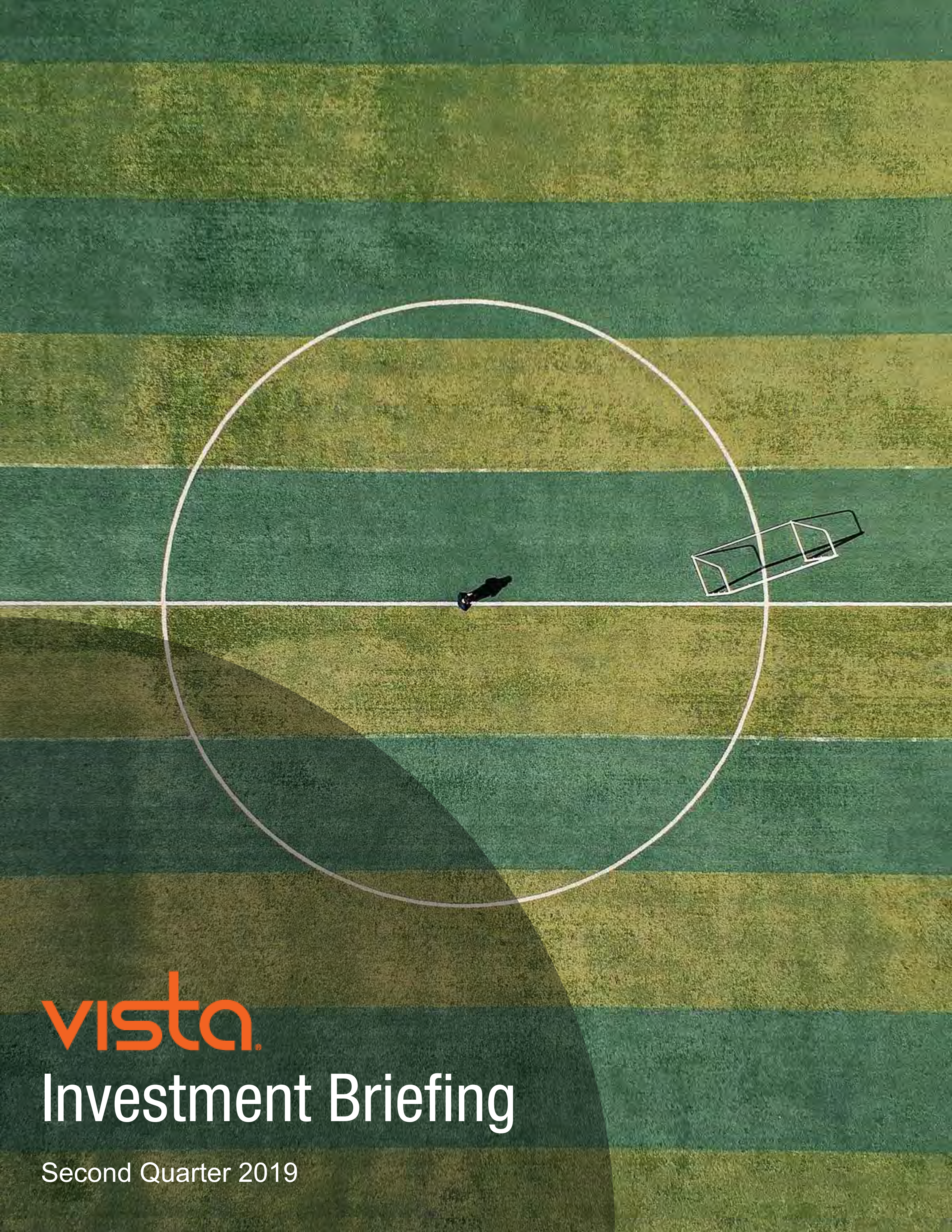


Investment Briefing

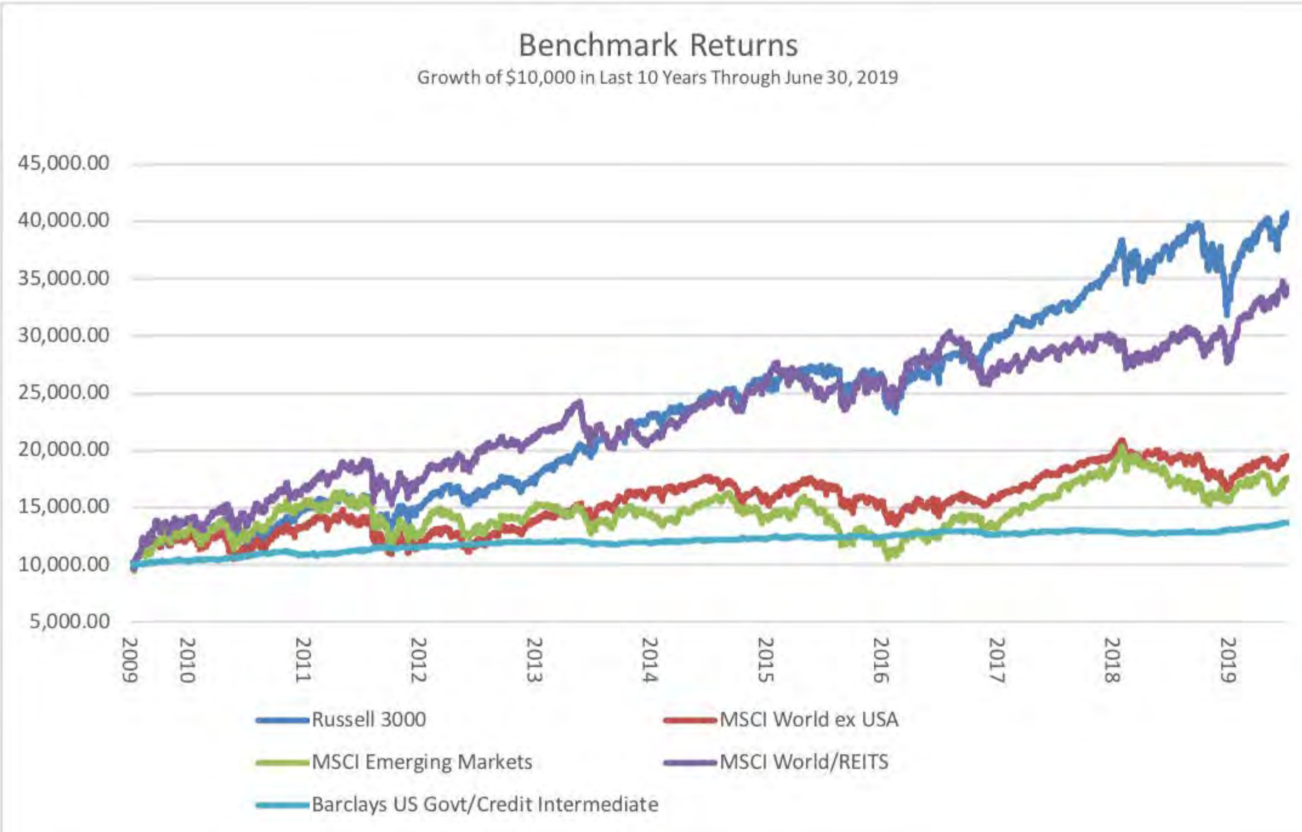
Second Quarter 2019

Introduction

Markets continued their momentum from the first quarter. Although not as strongly as in Q1, returns were still positive across most major asset classes.

The best performer was U.S. stocks while the worst was emerging markets, also up but only slightly. Looking longer-term, U.S. stocks have returned more than 14% per year since the financial crisis and REITs have been the second best performer, up over 12% per year.

Asset Class[1]	2nd Quarter	12 Months	5 Years (annualized)	10 Years (annualized)
U.S. Stocks (Russell 3000)	4.10%	8.98%	10.19%	14.67%
International Developed (MSCI World ex U.S.)	3.79%	1.29%	2.04%	6.75%
Emerging Markets (MSCI EM)	0.61%	1.21%	2.49%	5.81%
Real Estate Investment Trusts (MSCI World REITs)	2.19%	13.57%	6.84%	12.66%
Taxable Bonds (Barclays US Govt/Credit Intermediate)	2.59%	6.93%	2.39%	3.24%
Municipal Bonds (Barclays Muni 1-10 Yr)	1.64%	5.49%	2.55%	3.37%



References

1. Return data and charts are from Morningstar Direct.

U.S. Stocks: Offsides

Strong economic performance continued to push U.S. stock prices higher in Q2.

Notice that the graph, however, shows the march of increasing stock prices was not continuous (it seldom is). April and June were both nicely positive, but most of May was a struggle.

The press said May's drop was because trade talks with China and Mexico became heated. Worries about a flat-to-inverted yield curve, signaling a nearing recession, also weighed on returns. As is usual, there were many items besides trade kicking around in the news during the quarter.

Some of the other negatives were:

- An increase in oil prices, which usually tends to create a drag on consumer spending for discretionary items like vacations.
- The U.S. sent an aircraft carrier group to the Middle East when Iran withdrew from its nuclear deal.

Passing to the positives:

- Consumer confidence remained high and debt low with consumer debt servicing costs at only 9.9% of after-tax income, a 20-year low.
- Durable goods orders for March were reported in April and showed a nice increase of 2.7% for the month, which was much better than February's drop of -1.1%.
- The Federal Reserve stopped talking about increasing rates (more about this later in the Bonds section).

By the end of the quarter, investors generally became convinced that the underlying strength of earnings and our economy were enough to sustain growth and positive returns in the stock market for at least the near future. The U.S. economy continues to steadily grow while the rest of the world tends to struggle along. However, we don't want to cast too positive a light on future returns because the yield curve is signaling a slowdown. At some point, the U.S. stock market will decide a recession is near and prices will drop. Until that time, however, the outlook is positive.

International Developed Stocks: Corner Kick

International developed markets generally continued their uptrend as well, growing 3.79% for the quarter. As in the U.S., international markets bottomed in May and climbed nicely through June.

There is a growing concern that international economies may drag the U.S. into its next recession. Europe's economy continued to struggle and some believe it may have bottomed, but there is little consensus. The head of the European Community Bank, Mario Draghi, said he was ready to launch new stimulus if needed and his replacement, Christine Lagarde, appears to echo that thought. Lagarde is regarded as being more of a diplomat than an economist, so it will be interesting to see what actions she takes. Whether that stimulus takes place, and whether it is enough to revive substantial growth remains to be seen.

Here are some other news items from the quarter:

- The Bank of Japan said it planned on keeping interest rates low until at least the spring of 2020.
- Theresa May secured an extension until October 31, 2019 for the U.K. to leave the E.U. May resigned a few weeks later and the U.K. later decided that Boris Johnson will be their next Prime Minister. Johnson is one of the original Brexiters and how he accomplishes the exit will be closely watched. In the meantime, the U.K.'s growth continues to lag from these uncertainties.
- The Eurozone economy grew by 0.41% in Q1, which was up from 0.20% in Q4, but still anemic.
- Germany's manufacturing sector, a very important part of her economy, continued to show contraction. Many believed that it has probably bottomed, however.

While it's possible for developed economies outside the U.S. to trigger our next recession, some believe those economies have bottomed and growth is rebounding as central bank stimulus continues to provide traction. That could lead to both a weakening dollar and increasing stock prices which would be a double-win for U.S, investors in international markets.

Emerging Markets: Dribbling

Emerging markets also had a positive quarter.

Emerging markets barely eked out positive returns in Q2. There was a lot of news here, especially in China, the largest emerging economy.

Here are some of the high points:

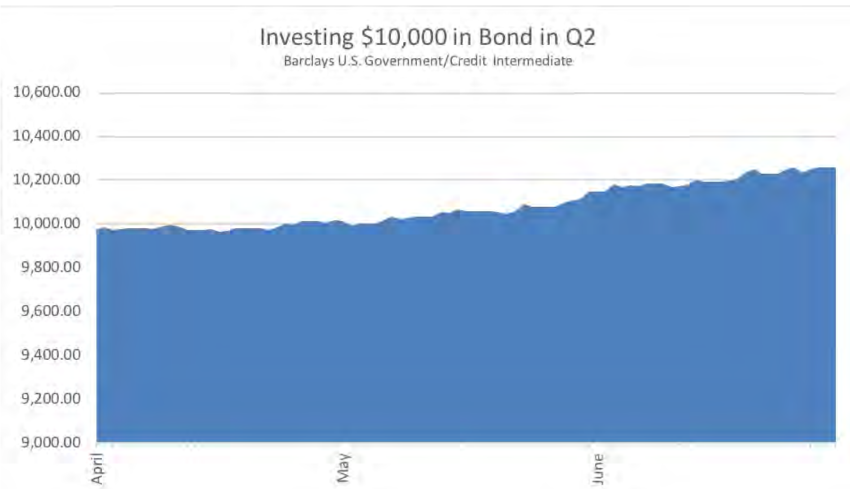
- The Reserve Bank of India cut its benchmark interest rate, its third in 2019, citing the country's slowest growth since 2014.
- Mexico became the first country to ratify the new USMCA (U.S.-Mexico-Canada Agreement) trade agreement which replaced NAFTA (North American Free Trade Agreement).
- China and the US agreed to a trade truce and to relaunch talks after President Trump agreed to delay tariffs on $300B of imports.
- The Turkish lira rose after President Trump said he would reassess sanction threats over the purchase of Russian missiles.

- China’s retail sales, industrial output and fixed asset investment all fell short of estimates, although her economy still grew at an annual rate of 6.4% in Q1 which was better than many expected.
- South Korea’s economy also slowed in the first quarter turning in its worst performance since the financial crisis.

Central banks are also kicking into stimulus mode in emerging markets. Lower interest rates and more government spending are coming into play, almost in a coordinated fashion across countries. If the U.S. drops interest rates, emerging markets should also benefit with reduced borrowing costs. Currency values may also appreciate as growth goals are achieved.

Bonds: Save

The end of Q2 showed business investment slowing since the Tax Act passed at the end of 2017 and uncertainty around our trade future with China and our neighbors to the south continues.



At the end of June, the 10 Year Treasury briefly fell below 2% as demand for the government bonds soared, a sign that investor confidence in an uncertain market environment is wavering. The yield curve remains somewhat inverted, a signal to many that a recession looms sometime in the next one to three years. Dropping short term rates (maybe more than once) would flatten the inversion at the short end of the yield curve.

The spotlight stands firmly on Chairman Jerome Powell and the Federal Reserve in preparation of their meeting at the end of July. Most if not all signals, including Chairman Powell's own comments, point to a quarter

point rate decrease in July, with another cut likely by the end of the year. The Federal Reserve is responsible for setting monetary policy in the United States. The primary tools at their disposal are raising/lowering interest rates and buying/selling government debt. The Fed raises interest rates to slow rapid economic growth, much like a coach who holds the best players back at the beginning of a match, assessing the competition. Conversely, the Fed will lower rates in order to keep economic growth steady. Any impending rate cut will be the Fed's response to bolster a slowing economy. The hope is that the U.S. continues steady economic growth as countries across Europe and Asia combat economic weakness.

Funds continue to flow from equity investments into fixed income funds, a cautious approach from most investors. Foreign investors continue to purchase U.S. Treasuries as yields abroad remain in low-to-negative interest rate territory. Despite lower rates, bonds have performed very well in the first half of 2019. U.S. bond index returns have kicked higher than 7.5% in the trailing year. That trend is unlikely to continue in the second half of 2019. We certainly don't expect double digit bond returns in 2019. Bond prices move inversely to interest rates. As rates go down, older bonds that have higher coupons become more valuable to own and are traded at a premium. We usually depend on bonds for stability of income but performance this year can be mostly attributed to bond price appreciation. Investors should expect lower bond yields moving forward.

Summary: World Cup

As the U.S. continues its slow but steady growth rate, other economies have been slowing.

The big story has been whether that slowing will eventually help pull the U.S. into a recession. The bond market, with its partially inverted yield curve is predicting a slowdown which could be at least a few quarters away. Trade tensions also add penalties to the game of future growth. Given all of this, the Federal Reserve is now signaling for a decrease in interest rates to head off or at least delay a recession. As many central banks across the world stimulate their economies, there is some likelihood that we could experience only a slight slowing, or recession, before returning back to more steady growth.

Stock and bond markets have both enjoyed long periods of mostly positive returns, which is what we expect from economies that tend to grow over long periods of time. Staying invested throughout the ups and downs is what builds and protects wealth and that's the play we will continue to execute.

We always look forward to your comments and questions. Thank you for the trust you have placed in Vista.

Your Vista Wealth Management Team

Source of all charts and data: Morningstar Direct
Economic data is from BCA Research, Dow Jones, and The Economist Newspaper Limited.

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