MARBLE TRAIL ADVISORS

Financial Planning & Wealth Management

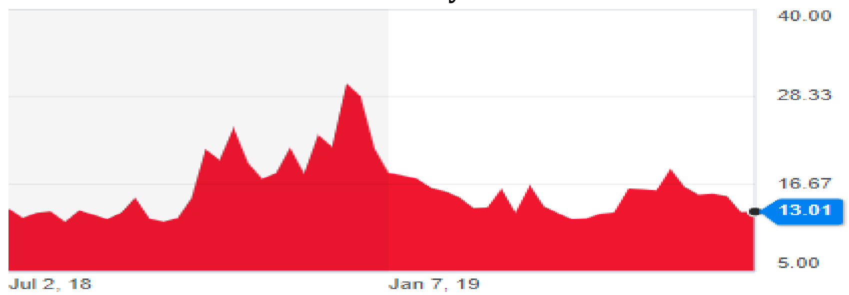
Market Update

2nd Quarter 2019

Global Stock Market Highlights

- Global stock markets continued to advance in the second quarter with respectable gains in both the U.S. and Europe. The S&P 500 gained 4%.
- Asia markets were relative laggards as trade weighed on China and its regional trading partners. Japan was also hit by a strengthening Yen.
- Most markets now up at least 10% year-over-year, but few outside the U.S. are trading at all-time highs. Stocks in those countries tend to be better bargains now than three years ago, something that cannot be said about the stock of large U.S. companies.

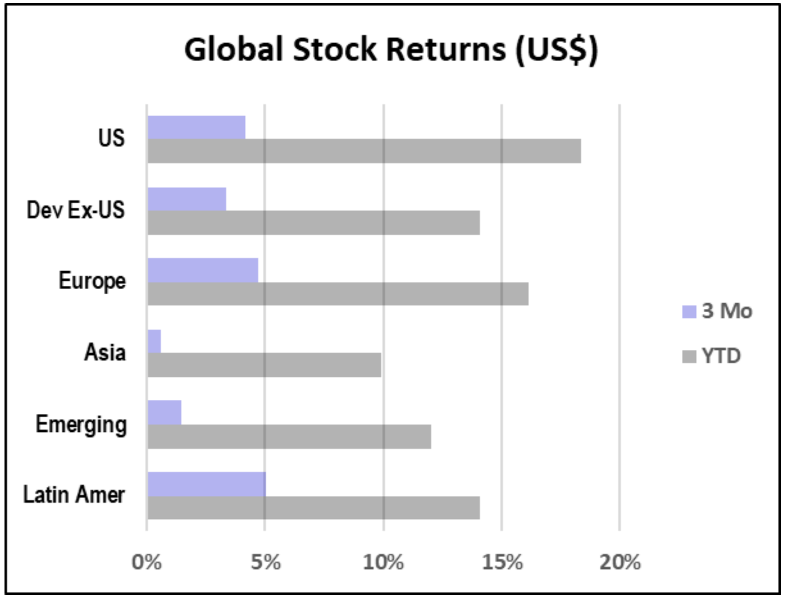
Vix Volatility Index



Source: Yahoo Finance

P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	20.3	20.4	19.3
Russell 2000 (Small)	16.6	18.3	18.9
Europe	15.3	15.2	17.5
Emerging Markets	12.9	14.0	13.2

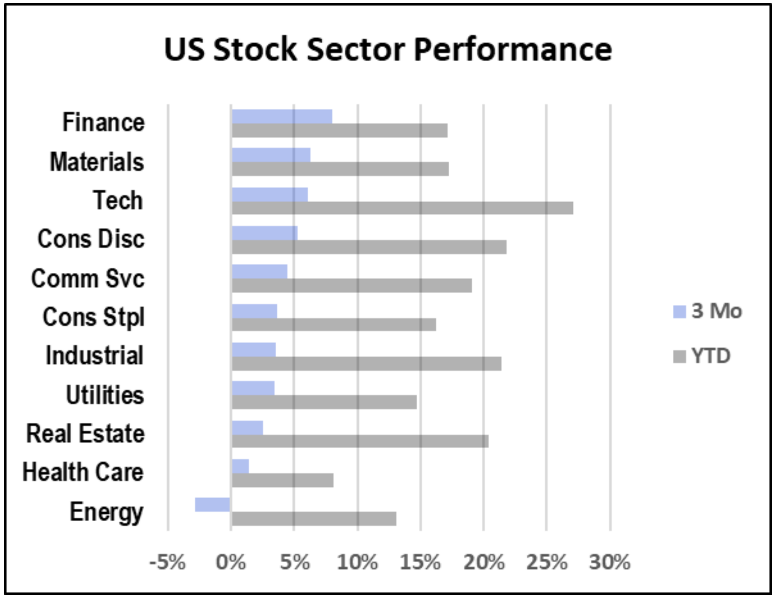
Source: Morningstar



Source: S&P Dow Jones

Stock Sector Highlights

- The quarter saw another broad-based rally, with only energy losing ground due to lower oil prices.
- Banks led the way as Q1 earnings held up to lower interest rates better than was expected. The sector remains attractively priced on a *relative* basis.
- The tech sector was supported by surging shares of Microsoft, now the world's most valuable company. Hardware companies like Intel that do lots of business with China did not share in the prosperity.
- Health care continued to lag as drug pipelines have generated fewer blockbusters of late and expectations for this pricey sector are being reset lower.



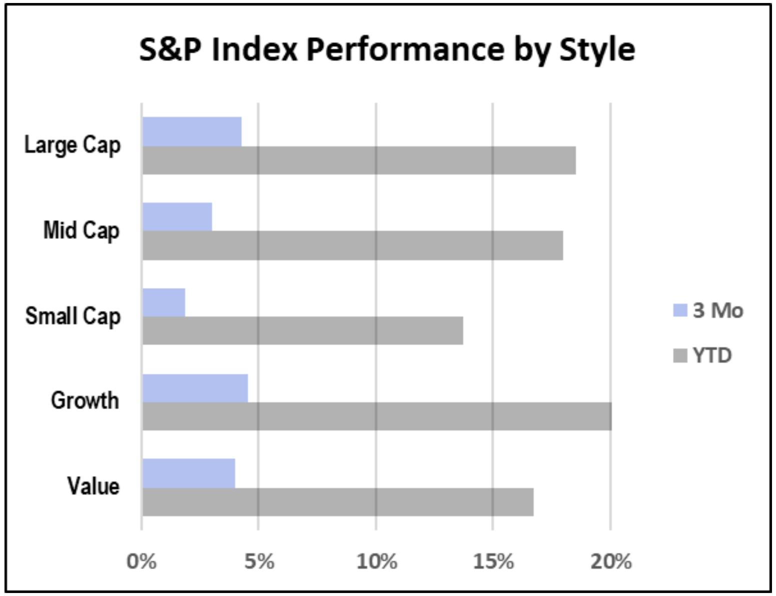
Source: S&P Dow Jones

	P/E Ratios			Yields	
Sector	**Current**	**1 Yr Ago**	**3 Years Ago**	**Current**	**3 Years Ago**
Communications Serv	20.7			0.8%	
Consumer Discretionary	23.3	20.5	19.9	1.3%	2.3%
Consumer Staples	21.4	20.5	24.3	2.8%	2.3%
Energy	16.0	19.2	25.4	3.3%	2.8%
Financials	13.4	14.4	14.1	2.0%	2.2%
Health Care	24.5	26.4	22.6	1.6%	1.5%
Industrials	19.0	19.1	18.5	2.0%	2.1%
Technology	22.8	22.4	18.9	1.3%	1.9%
Utilities	23.5	17.2	22.3	3.1%	3.1%
S&P 500	*20.3*	*20.4*	*19.3*	*2.0%*	*2.2%*

Source: Morningstar

Stock Market Performance by Style

- More of the same – large outperformed small and growth beat value. Large growth companies like Microsoft, Google and Facebook are seen as largely immune to the market's key fears of the moment: trade wars and a recession.
- The disparity in performance between growth and value rivals that seen only once before, in the dot-com boom of the 1990's.
- The winds of change may be blowing; public debate about whether vast tech companies are a force for good or ill is growing. Increased regulation is seriously on the table for the first time in decades.



Source: S&P Dow Jones

Style Box Valuation (P/E)

	Value	Blend	Growth
Large	15.3	18.9	24.4
Mid	15.8	20.6	28.6
Small	14.3	17.6	24.9

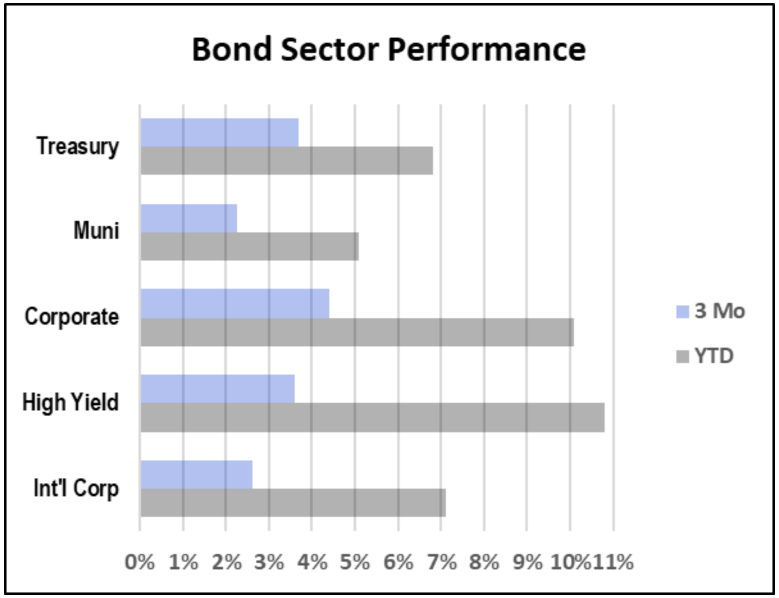
Source: Morningstar, Vanguard

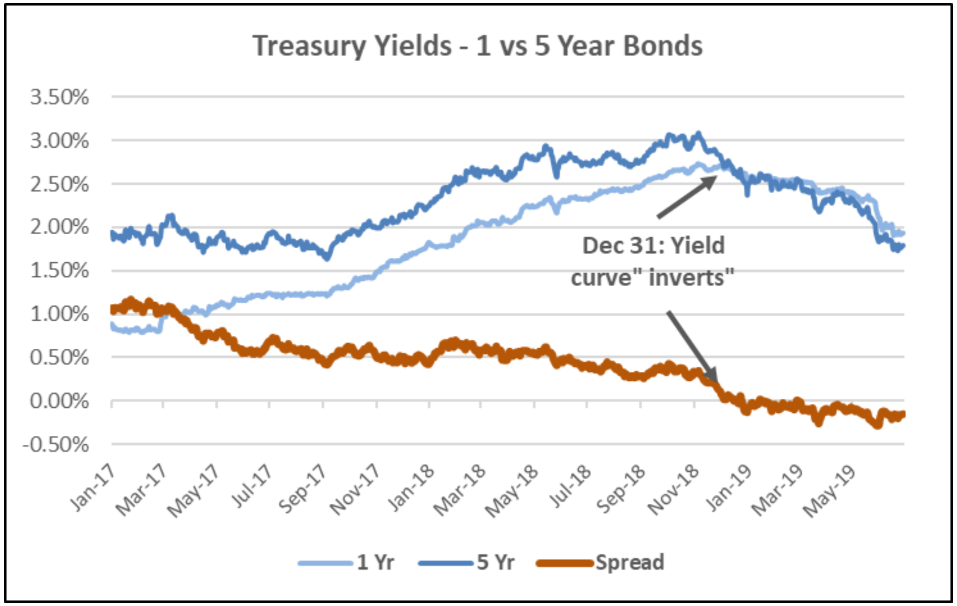
P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	20.3	20.4	19.3
Russell 2000 (Small)	16.6	18.3	18.9
Large Growth	24.4	25.6	23.0
Large Value	15.3	17.2	17.0
Small Growth	24.9	25.1	24.7
Small Value	14.3	16.2	17.8

Source: Morningstar

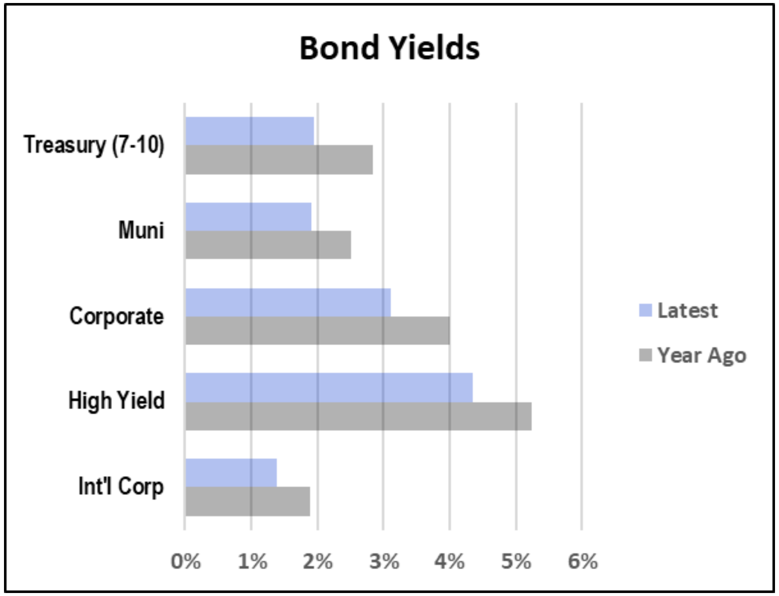
Bond Market Highlights

- The bond rally continued with riskier issues outperforming. As investors chase what little yield remains, the spread between investment grade and junk debt has shrunk to paltry levels.
- The co-existence of an inverted yield curve with such a small credit spread suggests that markets are counting on the Fed to cut rates to avoid a recession, without spurring higher inflation. It's slightly ironic that the market expects such skillful management from Fed leadership which thus far has been roundly criticized.





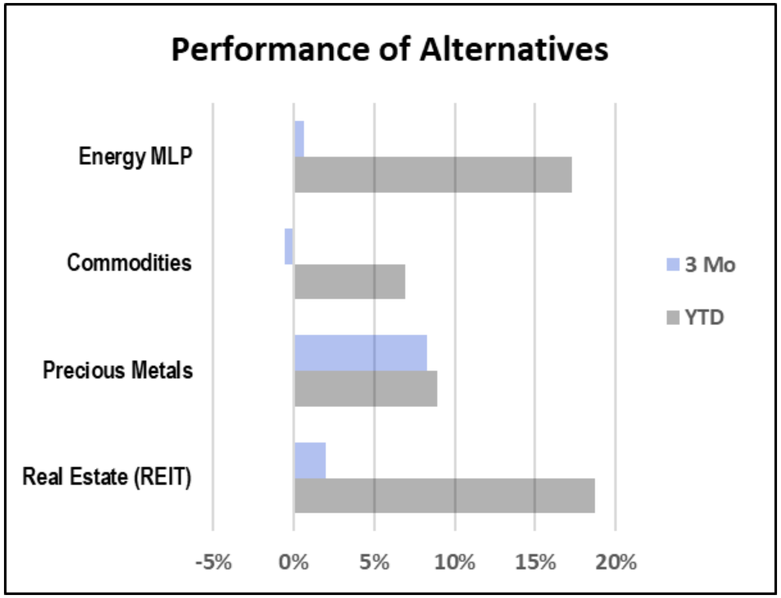
Source: St. Louis Fed



Source: S&P Dow Jones

Alternative Investments

- Gold was the top performing alternative asset in Q2 as lower interest rates and rising macroeconomic uncertainty provided a considerable tailwind. The metal breached $1400/oz. for the first time in almost 6 years.
- Having rallied on newly favorable tax treatment and falling interest rates, REITs have seemingly run out of steam. Commercial and residential real estate is clearly cooling in formerly hot markets.
- Oil prices, down 20% from late April to mid-June, rallied on a renewed production agreement between Saudi Arabia and Russia to finish the quarter just 3% lower.
- Bitcoin got up off the mat and surged 189% in Q2. Facebook's announcement of its intention to launch its own cryptocurrency called Libra seems to have lent credibility to Bitcoin and spurred the renewed interest of speculators. This is odd because Libra is specifically designed to overcome Bitcoin's weaknesses (high transaction costs, price volatility and limited usability) and, if successful, would stand to become a significant competitor to it. Expect fierce public debate about whether Facebook should be entrusted to people's money and digital identities.



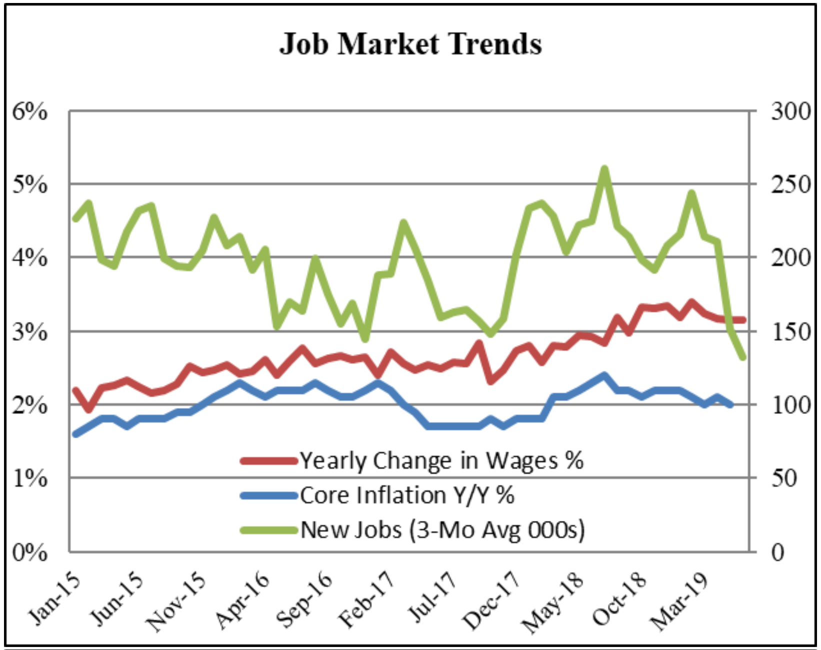
Source: S&P Dow Jones, Morningstar

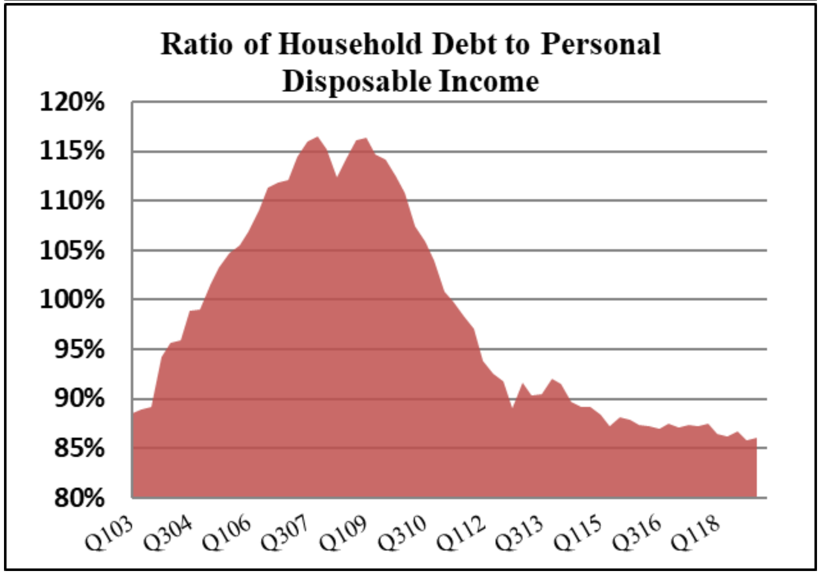
Bitcoin

Source: Yahoo Finance

Economy

- Economic growth rebounded in Q1 to 3.1%. Q2 is showing signs of moderating and economists are expecting that trend to continue into 2020.
- For the first time in many years we can say something negative about the job market as private sector job growth has dropped to the lowest levels in seven years. Culprits include macroeconomic uncertainty and a mismatch between the skills employers need and those possessed by job seekers.
- The unemployment rate is now 3.7%. Annual wage growth has moderated slightly to 3.1%, which is still enough to increase real income with inflation running at around 2%.
- We still consider an external shock to the system a more imminent threat to the nine-year expansion than a gradual build-up of excess.
- Around the world, growth in Europe continues to slow, especially in Germany, which is especially dependent on exports to China. Speaking of which, consumer spending growth has started to slow adding to the woes being felt by the manufacturing sector due to the ongoing trade dispute with the U.S. Finally, we still have no idea what lies ahead for Brexit, but people seem pretty sure that Boris Johnson will be the next prime minister. How long he will be able to retain the post is an open question should he fail to secure a long-shot deal with the EU and follow through on his promise of a hard Brexit.





Sources: ADP, US Depts. of Labor and Commerce, & the New York Fed

Our Macro View

Region	Current Conditions	Long-term Outlook	Investment Implications
USA	Moderating growth; labor market at or near full employment; early signs of excesses that typically precede recession, all clouded by trade policy.	<u>Base</u>: Trump backs down on trade war as effects become unpopular, leading to modest resurgence in business investment; rising debt and resurgent inflation lead to next recession (1-3 years). <u>Downside</u>: Trade war triggers stagflation – higher inflation & lower growth; corporate profits suffer. <u>Upside</u>: Trade war averted; increased investment leads to extended rise in growth & productivity.	Stocks again fully valued to marginally overvalued, but so is every other asset class. A slightly defensive posture remains warranted.
Europe	Very slow growth; populist challenges throughout Euro zone; Brexit deal could still go in any direction.	<u>Base</u>: Irreconcilable differences lead to slow dissolution of the EU in its current form. <u>Downside</u>: Nationalist sentiment hastens the process beyond the point of prudence. <u>Upside</u>: Germany takes more enlightened view toward providing fiscal stimulus.	Market consensus not entirely in line with our base case. Brexit and Euro zone now equally in focus. Slightly lower than normal weightings with modest currency hedges.
Japan	Marginal gains in growth and inflation are fading; trade weighing on outlook; massive public debt.	<u>Base/Downside</u>: More of same until debt burden breaks view of Yen as safe haven asset, at which point inflation returns by way of devaluation. <u>Upside</u>: Nation implements structural reforms and immigration policy to inject dynamism.	Retreat of US & European central banks put them more in line with Japan, easing pressure on the Yen.
China	Tariffs clearly hurting industry; in response the State is allowing its currency to devalue and is relaxing credit, adding to already high public & private debt levels.	<u>Base</u>: Slowing of economy creates domestic issues absorbing central government resources, pressuring stocks and the currency. Conflict with US simmers without boiling over. <u>Downside</u>: Either government missteps or a trade war lead to rising unemployment & unrest; foreign investment moves to other emerging markets. <u>Upside</u>: Consumer economy grows fast enough to outweigh other problems.	Selectivity remains key; avoid state-owned enterprises, heavy industry; favor consumer and healthy smaller companies.

Our Fundamental View

Fundamental	Medium- to Long-term Outlook	Investment Implications
Stock Market Valuation	Many assets remain expensive relative to historical averages, which suggests that investment returns for everything from stocks to bonds and real estate will be below long-term averages. Tax cuts justify some of the appreciation since Nov 2016, but companies will have to deliver earnings growth from operations in 2019, and that is not the forecast for many companies.	Achieving 5-7% annual returns over the next 5-10 years will require embracing stock market volatility to the extent afforded by your risk tolerance and portfolio withdrawal rate. Diversification will remain key to generating decent returns while managing risk.
Interest Rates	Recently, a worsening economic outlook has caused interest rates to fall, but U.S. government debt is rising quickly at the same time that central banks are purchasing fewer bonds. Wage growth and rising oil prices restrict Fed's ability to cut rates without spurring inflation. As long as job market stays strong, there is likely to be upward pressure on rates.	Continue to employ reasonable hedges against rising rates, including laddered bond portfolios, floating rate notes and cash. With short-term rates high relative to long-term, focus on the near-end of the yield curve and cash equivalents for now.