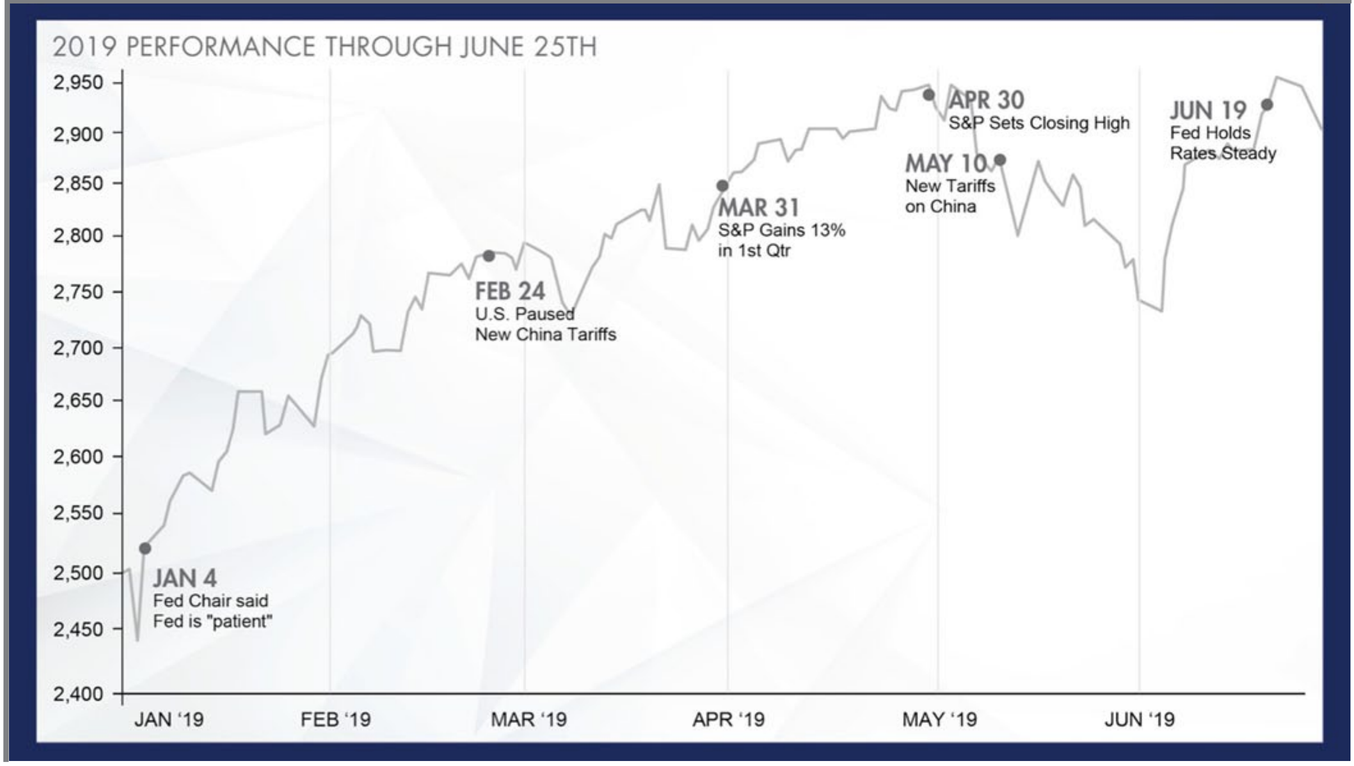


CHART B

SOURCE: http://quotes.morningstar.com/indexquote/quote.html?t=SPX&region=usa&culture=en-US

point than it did in 2018. So far, they are all right! Of the analysts we've included here, their average estimate of 2,940 to 2,948 would represent a gain of more than 17 percent for 2019.

Remember, the 2019 S&P 500 price targets are not intended to provide specific investment advice. Individuals cannot invest directly in an index and actual returns will fluctuate over time. How do the predictions compare to reality so far? As we mentioned on the previous slide, the S&P 500 finished the first half of the year at 2,941 (**Chart B**).

I'm going to walk through some of the driving forces from Q1 and Q2 and revisit these numbers later in this report.

SOURCES:

>> https://www.yahoo.com/news/markets-now-stocks-open-higher-china-trade-hopes-144153323.html

>> https://www.marketwatch.com/story/as-stocks-suffer-a-december-rout-wall-street-strategists-bet-on-2019-gains-2018-12-22

>> https://www.cnbc.com/2019/06/28/stock-market-trump-xi-meeting-at-the-g-20-summit-in-focus.html?&qsearchterm=first%20half%20since%201997

Here are some economic and financial indicators to help understand how we got to this point. To put today's economy in perspective, let's look back to January 2009, when we were

ECONOMIC AND FINANCIAL INDICATORS - JANUARY 2009

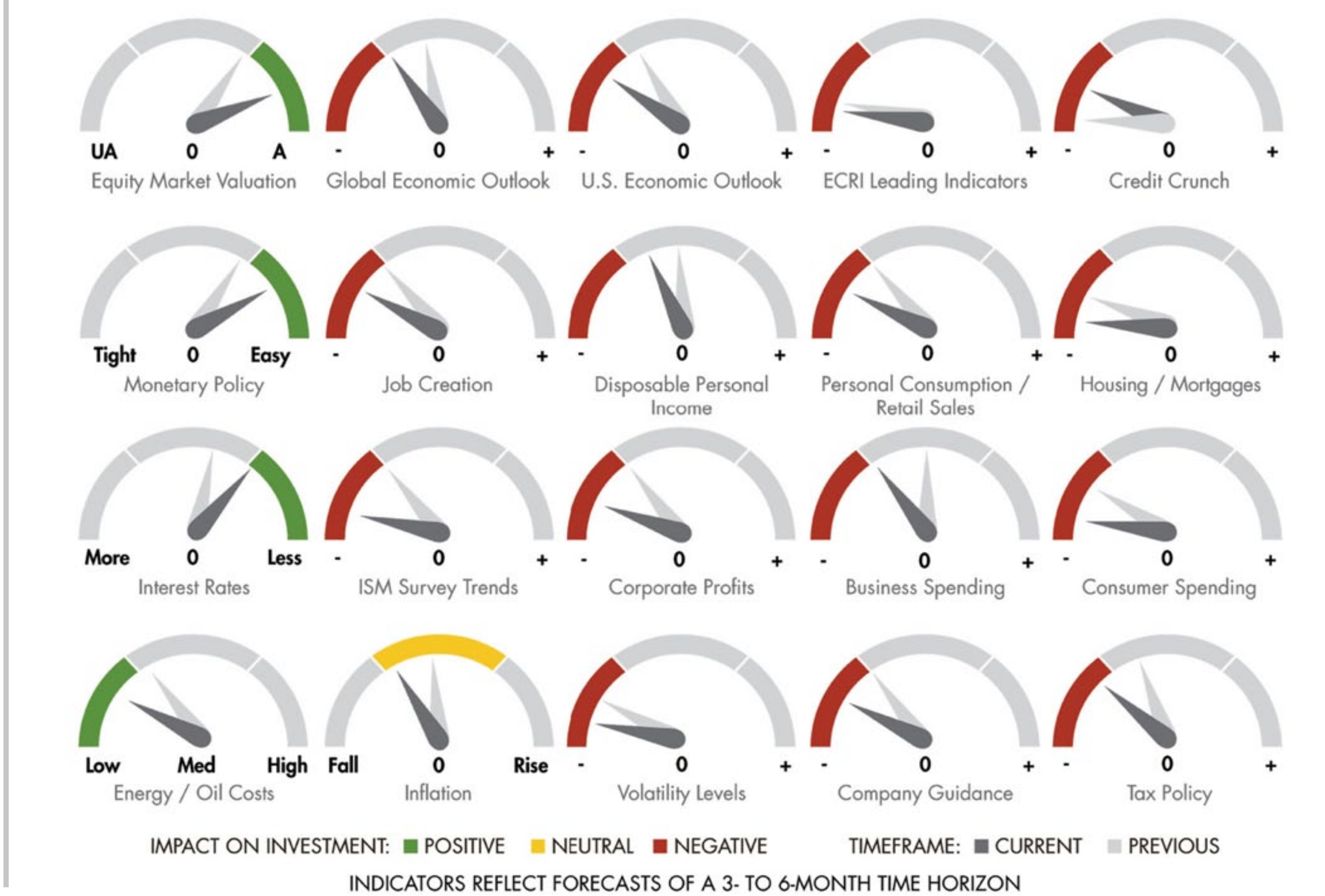


CHART C

SOURCE: https://www.cnr.com

in the midst of the worst financial recession in 80 years.

Here, in **Chart C,** you see 20 speedometers representing 20 indicators. From corporate profits to tax policy, 16 of the 20 indicators are red or yellow, which correlates to negative or weakening numbers.

Remember some of what had happened at this time—mortgage lenders Fannie Mae and Freddie Mac were struggling. Congress had passed legislation to bail out failing American car manufacturers. And while the market's low point was still a couple of months ahead, Americans feared that the country's economic system may not recover.

SOURCE:

>> https://www.thebalance.com/the-great-recession-of-2008-explanation-with-dates-4056832

>> https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-historical-speedometers.pdf

Fast-forward to January 2019: 15 of 20 indicators reported positive or strengthening numbers. Those appear in green in **Chart D**.

But you can see that five indicators had a neutral or negative impact on the financial markets. In particular, the political environment and geopolitical risk were in the red.

SOURCES:

>> https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-historical-speedometers.pdf

>> https://www.cnr.com/content/dam/cnrcom/articles/economic-outlook/city-national-rochdale-economic-outlook.pdf

ECONOMIC AND FINANCIAL INDICATORS - JANUARY 2019

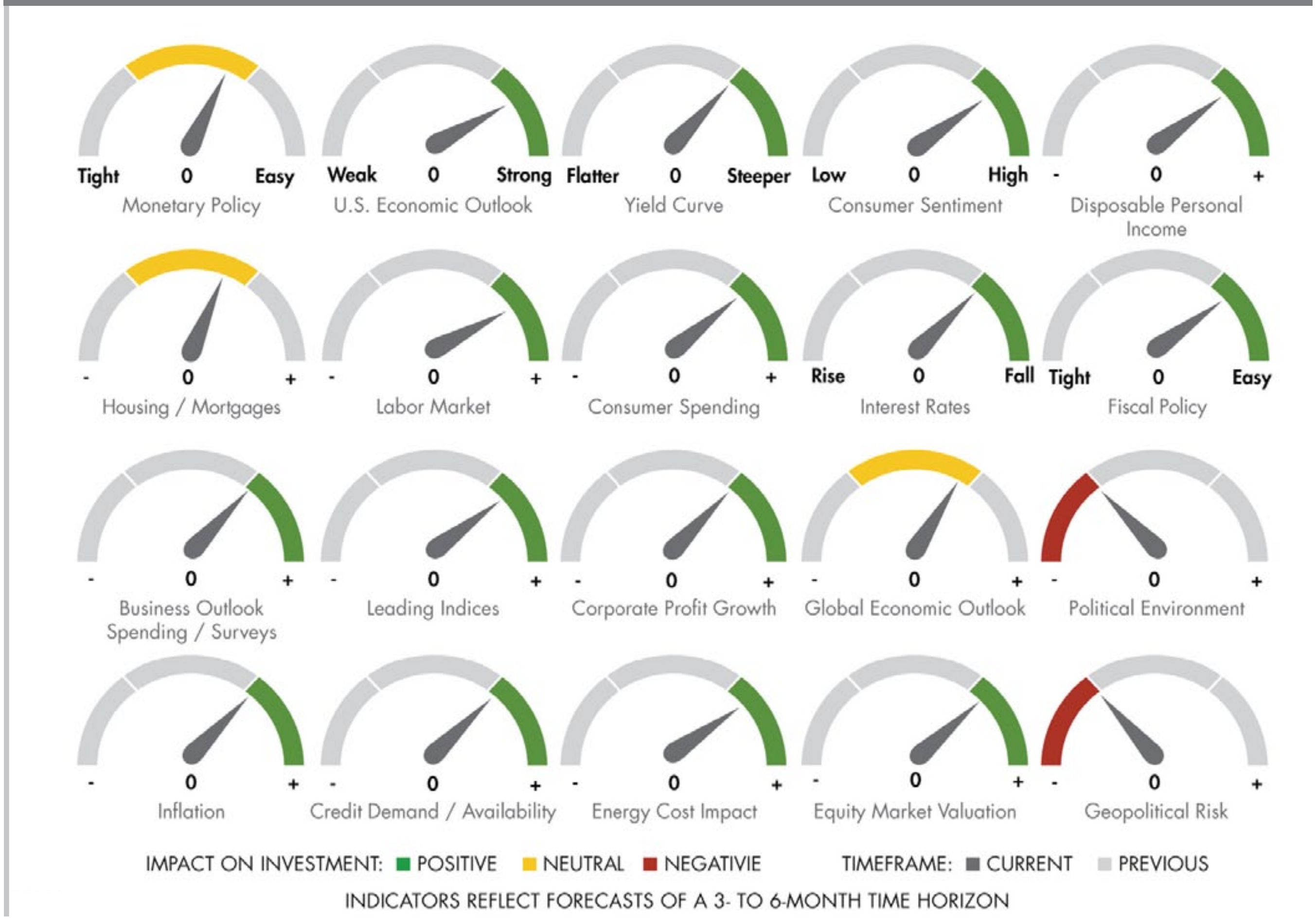


CHART D

SOURCE: https://www.cnr.com

Now, let's dive into forecasts for the 2nd half of the year.

As you saw in the previous two charts, geopolitical risk continues to challenge market performance. One major contributor to that risk is ongoing tension with some of our biggest trading partners.

The Trump Administration believes the U.S. needs a more-equitable trade arrangement with China. As part of this push, the Administration has added new tariffs on imports from China. In return, China retaliated with its own tariffs.

ECONOMIC AND FINANCIAL INDICATORS - JUNE 2019

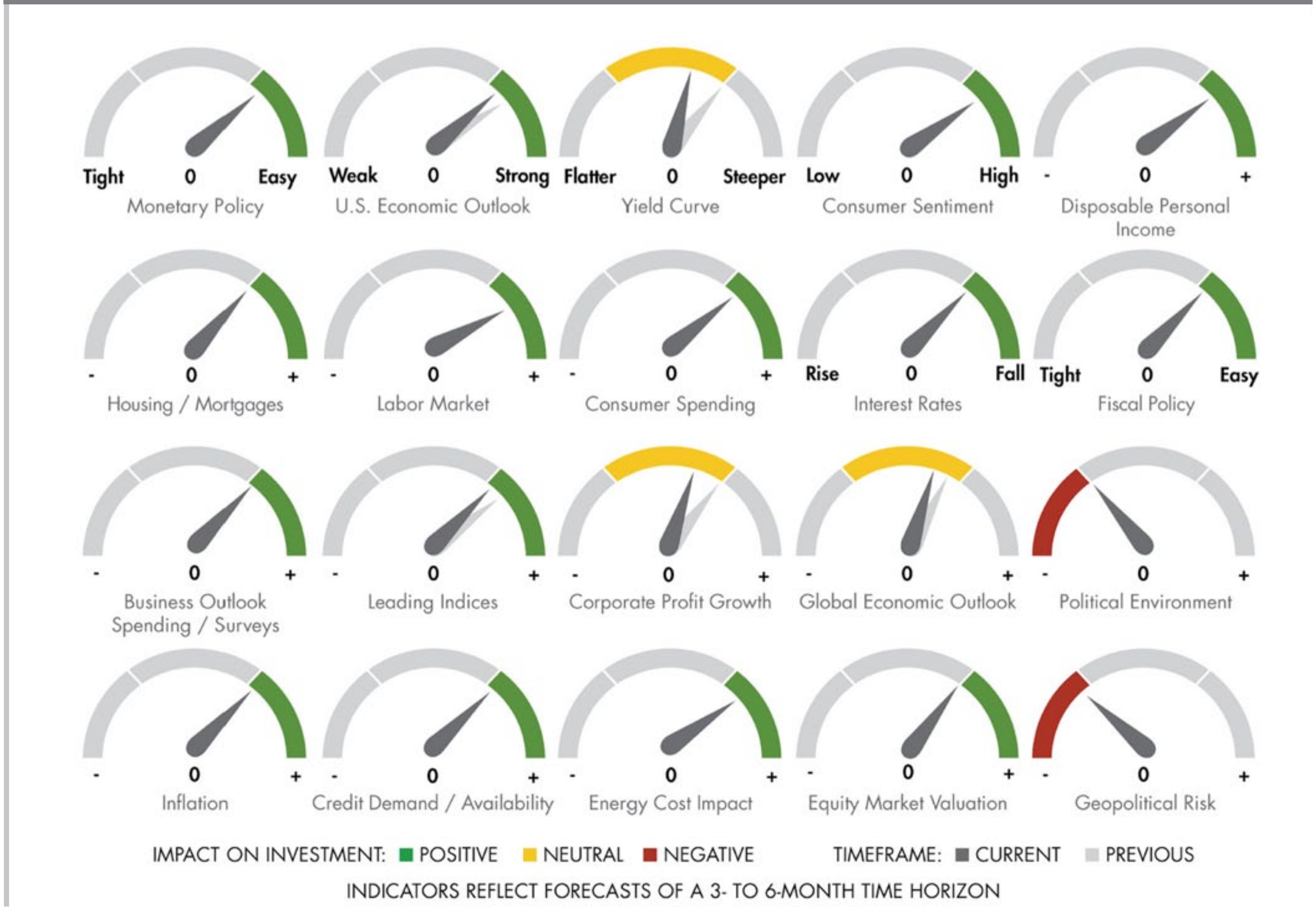


CHART E

SOURCE: https://www.cnr.com

The trading relationship between the U.S. and China continues to evolve. Considering the U.S. and China trade more than $700 billion annually, investors are trying to figure out what's ahead for the two superpowers.

China is not the only trade relationship the Trump Administration is reevaluating. Late last year, the U.S., Mexico, and Canada signed a new trade proposal that would replace the North American Free Trade Agreement. Each country's legislative branch has to ratify the agreement before the new trade agreement can be implemented.

The Administration has also worked on trading relationships with other countries in recent months.

The question some have been asking is, "Are trade tensions a short-term trend or a long-term reality?" There's no clear answer to that question yet.

SOURCES:

>> https://www.ftportfolios.com/Commentary/EconomicResearch/2018/6/25/no-more-kid-gloves

>> Office of the United States Trade Representative, The People's Republic of China, 2019

>> Office of the United States Trade Representative, Canada & Mexico, 2019

>> https://www.nytimes.com/2019/05/31/business/mexico-tariffs-donald-trump.html

Let's spend a few minutes on the Federal Reserve and how it's monetary policy can influence market performance.

Let's start in 2015, when the Federal Reserve started to tighten monetary policy by raising short-term rates to 0.5 percent on December 15. That was the first increase in more than seven years. Moving to 2018, the Fed raised interest rates four times: in March, June, September, and December. By year's end, the benchmark federal funds rate was at 2.5 percent.

Late last year, the financial markets had lost a bit of confidence in the Fed's decision-making. In the fourth quarter of 2018, the S&P 500 had dropped nearly 14 percent, amid concerns of an economic slowdown and fear that the Federal Reserve might be making a monetary policy mistake.

In early January 2019, the Fed started giving signals that it would "watch and see" how the economy evolved and suggested it would "ease the rate of interest rate hikes if the economy falters." Wall Street cheered the news, and stocks roared higher in January.

SOURCES:

>> https://www.thebalance.com/fed-funds-rate-history-highs-lows-3306135

>> https://www.bostonglobe.com/business/2019/01/31/delivers-biggest-monthly-gain-since/BKTzYZj4uz4D2ApeKaLhWM/story.html

>> https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130a.htm

>> https://tradingeconomics.com/united-states/interest-rate (accessed 6/25/19)

>> https://www.cnbc.com/2018/12/31/stock-market-wall-street-stocks-eye-us-china-trade-talks.html

EARNINGS RULE MARKET

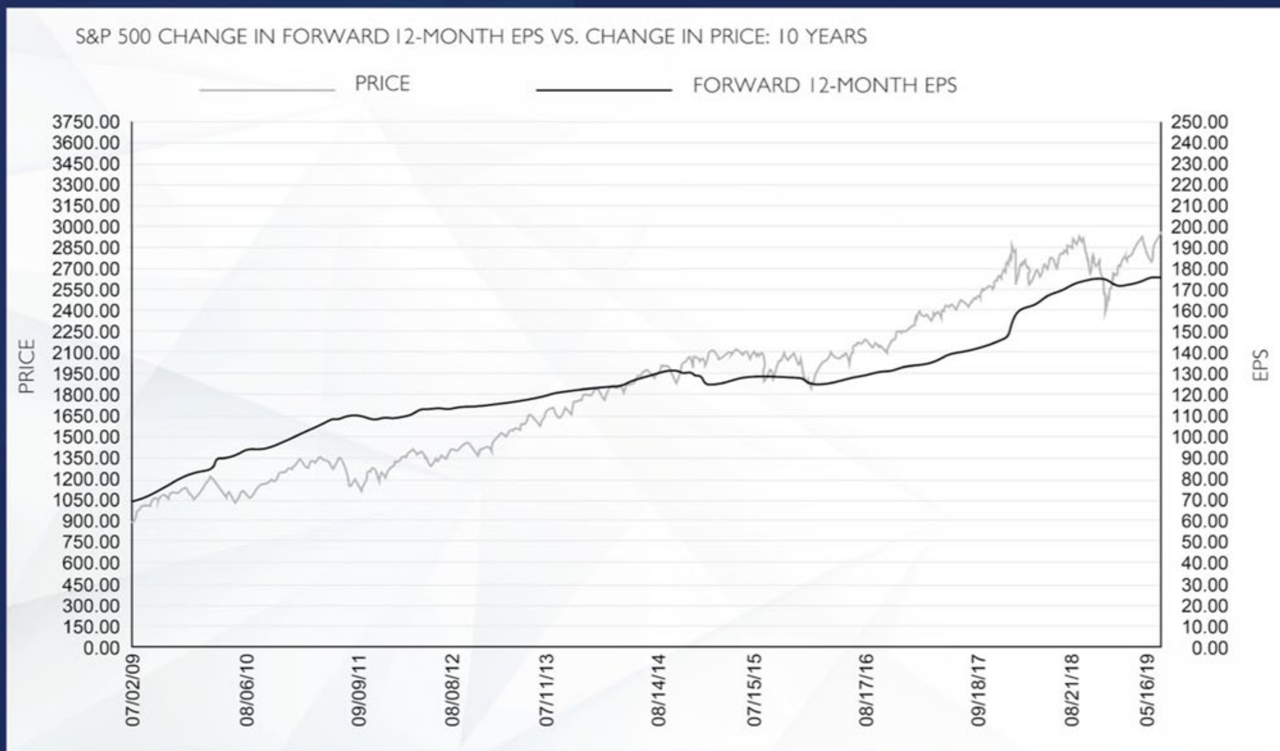


CHART F SOURCE: https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20InsightEarningsInsight_061419A.pdf

The relationship between changes in S&P 500 performance and the 12-month forward EPS or earnings per share (**Chart F**) tells us what to expect with rising or falling corporate profits on a long-term basis.

As you can see, the two lines have generally moved in the same direction over the past decade.

What does this chart suggest? Stock prices appear to move in step with corporate profits, which have been improving over the past 10 years.

SOURCE:

>> https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_061419A.pdf

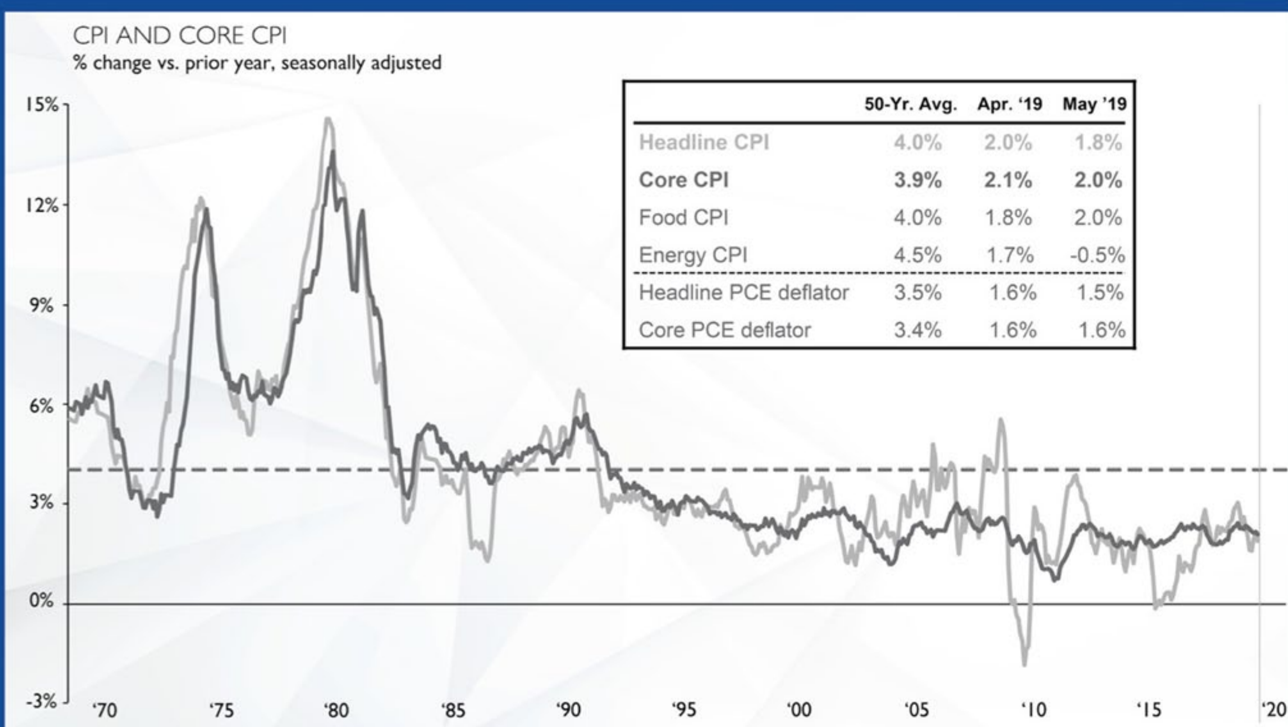
More on the Fed. At the highest level, the Federal Reserve has three functions: provide an effective payments system for the U.S., regulate banking operations, and conduct monetary policy.

Within monetary policy, the Fed is tasked with supporting "maximum employment, stable prices, and moderate long-term interest rates."

As it works to uphold its monetary policy goal, one of the indicators the Fed monitors is the overall level of consumer prices, which helps to determine whether to adjust interest rates. The Fed has stated that it's comfortable with inflation in the 2-percent range.

This line graph (**Chart G**) shows Core Consumer Price Index (Core CPI) over the past 50 years. The Core CPI tracks what urban

INFLATION TREND



	50-Yr. Avg.	Apr. '19	May '19
Headline CPI	4.0%	2.0%	1.8%
Core CPI	**3.9%**	**2.1%**	**2.0%**
Food CPI	4.0%	1.8%	2.0%
Energy CPI	4.5%	1.7%	-0.5%
Headline PCE deflator	3.5%	1.6%	1.5%
Core PCE deflator	3.4%	1.6%	1.6%

CHART G

SOURCE: http://quotes.morningstar.com/indexquote/quote.html?t=SPX&region=usa&culture=en-US

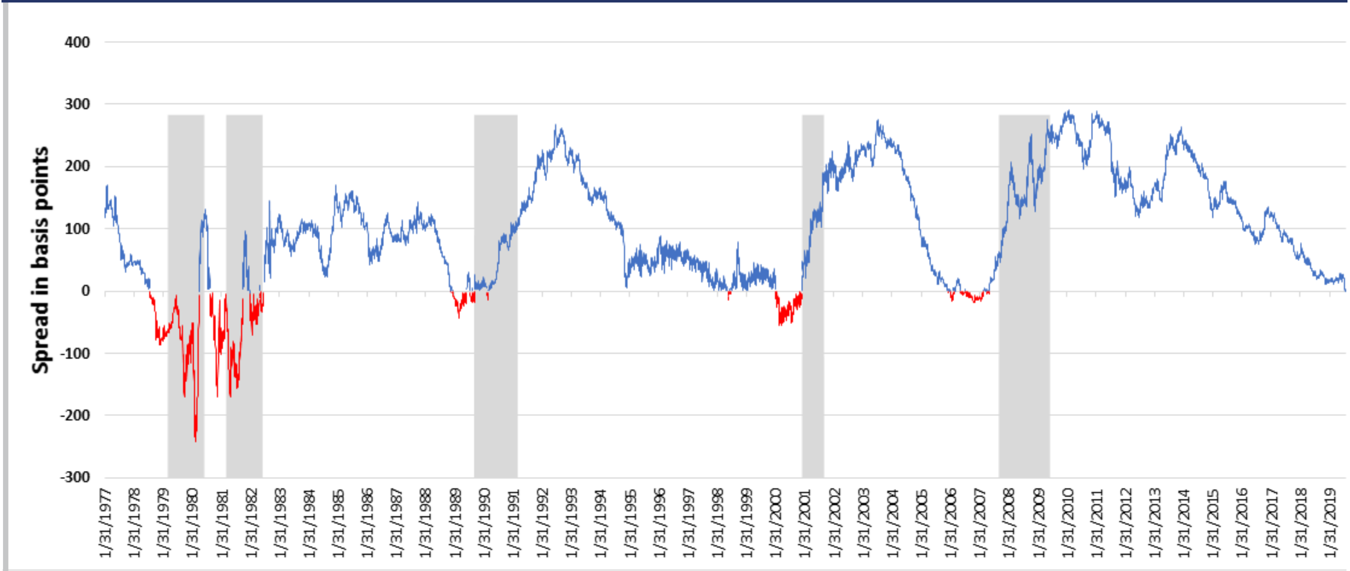
consumers pay for a specific group of goods. This measurement doesn't include energy or food because their prices are often volatile. Some economists use this index to track inflation.

As you can see in this chart, Core CPI in May was in the 2-percent range—right in line with the Fed's target.

We can not move beyond talk of the Fed without rementioning the Yield Curve Inversion, as touched on in my opening remarks. The yield curve inversion, rivaled only by China and tarrifs—was the largest sound-byte in capital markets, last quarter—and will continue to be the focus for some time. Again, recession is NOT imminent, but our team is predicting an economic slowdown in the economy and a potential sell-off in markets in the next 12 to 18 months. It is uncertain if the yield curve is validating those sentiments, or simply a head-fake. To be sure, the yield curve needs to sustain inversion for the yield curve recession data to be credible.

As you can see in **Chart H** (next page), which shows the spread between the 10-year and two-year US Treasuries since 1977, there have been periods where the yield curve briefly inverted and then returned to normal. For example, the curve was inverted in June and July of 1998, but returned to normal by August, which was more than two and half years before the next recession began in March 2001. The curve also briefly inverted in December 2005, which was two years prior to the most recent recession that began in December 2007. It is also worth noting that the data below relies on closing prices and does not show inversions that reverse intraday.

10-YEAR/TWO-YEAR US TREASURY SPREAD



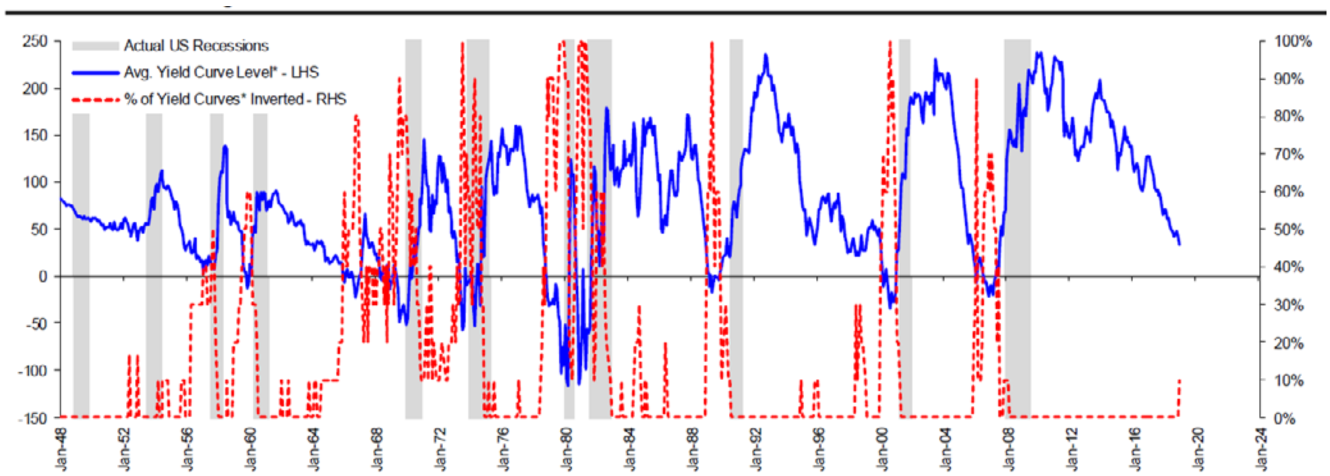
*Shaded regions denote U.S. recessions.
Data Source: U.S. Treasury and the Federal Reserve

CHART H

If we could add in all of the intraday inversions, it's likely we would find many more instances of inversions that did not closely precede a recession. For instance, in December 1994, the two-ten spread got below 10 basis points based on closing values. With additional data, we might very well find that there was an intraday inversion like the one that occurred yesterday around this period, and of course, the 2001 recession was still more than six years away. The point here is that almost all of the data cited when discussing yield curve inversions and recessions is based on daily, monthly, or even quarterly closing values and by any of these metrics, an inversion has not even occurred, so, announcing the next recession is at hand may be a bit premature.

Although it is perhaps the most widely cited relationship by the financial media, the preferred relationship for inversion-as-an-indicator-of-recession for the Federal Reserve and many econo-

U.S. AVERAGE YIELD CURVE LEVEL & RECESSIONS



*Looking at all yield curve combinations between 3M, 2Yr, 5Yr, 10Yr, and 30Yr yields

Source: Scotiabank GBM Portfolio Strategy, Bloomberg, NBER, Federal Reserve.

CHART I

mists is not the two-year vs. 10-year yield spread, but the three-month vs. 10-year yield spread. The bad news here is that the three-month vs. 10-year curve has been inverted for some time now. However, others have argued that, more than any single relationship being inverted, the overall level of inversion across the yield curve is a more reliable indicator. Intuitively this makes sense—generally speaking, it is typically prudent not to rely too heavily on any one data point. Relying on additional data points seems especially advisable now, as many economists have argued that the Fed's quantitative easing program has put downward pressure on longer-term yields, altering the "natural" state of the yield curve, and inducing inversions that would not have occurred otherwise. As the graphic from Scotiabank above shows (**Chart I**), since the late 1960s we have generally seen 80%, 90%, or even 100% of the yield curve become inverted ahead of a recession.

U.S. AVERAGE YIELD CURVE LEVEL & RECESSIONS

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr	
8/14/2019	1.98	1.98	1.96	1.92	1.79	1.58	1.53	1.51	1.55	1.59	1.84	2.03	
		0	-0.02	-0.06	-0.19	-0.4	-0.45	-0.47	-0.43	-0.39	-0.14	0.05	X - 1 MO
			-0.02	-0.06	-0.19	-0.4	-0.45	-0.47	-0.43	-0.39	-0.14	0.05	X - 2 MO
				-0.04	-0.17	-0.38	-0.43	-0.45	-0.41	-0.37	-0.12	0.07	X - 3 MO
					-0.13	-0.34	-0.39	-0.41	-0.37	-0.33	-0.08	0.11	X - 6 MO
						-0.21	-0.26	-0.28	-0.24	-0.2	0.05	0.24	X - 1 YR
							-0.05	-0.07	-0.03	0.01	0.26	0.45	X - 2 YR
								-0.02	0.02	0.06	0.31	0.50	X - 3 YR
									0.04	0.08	0.33	0.52	X - 5 YR
										0.04	0.29	0.48	X - 7 YR
											0.25	0.44	X - 10 YR
												0.19	X - 20 YR
											Inverted	23	
											Total	66	
											Percent Inverted	34.85%	

Data Source: treasury.gov

CHART J

Looking at the yield curve as of the close on 8/14 (I couldn't resist adding Q3 data, herein), we find that 35% of the yield curve is currently inverted if we look at every maturity that is currently issued. If we look only at the maturities in the previous graphic—the three-month, two-year, five-year, 10-year, and 30-year yields—that number is higher at 60%, but still well below the 90% to 100% levels we have seen ahead of prior recessions.

U.S. AVERAGE YIELD CURVE LEVEL & RECESSIONS

Date	3 Mo	2 Yr	5 Yr	10 Yr	30 Yr	
8/14/2019	1.96	1.58	1.51	1.59	2.03	
		-0.38	-0.45	-0.37	0.07	X - 3 MO
			-0.07	0.01	0.45	X - 2 YR
				0.08	0.52	X - 5 YR
					0.44	X - 10 YR
			Inverted		6	
			Total		10	
			Percent Inverted		60.00%	

Data Source: treasury.gov

CHART K

Bottom line on interest rates: they remain low and the inversion isn't yet sustained enough to warrant near recession woes. In Q3, should we see an extended period of inversion, statistics suggest that a recession could occur within nine to 18 months.

SOURCES:

>> Q3 2018 JPM Guide to the Markets, https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

>> https://www.federalreserve.gov/faqs/money_12848.htm

>> http://www.investopedia.com/ask/answers/12/inflation-interest-rate-relationship.asp

>> https://fred.stlouisfed.org/series/CPILFESL

WAGES AND UNEMPLOYMENT

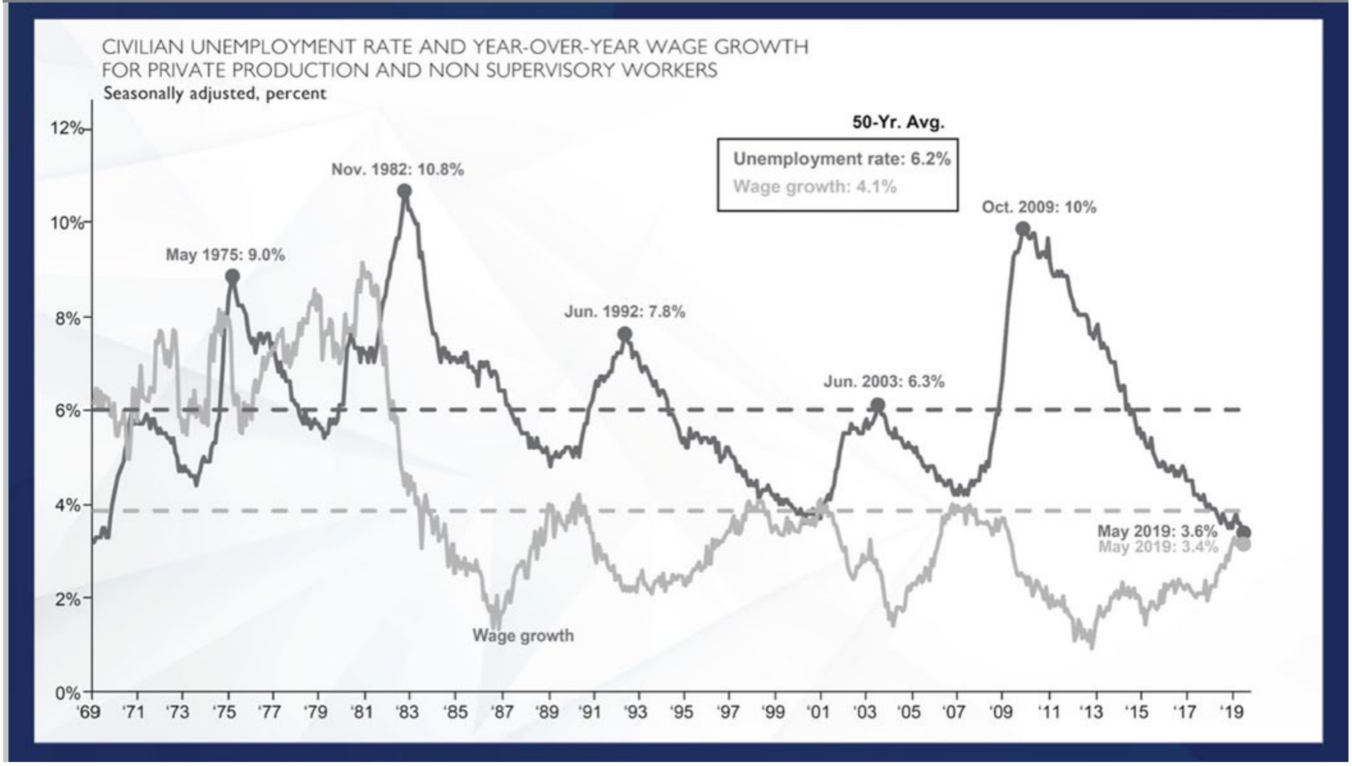


CHART L

SOURCE: BLS, FactSet, J.P.Morgan AssetManagement. Guide to theMarkets - U.S. Data are as of June 30, 2019.

Let's take a moment to talk about wages and unemployment. This graph shows the unemployment rate and year-over-year wage growth for the past 50 years. Do you notice anything about how these two lines relate to one another?

Most of the time, wages and unemployment have an inverse relationship: When one goes up, the other goes down.

Right now, the unemployment rate in the U.S. continues to be low. In May, it reached 3.6 percent, which is the lowest rate since 1969.

At the same time, wages are increasing. In May 2019, wages were also 3.1 percent higher than they were the same time last year.

The Federal Reserve also keeps a close eye on wages and the unemployment rate, so they can better gauge the impact of an adjustment in interest rates.

SOURCES:

>> https://www.bls.gov/opub/ted/2019/unemployment-rate-unchanged-at-3-point-6-percent-in-may-2019.htm?view_full

>> https://www.cnbc.com/2019/06/07/nonfarm-payrolls-unemployment-rate-may-2019.html

>> https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

The University of Michigan Consumer Sentiment Index is one of the most widely used sources to help analysts get a grasp on

THE INDEX OF CONSUMER SENTIMENT

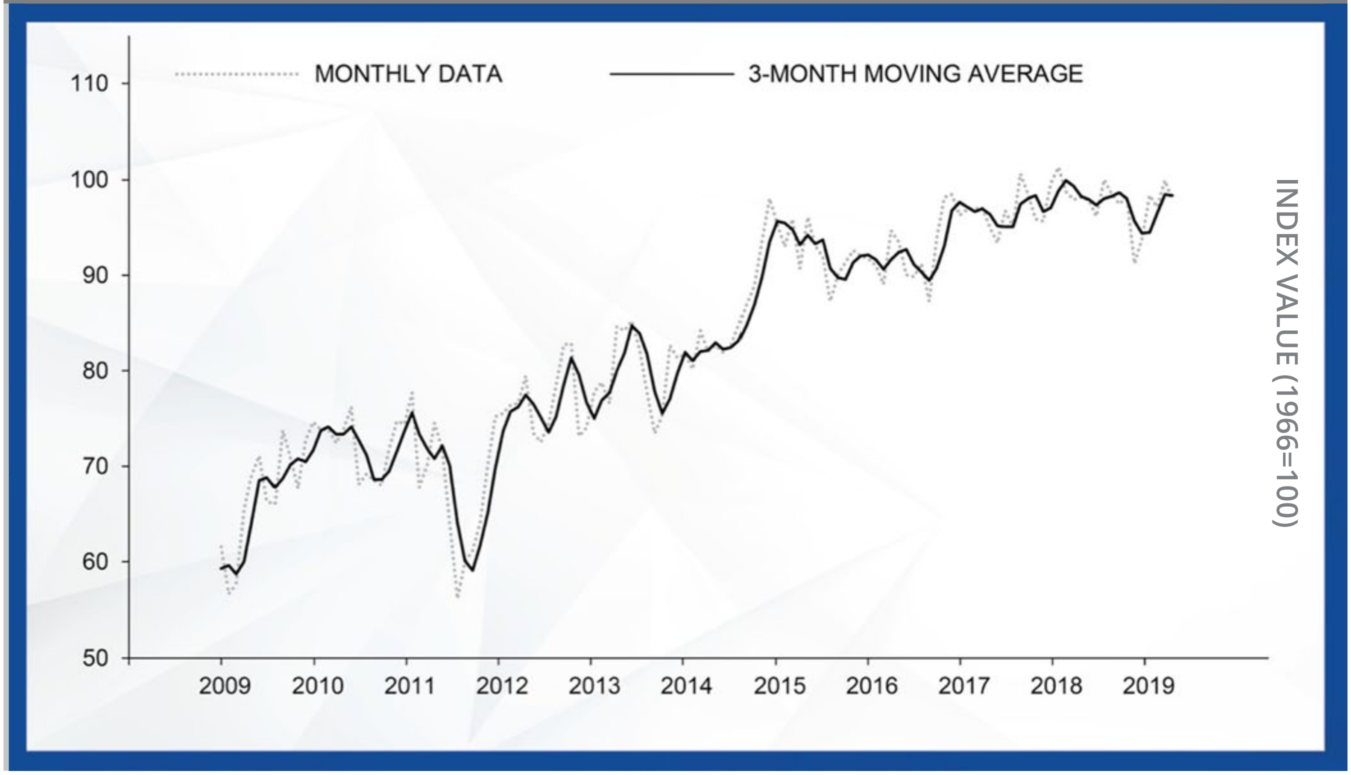


CHART M

SOURCE: http://www.sca.isr.umich.edu/files/chicsr.pdf. All data are as of June 30, 2019.

how the average consumer feels about the economy. To gain this insight, each month, at least 500 residents of the continental U.S. answer questions through telephone interviews.

The questions cover their opinions on the current and future states of their personal finances as well as business conditions in the country. Understanding how people feel about the economy is important because consumer spending accounts for more than two-thirds of the Gross Domestic Product.

Chart M shows a long-term uptrend in consumer sentiment. In recent years, however, consumer sentiment has been flat to slightly lower, as concerns about tariffs weigh on the minds of consumers. In its June report, for example, the University of Michigan reported that, "June's small overall decline was entirely due to households with incomes in the top third of the distribution, who more frequently mentioned the negative impact of tariffs, cited by 45%, up from 30% last month."

SOURCES:

>> https://www.investopedia.com/articles/general/092713/how-read-michigan-consumer-sentiment-index.asp

>> http://www.sca.isr.umich.edu/

>> http://www.sca.isr.umich.edu/files/chicsr.pdf

EXISTING HOME SALES

CHART N

SOURCE: https://www.marketwatch.com/story/existing-home-sales-rebound-in-may-2019-06-21

This chart (**N**) shows the annualized rate of existing home sales. As you can see, the pace of sales has picked up since the beginning of 2019. But we're far from the levels seen in 2004 and 2005.

Looking at the chart, can anyone tell me why the chart dipped in late 2017/2018?

The Mortgage Bankers Association attributes the dip to the Tax Cuts and Jobs Act of 2017, which capped the state and local tax deduction (SALT) at $10,000. Under the new law, taxpayers are allowed to deduct a maximum of $10,000 for all state and local taxes paid in a tax year—including property tax. The law is scheduled to expire on December 31, 2025.

Here's a pop quiz: ***Are existing home sales a leading economic indicator or a lagging economic indicator?***

Before you answer, here's the definition: Leading economic indicators are statistics that tend to precede overall economic trends. Building permits, for example, tend to be a leading indicator of new home construction. Lagging indicators are statistics that tend to follow a particular economic trend.

So, can anyone tell me if Existing Home Sales are a lead or lag indicator? Existing home sales are a lagging indicator because they tend to be influenced by changes in mortgage rates.

Overall, the housing sector remains strong. The inventory of available homes remains relatively low, and prices continue to rise. For example, in May 2019, the price of existing homes increased for the 87th month in a row.

SOURCES:

- >> https://www.marketwatch.com/story/existing-home-sales-rebound-in-may-2019-06-21
- >> https://www.creditkarma.com/tax/i/property-tax-deduction-cap/

HOUSING AFFORDABILITY INDEX

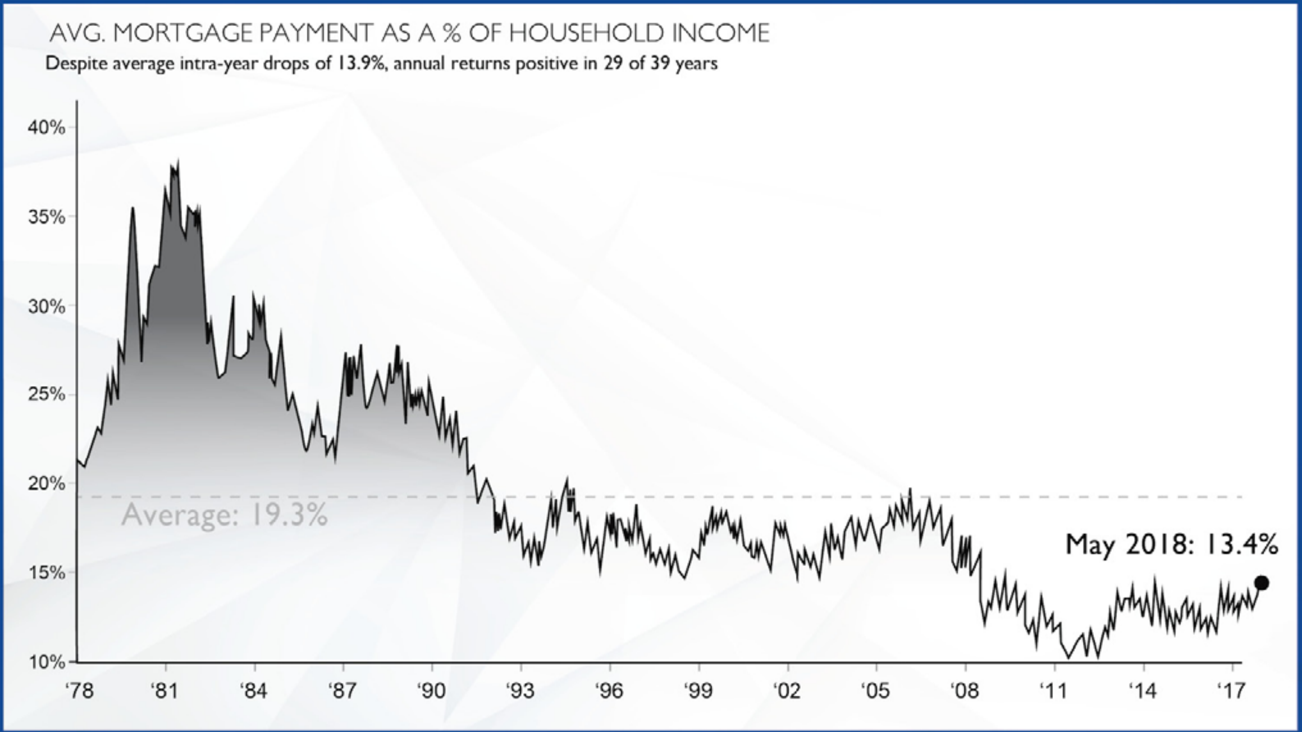


CHART O

SOURCE: J.P. Morgan Asset Management; FactSet; Freddie Mac; BEA, Census Bureau, National Association of Realtors; Ellie Mae, J.P. Morgan Securitized Product Research. Monthly mortgage payment assumes the prevailing 30-year, fixed-rate mortgage rates and average new home prices, excluding a 20-percent down payment. Guide to the Markets - U.S. Data are as of June 30, 2018.

The Housing Affordability Index shows a critical trend.

The previous image showed that home prices are trending higher. Slowly, but trending higher, nonetheless. The Housing Affordability Index (**Chart O**) shows mortgage payments compared to household income. According to the Housing Affordability Index, the average mortgage payment as a percentage of household income is at 13.4 percent—below the 50-year average of 19.3 percent.

SOURCE:

>> **Q3 2018 JPMorgan Guide to the Markets,** https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

Before we move on to our forecasts for the 2nd half of 2019, let's take a moment to imagine two versions of what we could experience in the future:

First, an optimistic view would have major trading deals coming together, global growth picking up, and U.S. economic growth continuing.

Second, a more pessimistic view would have tariffs hurting U.S. GDP, growth continuing to slow worldwide, and the U.S. entering a recession.

Of course, no one can predict exactly what will happen in the future, but we hope the following perspectives may help you understand what we believe may be on the horizon.

S&P 500: BOTTOM-UP TARGET PRICE

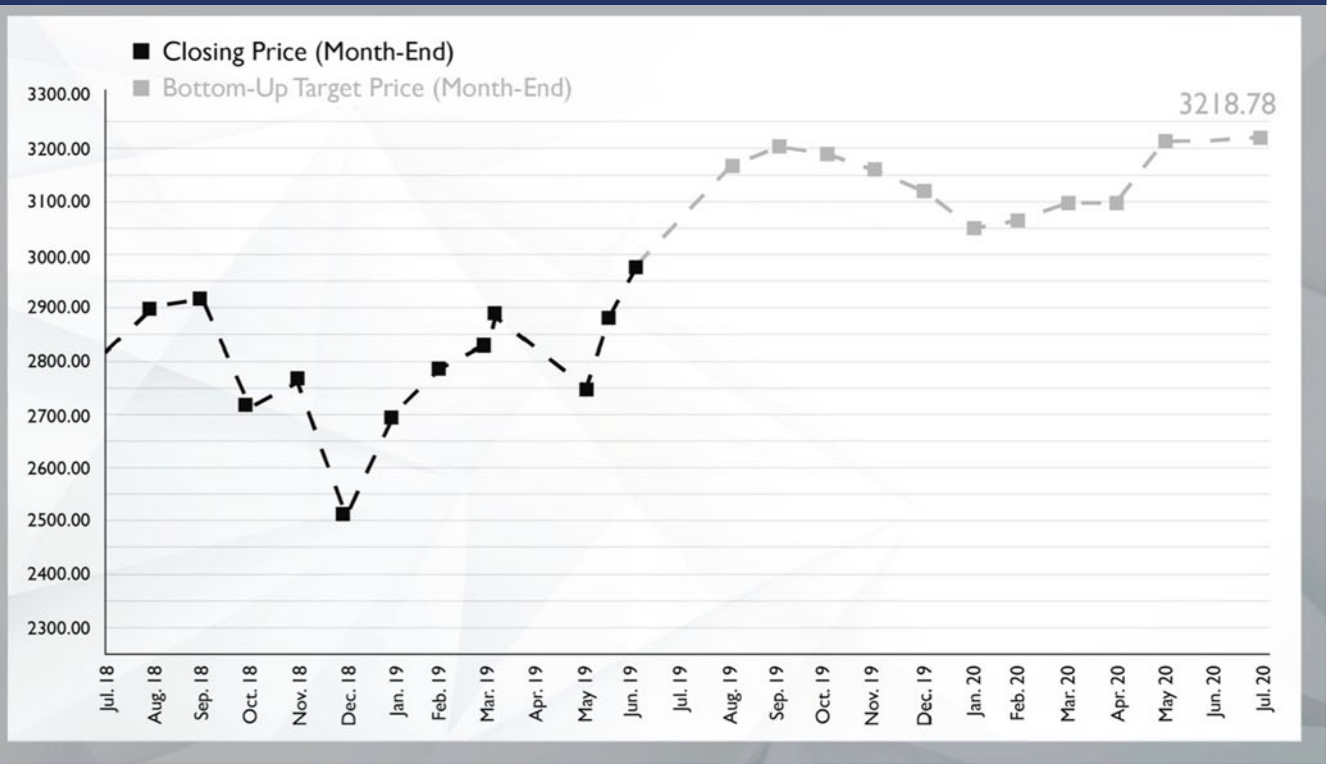


CHART P

SOURCE: https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_070319.pdf

Some market strategists employ what's called a "Bottom-Up Target Price" to set their price target for the S&P 500 index.

When setting a "Bottom-Up Target Price," market strategists focus their attention on estimating earnings for all of the S&P 500 companies. By contrast, a top-down investing target price would place a greater emphasis on macroeconomic factors, for example, when making an investment forecast.

Chart P shows the expected price target of the S&P 500, based on earnings estimates for the 500 companies. But a word of caution on this type of analysis. Market strategists typically overestimated the future closing price of the S&P 500. "Over the past five years, the average difference between the bottom-up target price estimate at the end of the month and the closing price 12 months later has been 2.2%," according to FactSet research. In other words, market strategists are optimistic.

Here are things to keep in mind: First, past performance does not guarantee future results. Second, individuals cannot invest directly in an index. And third, the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

SOURCE:

>> https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_070319.pdf

In the 1st quarter of 2019, the Gross Domestic Product (GDP) increased by 3.1 percent. The Bureau of Labor Statistics attributed the increase to an upturn in state and local government spending, which helped offset a deceleration in personal consumption expenses. Keep in mind, real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year.

This chart (**Q**) shows the median GDP projections from the Federal Reserve Open Market Committee (FOMC) for 2019, 2020, 2021, and the longer run.

As you can see, the FOMC expects the GDP to continue expanding for the next couple years and beyond. However, the projected

CHANGE IN REAL GDP

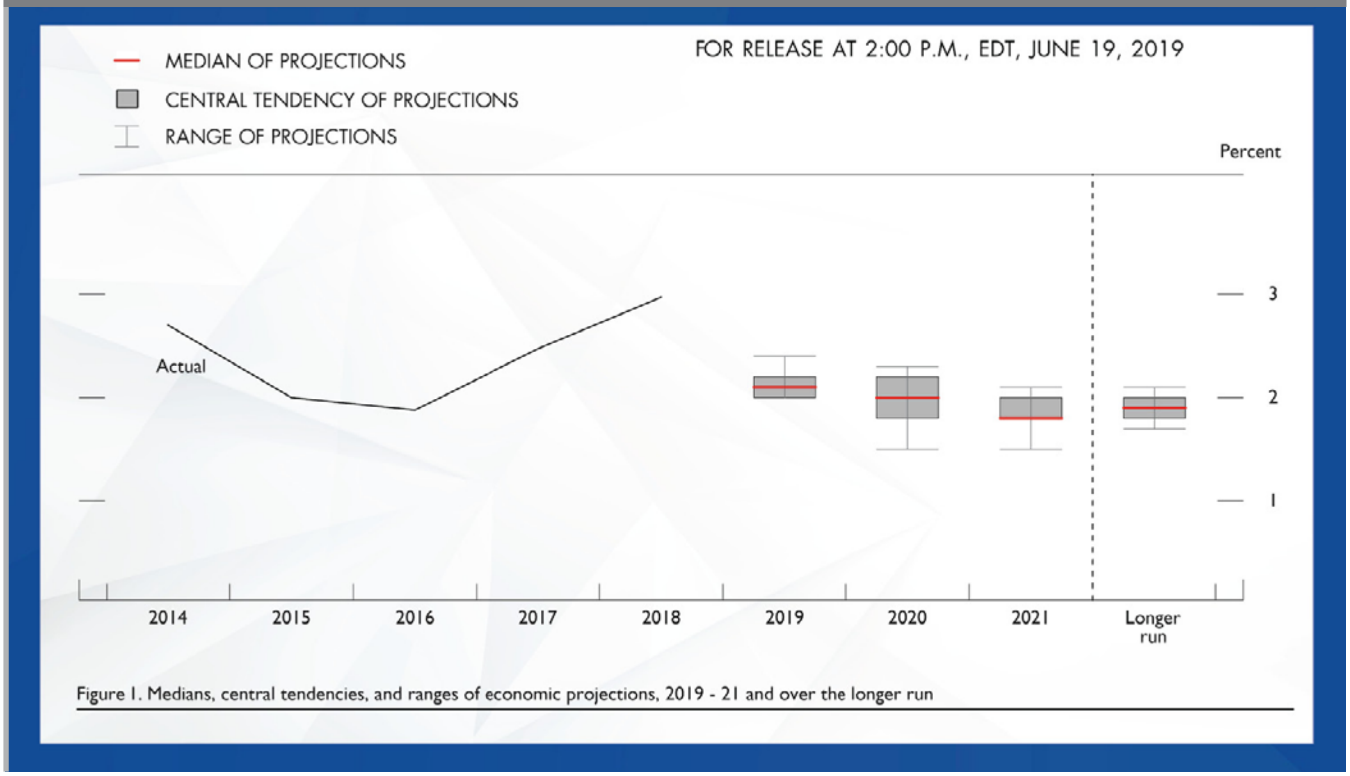


CHART Q

SOURCE: https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190619.pdf pace is slower than the 3.1-percent gain in the first quarter. It's important to remember that the FOMC is constantly reviewing economic indicators and may raise or lower its longer-term forecasts as it evaluates economic forces.

The next two years' estimates continue this gradual slowing, with 2020 projected to have 1.5 percent to 2.3 percent annual growth and 2021 projected to hit 1.5 percent to 2.1 percent annual growth.

SOURCES:

>> https://tradingeconomics.com/articles/03282019123418.htm

>> https://www.bea.gov/news/2019/gross-domestic-product-1st-quarter-2019-second-estimate-corporate-profits-1st-quarter

>> https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190619.pdf

As a wise market strategist once said, "stock prices are based on earnings and what price people are willing to pay for those earnings."

CORP. PROFITS: S&P 500 EARNINGS PER SHARE

CHART R

SOURCE: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management; Federal Reserve, S&P 500 individual company 10k filings, S&P Index Alert.

This chart shows the trend in S&P 500 operating earnings and the S&P consensus analyst estimates for the rest of 2019.

In the first quarter of 2019, the S&P 500 operating earnings consensus was $37.99. For the next three quarters, analysts are projecting higher earnings for the S&P 500. Will the market hit those numbers? Time will tell. But remember, history shows that market strategies tend to be optimistic with forecasts. If analysts see a change in economic conditions, they may raise or lower their forecast for operating earnings.

SOURCES:

>> Q3 2018 JPMorgan Guide to the Markets, https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer

>> https://insight.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_070618.pdf

As we discussed earlier, the Fed is watching the economy as they assess whether to adjust interest rates.

So, what could be ahead?

The Federal Reserve Open Market Committee is scheduled to meet four more times in 2019:

- **July 30 – 31**
- **September 17 – 18**
- **October 29 – 30**
- **December 10 – 11**

Typically, if the Fed is going to make an adjustment to interest rates, they announce the change following their two-day meetings.

SOURCES:

>> https://tradingeconomics.com/united-states/interest-rate (accessed 6/25/19)

>> https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

INTEREST RATES AND EQUITIES

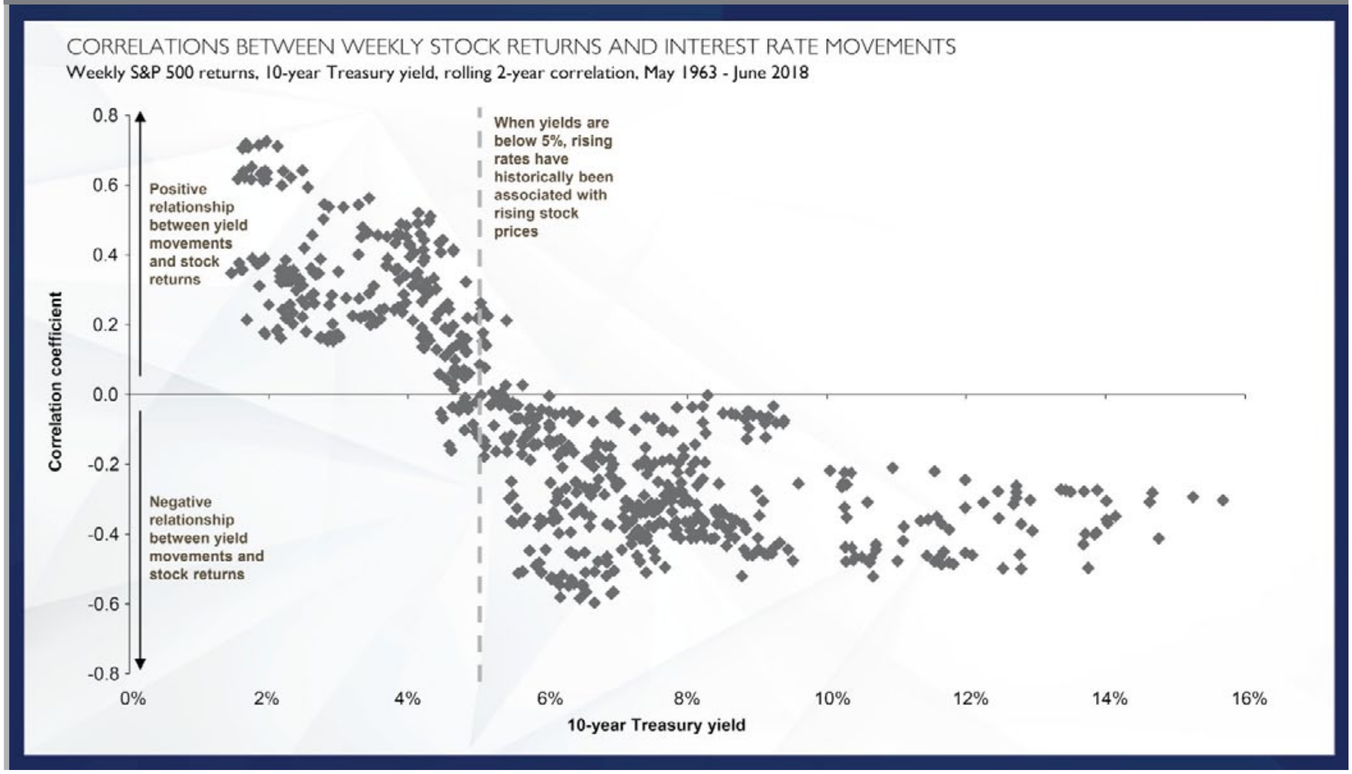


CHART S

SOURCE: FactSet, FRB, Standard & Poor's, J.P. Morgan Asset Management.

Ultimately, rising interest rates are a sign that the economy is doing well. The Federal Reserve will raise interest rates to help moderate economic growth.

But what exactly happens when interest rates rise? Let's look at **Chart S**.

The dotted line represents a 5-percent yield on a 10-year Treasury note. If you look at the placement of the diamonds, you'll see that most of them cluster in the upper left and lower right quadrants. This pattern shows us that when rates are below 5 percent, equities tend to have a positive correlation with interest rate movements. But when rates are above 5 percent, equities tend to have a negative correlation with interest rate movements.

One of the reasons we like to show this chart is that it highlights some of the in-depth research that Wall Street firms undertake when evaluating stock prices and interest rates. The firms have a tremendous amount of market data, which helps them take a critical view of the financial markets and provide the research to financial professionals, who in turn, can pass it on to individuals who may need help managing their portfolios.

Is the chart suggesting what's ahead for the financial markets? It's providing a historical perspective about the relationship between interest rates and stock prices. But as we've explained before, past performance does not guarantee future results.

SOURCE:

>> **JP Morgan Guide to the Markets® U.S. Q3 2018, https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer**

News outlets need to pull in viewers, and they do this by turning minor events into breaking news headlines.

This landmark research shows the S&P 500 price performance between 2004 and 2014 as well as CNBC viewership over the same period. Do you see a correlation?

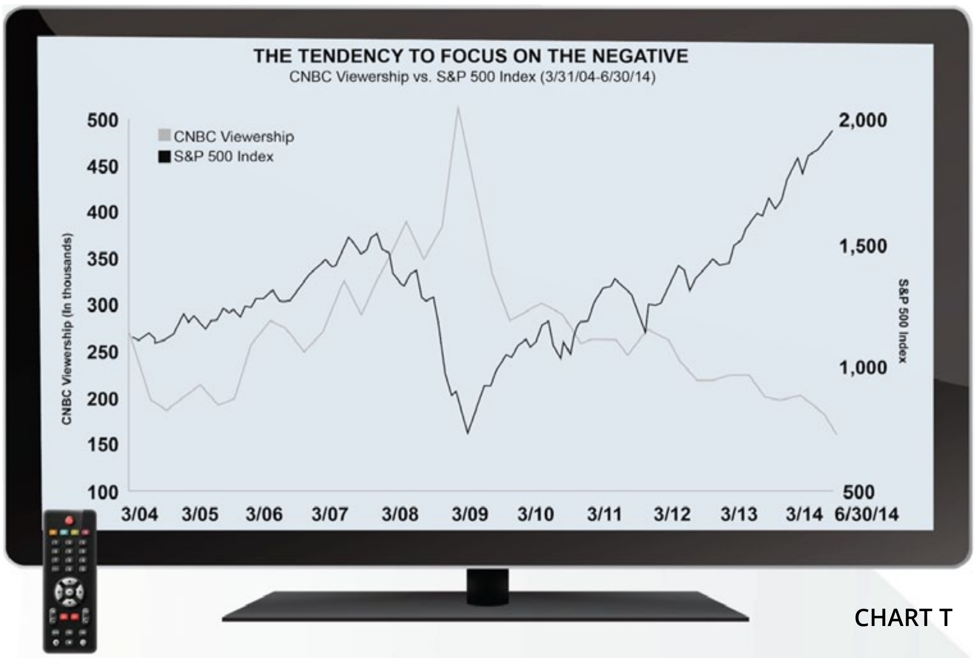


CHART T

Notice how viewership spiked as the stock market fell during the financial crisis. People tend to watch the news in times of crisis. On the other hand, viewership drops as market performance improves.

So, remember this chart the next time a talking head is presenting some bleak news about current events. Drama may increase viewership, but the markets have other drivers.

SOURCE:

>> https://www.hartfordfunds.com/dam/en/docs/pub/funddocuments/brochures/mf916.pdf

>> https://www.zerohedge.com/news/2017-09-28/cnbc-viewership-drops-22-year-low

The Bottom Line; Q2 Alphavest (AV) 2019 Performance:

PERFORMANCE MONTH ENDING 06/30/2019			
PORTFOLIOS / ALLOCATIONS	**MONTH**	**3 MONTHS**	**1 YEAR**
All Weather	5.21	2.65	8.04
Aggressive	6.60	3.21	5.21
Moderate Aggressive	5.74	2.67	3.26
Moderate	5.00	2.12	1.09
Moderate Conservative	3.79	1.68	-0.25
Conservative	3.51	1.72	-0.28
STRATEGIES * **	**MONTH**	**3 MONTHS**	**1 YEAR**
Tactical	4.98	1.71	-1.18
Growth	7.01	3.59	6.81
Income	0.37	0.03	-4.70
MODELS	**MONTH**	**3 MONTHS**	**1 YEAR**
Tactical-Moving Averages	1.46	-1.90	-8.53
Tactical-Relative Strength	6.50	2.94	1.26
Tactical-Economic	6.99	4.10	3.72
Growth-Managed Growth	7.42	3.43	1.04
Growth-Equity Income	6.59	3.74	12.57
Income	0.37	0.03	-4.70
BENCHMARK INDEXES *	**MONTH**	**3 MONTHS**	**1 YEAR**
S&P 500	7.05	4.30	10.42
Dow Jones Industrial Average	7.28	3.02	11.41
Proshares Hedge Replication ETF (HDG)	2.43	1.55	2.02
SPDR Barclays Aggregate Bond ETF (AGG)	1.10	2.82	7.72
iShares S&P Aggressive Allocation (AOA) **	5.29	3.39	5.65
iShares S&P Moderate Aggressive Allocation (blend) **	4.23	3.25	6.16
iShares S&P Moderate Allocation (AOM) **	3.17	3.10	6.67
iShares S&P Moderate Conservative Allocation (blend) **	3.03	3.12	6.87
iShares S&P Conservative Allocation (AOK) **	2.89	3.14	7.06

STRATEGIES: Alphavest's 3 main strategies are identified as ***Tactical***, ***Growth***, and ***Income***. Investments are distributed evenly within the major strategies, unless otherwise indicated.

TACTICAL: Consists of 3 portfolio models weighted to suit risk allocations: Moving Averages, Relative Strength, and Economic. Each model uses different, clearly defined decision processes to make trades. Tactical models tend to be more actively traded than our Growth and Income models.

GROWTH: The Growth strategy is equal weighted in the Managed Growth and Equity Income models (50% each).

INCOME: A single portfolio model that uses relative strength matrices to evaluate a universe of income oriented ETFs. Matrix calculations determine which ETFs should be held on a monthly basis. A money market and bond market component are included in the matrix ranking methodology. The portfolio could be 100% invested in cash if money market ranks above all other components.

Alphavest Investment Models/Allocations

Risk Tolerance Group	1	2	3	4	5
Risk Score	0-34	35-43	44-55	56-74	75+

"AV-30" Conservative	"AV-40" Moderate Conservative	"Av-60" Moderate	"AV-80" Moderate Aggressive	"AV-100" Aggressive
40% Tactical 10% Growth 50% Income	60% Tactical 20% Growth 20% Income	50% Tactical 35% Growth 15% Income	30% Tactical 60% Growth 10% Income	20% Tactical 80% Growth

All Weather
Adjust Monthly between Conservative, Moderate, and Aggressive based on Composite Score between 4 and 40

Unsure of your Risk Tolerance Group?

We have a new and improved sophisticated yet simple tool.
Click here to have your Risk Tolerance updated.

Resources:

Alpha-Track™

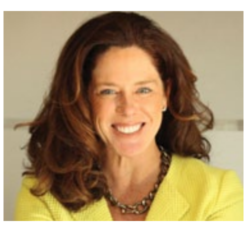
No longer do investors have to rely on outdated financial plans that reflect their financial situation at a particular point in the past. Spending, saving, and markets are constantly changing and so is your financial outlook. Alpha-Track™ tracks and monitors your financial outlook on a daily basis. **Available to clients only*

Check out our Resources page at **Alphavest.com** and explore the many ways in which we are empowering investors.

A Snapshot of What's There:

Perfect Day Connect. Liberate your life, relationships, and business in just 21-days with the PerfectDay Connect e-course.

FINRA Advisor Background check. FINRA reports that only a small percentage of investors check their advisor's record before making a switch. We run background checks on our employees, our childcare providers—why not run one, it's FREE—on the person who manages your money? Rest assured our record is spotless **(click here for Cokie's U4)**. The important feature of the report is that it will indicate "NO DISCLOSURES," which means no fraud or investor complaints.



Cokie Berenyi has been in financial services and serving the needs of individual and institutional clients and entrepreneurs since 1996. She is the founder of Alphavest, an industry pioneer that is right-sizing Wall Street one client at a time. She also is the author of *Perfect Day* and *The Liberated Investor*.

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