MARBLE TRAIL ADVISORS

Financial Planning & Wealth Management

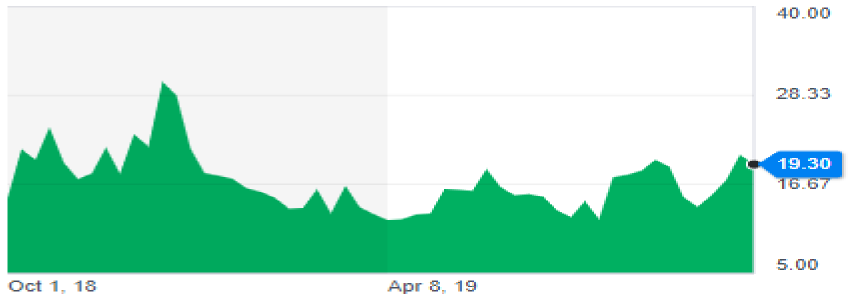
Market Update

3rd Quarter 2019

Global Stock Market Highlights

- In a quarter punctuated by heightened volatility, US stocks eked out modest gains that were matched by most developed markets – in their local currencies. For U.S. investors, however, a strong dollar converted those gains into losses.
- Emerging markets lagged, with China continuing to get hit by U.S. trade policy and Latin America struck by political upheaval in Argentina and Peru.
- While stocks held on to double-digit year-to-date gains, they have barely made back what was lost in 2018.

Vix Volatility Index

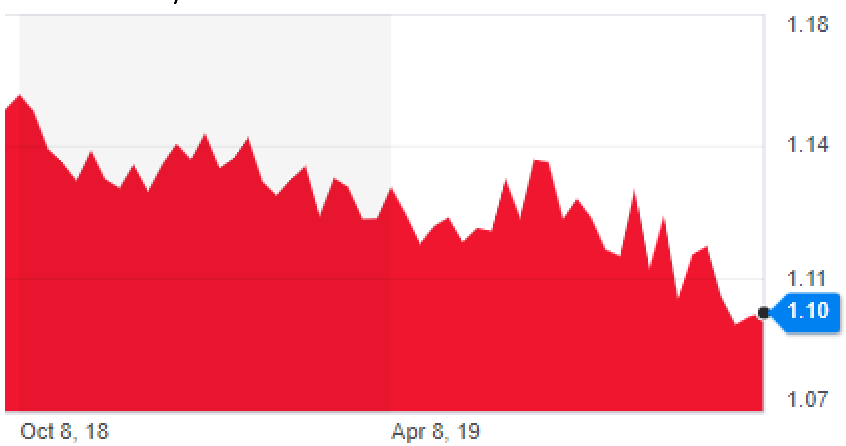


Source: Yahoo Finance

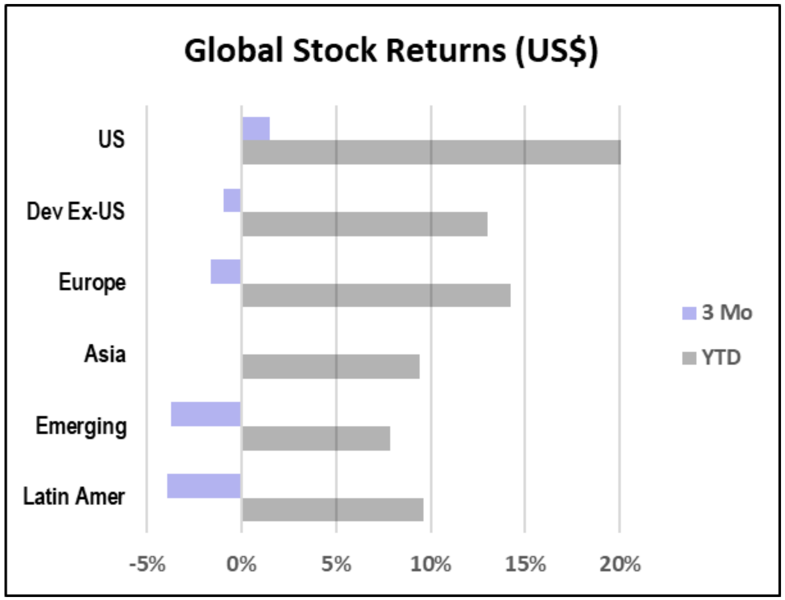
P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	20.3	21.0	19.6
Russell 2000 (Small)	16.9	18.0	19.8
Europe	16.2	14.8	18.5
Emerging Markets	13.1	14.2	14.4

Source: Morningstar

€/$ - Value of 1 Euro in US Dollars



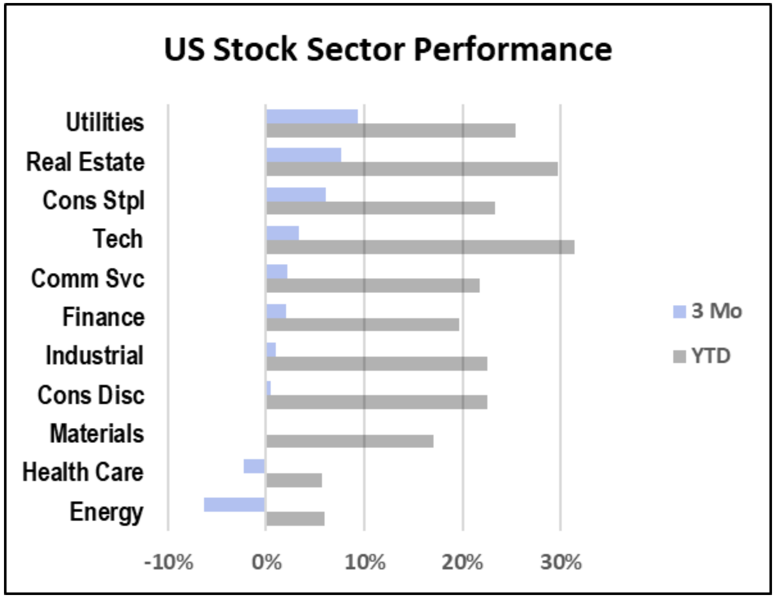
Source: Yahoo Finance



Source: S&P Dow Jones

Stock Sector Highlights

- Low interest rates sent investors in search of yield, driving up stocks in utilities, real estate, and consumer staples. Market leadership rotated away from tech firms to strong consumers franchises like P&G, Apple and Home Depot.
- Oil prices fell 10% in Q3, dragging down energy stocks. It appears that the attack on a Saudi oil refinery will have only a modest short-term impact on oil supplies. Demand, meanwhile, is very much a question mark, with global manufacturing on the verge of contracting.
- Health care is under pressure as politicians debate how to constrain drug prices and the potentially staggering liability from the opioid epidemic comes into focus.



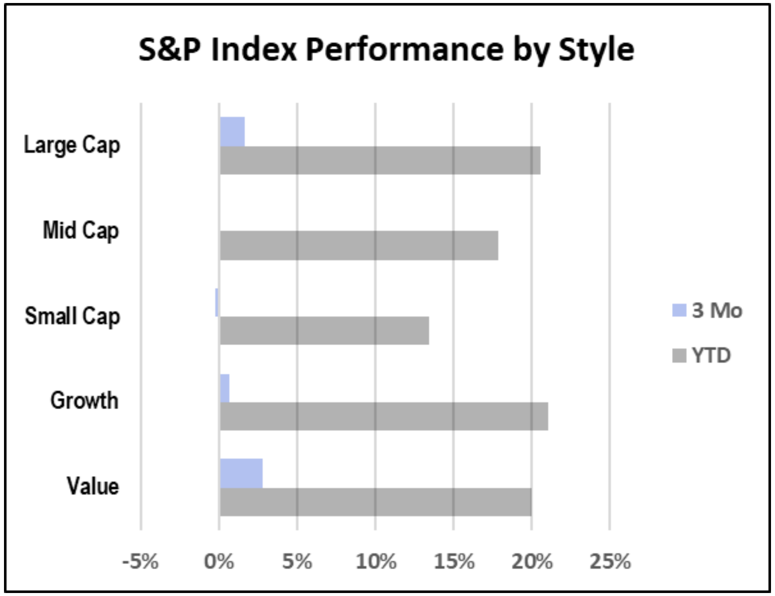
Source: S&P Dow Jones

	P/E Ratios			Yields	
Sector	Current	1 Yr Ago	3 Years Ago	Current	3 Years Ago
Communications Serv	19.7			0.9%	
Consumer Discretionary	23.8	24.1	19.7	1.3%	2.4%
Consumer Staples	23.3	21.0	23.1	2.6%	2.4%
Energy	14.4	17.9		3.7%	2.6%
Financials	13.2	13.9	13.6	2.0%	1.9%
Health Care	22.0	29.7	22.1	1.7%	1.5%
Industrials	19.9	20.4	18.8	2.0%	2.1%
Technology	23.6	26.8	20.5	1.3%	1.8%
Utilities	24.3	16.4	21.9	2.9%	3.3%
S&P 500	*20.3*	*21.0*	*19.6*	*2.1%*	*2.1%*

Source: Morningstar

Stock Market Performance by Style

- Value companies benefitted from renewed interest in dividends and outperformed growth in Q3. Still, value stocks remain relatively undervalued having trailed growth for most of the past 5 years.
- Small companies continued to underperform larger ones, although that trend reversed in September. For smaller companies to outperform going forward, investors will need to appreciate company fundamentals at least as much as they fear the uncertain macroeconomic environment.
- The FAANG stocks (Facebook, Apple, Amazon, Netflix, Google) are no longer the clear market leaders. Of the five, only Facebook's stocks is higher than a year ago, and its momentum is suspect after losing nearly 10% last quarter.



Source: S&P Dow Jones

Style Box Valuation (P/E)

	Value	Blend	Growth
Large	15.7	20.0	26.8
Mid	15.9	20.6	28.6
Small	14.1	17.6	25.9

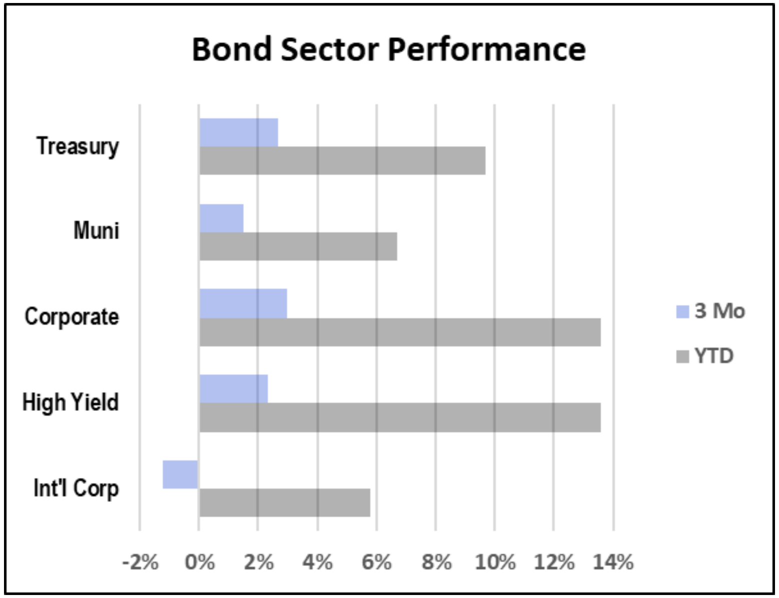
Source: Morningstar, Vanguard

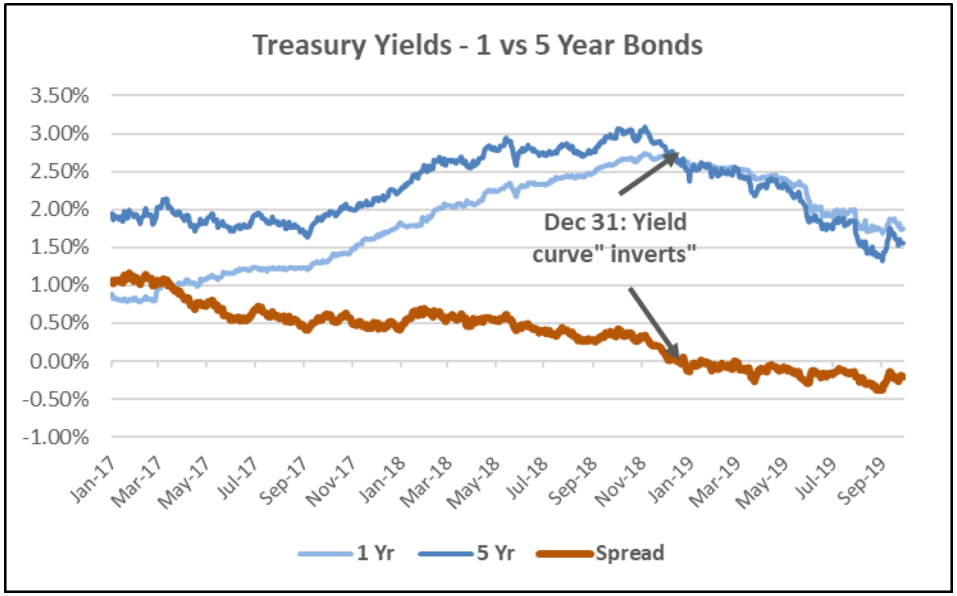
P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	20.3	21.0	19.6
Russell 2000 (Small)	16.9	18.0	19.8
Large Growth	26.8	26.1	23.8
Large Value	15.7	17.0	17.1
Small Growth	25.9	23.8	25.7
Small Value	14.1	15.9	18.5

Source: Morningstar

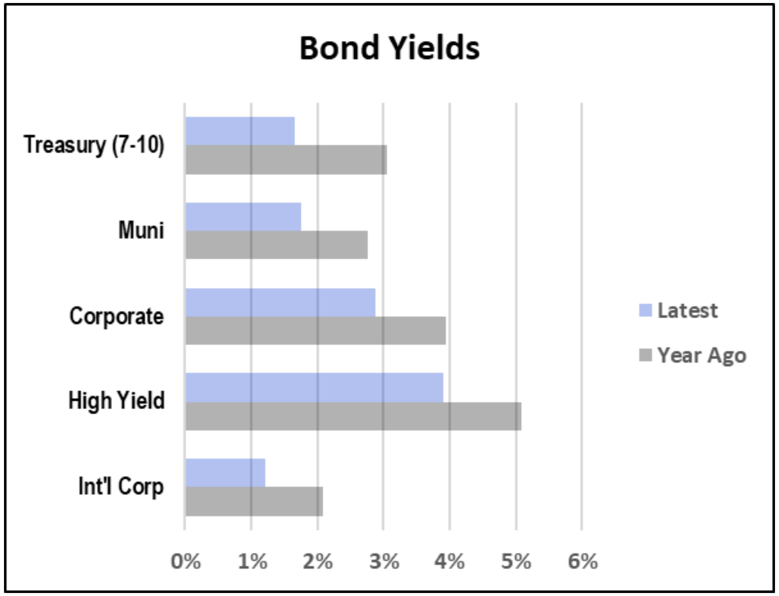
Bond Market Highlights

- The bond rally continued with broad-based interest across sovereigns, municipals and corporates of all creditworthiness. Foreign bonds, like stocks, performed well in their local currencies, but failed to reward U.S. investors after being translated into dollars.
- The yield curve remained inverted even as the Fed delivered two rate cuts. Something about the definition of insanity comes to mind…





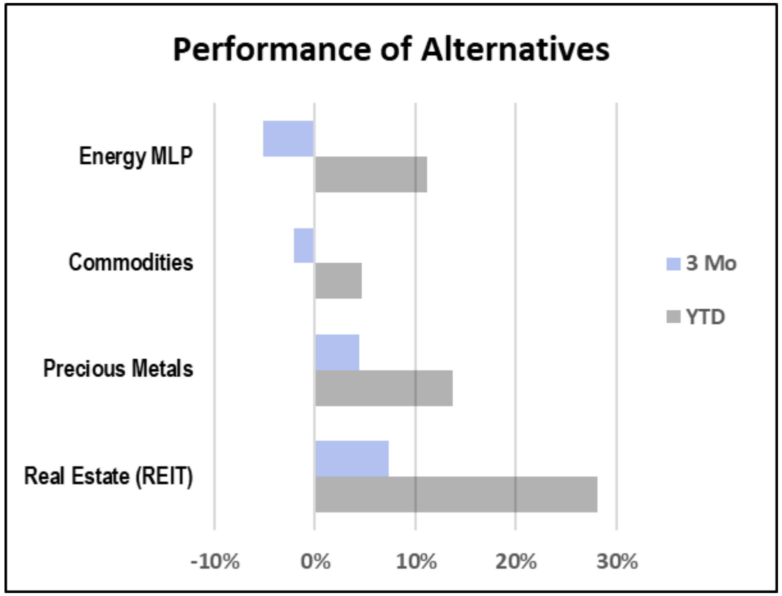
Source: St. Louis Fed



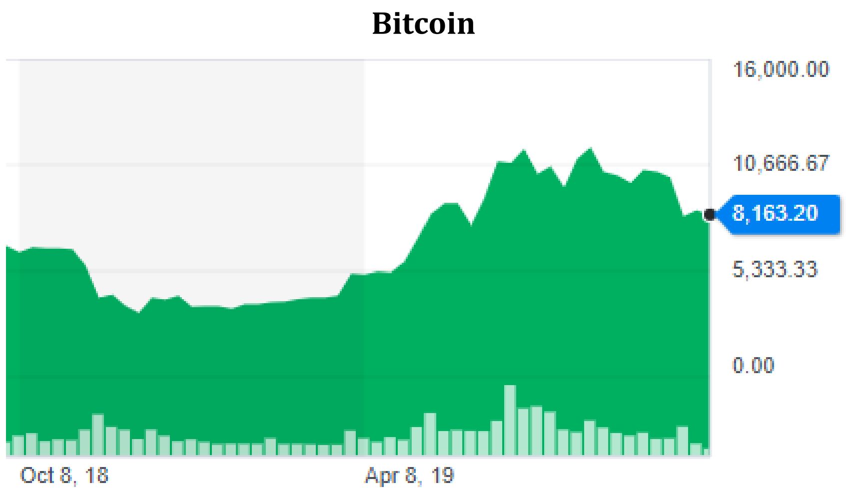
Source: S&P Dow Jones

Alternative Investments

- REITs shrugged off increasingly difficult conditions in commercial real estate markets to advance 7% in the quarter. There's little to credit besides low interest rates, so momentum could easily reverse itself.
- Low interest rates and political turmoil are the perfect ingredients for a Gold rally, and the shiny metal backed up Q2's surge with further gains of 4% in the third quarter.
- As mentioned, oil prices declined 10% in the quarter, leading to an average 5% decline in shares of energy MLPs.
- Bitcoin failed to sustain its momentum, plunging 23% in Q3. Governments continue to look skeptically at institutionalizing cryptocurrencies, including Facebook's Libra. At least for the moment, major banks seem to be following their lead.



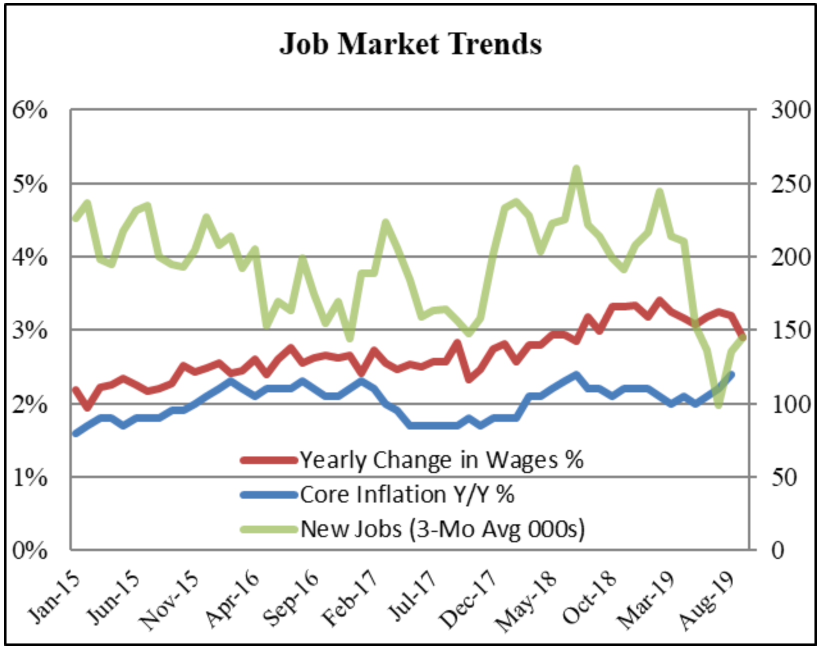
Source: S&P Dow Jones, Morningstar

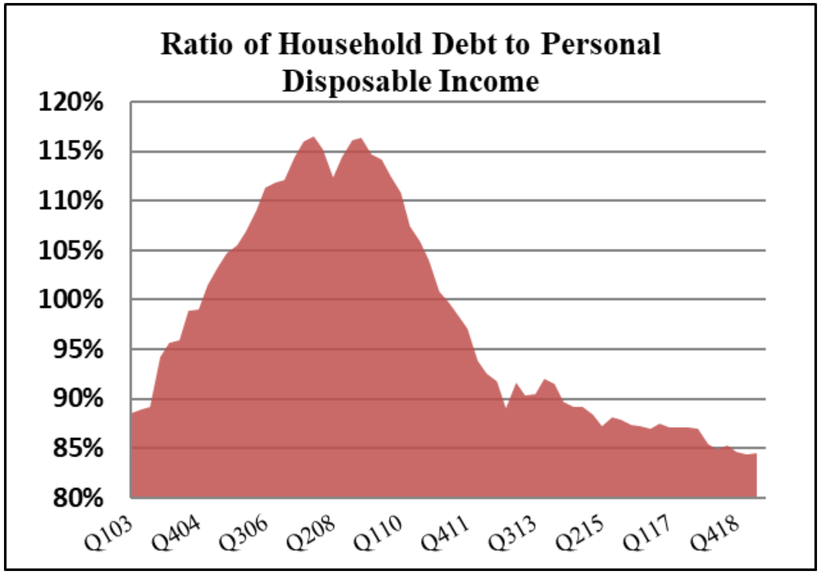


Source: Yahoo Finance

Economy

- Economic growth slowed to 2.0% in Q2 and Q3 is expected to slow further.
- The job market remains mostly healthy, even as it is clearly slowing. The unemployment rate is now 3.5%. Annual wage growth, which had reached as high as 3.4% early in the year, is down to just 2.9%. Higher paying manufacturing jobs are being lost rather than added, with the sector among the hardest hit by Trump's trade policy (along with agriculture).
- By itself, trade policy seems insufficient to provide the external shock that would end the nine-year expansion. With economic growth now hovering around 2%, however, the economy becomes more vulnerable to other shocks.
- Speaking of which, Boris Johnson's quarter was probably even worse than Donald Trump's. Due to a string of parliamentary and judicial setbacks, the threat of a no deal Brexit looks increasingly toothless, but continued uncertainty about what the future holds is weighing heavily on the U.K. economy.
- China's leader Xi Jinping has headaches of his own, in addition to Trump. Protestors in Hong Kong are not just creating embarrassing headlines, they are disrupting business in one of Asia's most important financial centers. Expect China to take a hard line on both fronts, pushing Trump to accept a modest deal as a badly needed victory, and forcing increasingly totalitarian rule on the "Special Administrative Region."





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 now more in line with our base case. Brexit and Euro zone now equally in focus. Raising weightings to near normal and maintaining 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	Manufacturing and investment sagging under trade war; real estate over-indebted, consumers carrying weight of unattainable growth targets.	<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. In addition, populism has taken hold of both parties and may portend a new era of anti-trust enforcement that challenges many previously unchecked corporate behemoths.	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. Contrarianism and diversification will be 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. 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.