Market Update

Summary

Economic Overview

- **The Global economy** continued to experience a synchronized slowdown in the second quarter, making global central banks grow more accommodative.
- **The US economy** slowed down in the second quarter, in sync with the slowing of other developed economies, as manufacturing sector activity continued to slide due to slowing global demand and trade conflicts.
- **The Developed Market economies** continued to decelerate in the second quarter, due to softer global demand and global trade conflict concerns.
- **The Emerging Market economies** have faced headwinds due to trade conflicts, a strengthening US Dollar, and slowing global economic activity.
- **The Gross Domestic Product** forecast is 1.4% for the second quarter, down from 3.1% in the first quarter, according to the *GDPNow* model.
- **Inflation** was mixed, with headline CPI inflation declining to 1.6% and core CPI increasing to 2.1% in June, but the subdued inflation dynamics provide the Federal Reserve justification for a potential rate cut in July.
- **The Federal Reserve** maintained the target range for the fed funds rate at 2.25% - 2.50%, as a pause in further rate hikes was widely expected.

Capital Markets

- **Global equity markets** experienced a volatile quarter but managed to climb higher after global central banks' dovish pivot and US-China trade progress.

Market Snapshot	Quarter	YTD	1 year	3 years	5 years
S&P 500	4.3%	18.5%	10.4%	14.2%	10.7%
Dow Jones Industrial Average	3.2%	15.4%	12.2%	16.8%	12.3%
NASDAQ Composite	3.9%	21.3%	7.8%	19.6%	14.0%
Russell 2000	2.1%	17.0%	-3.3%	12.3%	7.1%
MSCI EAFE	3.7%	14.0%	1.1%	9.1%	2.2%
Bloomberg Barclays Capital U.S. Aggregate	3.1%	6.1%	7.9%	2.3%	2.9%
FTSE 3 Month US T Bill	0.6%	1.2%	2.3%	1.4%	0.8%

*Source: Zephyr Associates Inc. Past performance is not indicative of future results.

- **The US equity market** saw all major indices advance on the back of the Federal Reserve's anticipated rate cuts and positive developments in trade disputes with China.
- **International equity markets** followed US equity performance in a synchronized risk-on environment, with developed markets outperforming emerging markets that were affected more by deteriorating economic data.
- **The US Treasury yield curve** was inverted at many points from 1-year through 10-years, which has often predicted recessions in the past.
- **The US bond market** rose across all sectors, as interest rates declined over slowing growth and credit spreads tightened given the Fed's dovish stance.

Outlook

- Equity markets expect that central banks will extend the current business cycle, but bond markets believe that this is the beginning of the end.
- It remains to be seen whether the US and global economies will rebound in the coming months. So far, the economic data support the bond markets' view, implying that the stock market is mispricing future economic events.

Economic Overview

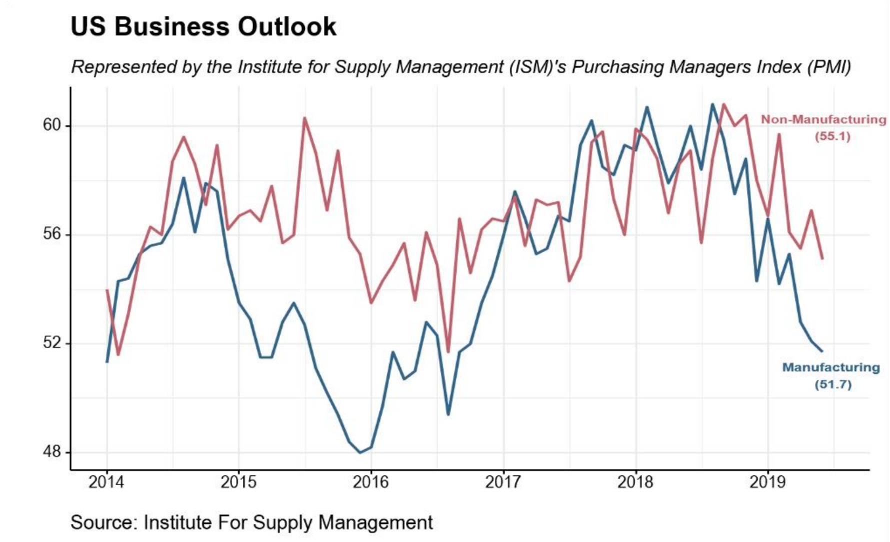
The global economy continued to experience a synchronized slowdown in the second quarter. The US economy also decelerated during the second quarter as manufacturing sector activity continued to slide due to slowing global economic demand and trade conflicts with China. Despite soft industrial production, a pickup in consumer spending helped buoy the economy. Heightened uncertainty about economic growth and muted inflation dynamics persuaded the global central banks to pivot toward more accommodative monetary policy during the quarter. The combination of slowing economic growth, dovish central banks' stance, and optimism about the trade conflict between the US and China helped safe and risky assets to rally at the same time during the quarter.

US Economy

US economic activity slowed down in the second quarter, in sync with the slowing of other developed economies. While manufacturing economic data continued to decelerate from the fourth quarter of last year, economic activity related to consumer spending rebounded from the first quarter, offsetting the weak manufacturing sector.

Specifically, underlying economic activity continued to decline, as reflected in manufacturing numbers from the Institute for Supply Management (ISM) (see the *US Business Outlook* chart). US manufacturing activity declined to 51.7 in June from 52.1 in May, which exceeded the consensus estimate of 51.0, but was still the lowest recording since October 2016. While the report shows that the economy continues to expand, key areas such as new orders, inventories, and prices paid contracted during the quarter, possibly reflecting the concerns related to a global economic slowdown and trade conflicts. The ISM surveys poll supply managers on their business prospects and are closely watched because they have been one of the most reliable leading indicators. Despite the recent declines, the index remains above the 50-point threshold that separates expansion from contraction in the US manufacturing economy.

The service sector, which makes up about 80% of US Gross Domestic Product (GDP), experienced a slowdown in June. The non-manufacturing ISM survey, the measure of economic movement in the service sector, dropped to 55.1 in June from 56.9 in May, missing the consensus estimate of 55.9. Key areas such as business activity, new orders, and employment all dropped. While the index still shows growth, concerns about the overall economy and trade conflicts weighed on sentiments.



US non-farm payroll employment growth rose by 224,000 in June, well above market expectations of a 160,000 increase after the weak result of 75,000 in May. The May number was revised down to 72,000. For the quarter, the report still depicts strong labor market conditions, with job gains averaging 171,000 per month. This is a slower pace than last year, but it still extends to 104 the consecutive months of job growth and helps to alleviate fears of an impending recession in the US. The jobless rate increased to 3.7% in June from 3.6% in May, which was a 50-year low, as the labor force participation rate rose.

The strong growth in the labor market came amid concerns over a slowdown in US economic growth. Average hourly earnings, a measure of labor costs, remained at 3.1% year-over-year in June, below the market expectation of a 3.2% rise. The softer wage growth, on the other hand, aligns with the Federal Reserve's new patient approach toward inflation. Overall, as labor market indicators tend to lag business sentiment indicators, these combined results may reflect that the US economy may be in a late market cycle where underlying economic weakness slowly filters through labor markets.

Developed Market Economies

Eurozone economic growth continued to decelerate in the second quarter, as manufacturing activity slowed down due to softer global demand and concerns over global trade conflicts. Eurozone industrial production fell to -0.5% on an annualized basis in May. On a positive note, economic sentiment, represented by the Eurozone Composite Purchasing Managers Index (PMI), increased to 52.2 in June from 51.8 in May, signaling a possible rebound in economic activity in the area. The unemployment rate continued to drop to 7.5% in May, the lowest level since 2008, representing tight labor market conditions. The Eurozone headline Consumer Price Index (CPI) remained at 1.2% year-over-year in June, below the European Central Bank (ECB)'s medium-term target level of near-but-below 2.0%. The decline was mainly due to a sharp fall in energy prices. Core inflation, which excludes volatile food and energy prices and which the ECB monitors closely because it reflects domestic fundamentals, rose to 1.1% from 0.8% the previous month. In contrast to previous quarters where ECB policymakers continued to reiterate their plan to unwind their asset purchase program, ECB policymakers signaled that they will implement more stimulus programs into the economy as the concerns over the slower global economy and trade disputes weighed on the Eurozone economy.

Japan's economy also slowed down during the quarter. The latest manufacturing data suggest a negative impact from softer global demand, especially from China. CPI declined to 0.7% year-over-year in May, a decrease from 0.9% in April. Core CPI fell to 0.5% in May from 0.6% the previous month. While labor market conditions remained tight, slowing economic growth and a low inflation trend, far below the Bank of Japan (BOJ)'s 2.0% target level, caused the BOJ to continue to hold its ultra-loose monetary policy steady.

Emerging Market Economies

China's economy, the world's second largest, is believed to have grown at 6.2% in the second quarter, the lowest reading since 1991. However, the government's various stimulus efforts finally appear to have boosted China's domestic economic activity. By the end of June, manufacturing, investment, and consumer spending showed faster growth than expected, despite weak exports and imports data, in part due to ongoing trade tensions with the US. Other key emerging economies such as Brazil and India also continued to experience slowdowns as well. Emerging economies have faced headwinds in recent periods due to a strengthening US Dollar, trade conflicts, and slowing global economic activity.

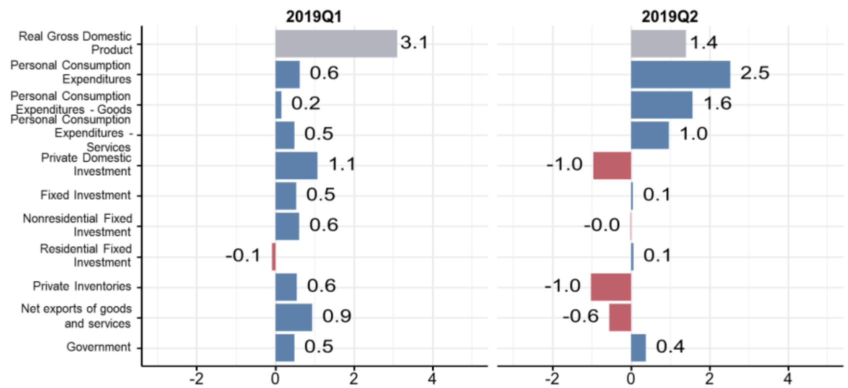
Gross Domestic Product (GDP)

The annualized growth rate is estimated to be 1.4% for April through June, down from 3.1% in the first quarter, according to the Federal Reserve Bank of Atlanta's *GDPNow* forecast model announced on July 10, 2019. First quarter GDP growth was revised down from 3.2% to 3.1%, reflecting downward revisions to personal consumption and inventory investment. The *GDPNow* model mimics the data construction methodology used by the Bureau of Economic Analysis (BEA), and provides a "nowcast" of GDP growth that aims to address the lagged nature of the BEA's estimates of GDP, which are released in stages over the course of several months.

Economic growth has slowed down during the quarter in tandem with the broader global economic growth trend. Poor manufacturing activity dragged on the economy. Business spending, represented by private domestic investment and nonresidential fixed investment, was the main detractor this quarter after strong performance last quarter. Net exports subtracted -0.6% from growth, reflecting the impact of trade conflicts with China. On a positive note, consumer spending, which accounts for more than two-thirds of US GDP, contributed 2.5% to the GDP growth rate. After sluggish growth in the first quarter, consumer spending began to gain strong momentum in the second quarter on the back of a tight labor market. While US business investment decelerated due to the global economic slowdown and an intensifying trade war with China, a rebound in consumer spending helped to offset weak manufacturing activities (see the *Quarter-to-Quarter US Real GDP Contribution* chart).

Quarter-to-Quarter US Real GDP Contribution

Seasonally adjusted at annual rates



Source: U.S. Bureau of Economic Analysis and Federal Reserve Bank of Atlanta
Note: Graph shows contributions to Percent Change in Real Gross Domestic Product and the current quarter contributions are estimates from GDPNow model.

Inflation

The headline CPI inflation rate declined to 1.6% in June from 1.8% in May, due to a decline in food and energy costs. The headline CPI continued to decline from the high of 2.9% in July 2018 as energy prices suffered a steep decline. Core CPI inflation increased to 2.1% in June from 2.0% in May, slightly above expectations. The increase was mainly attributable to a large increase in shelter costs. Prices for apparel and used cars and trucks also contributed to the recent strength in the core consumer prices. The rise in apparel prices were likely an adjustment from weak readings in the first quarter, which were affected by the Labor Department's methodology changes in collecting data. The Fed's preferred gauge of inflation, the core PCE Index, which excludes volatile food and energy components, remained at 1.6% year-over-year in May, in line with expectations. It has undershot the Fed's 2% inflation target this year (see the *US Inflation Outlook* chart). With the slowing domestic economy and a strong US Dollar, core inflation has declined in recent periods, despite tight labor market conditions that boosted wage growth. The subdued inflation dynamics provide the Fed justification for a potential rate cut in July and further dovish actions.

US Inflation Outlook

Inflation trends remain soft.

Source: U.S. Bureau of Economic Analysis

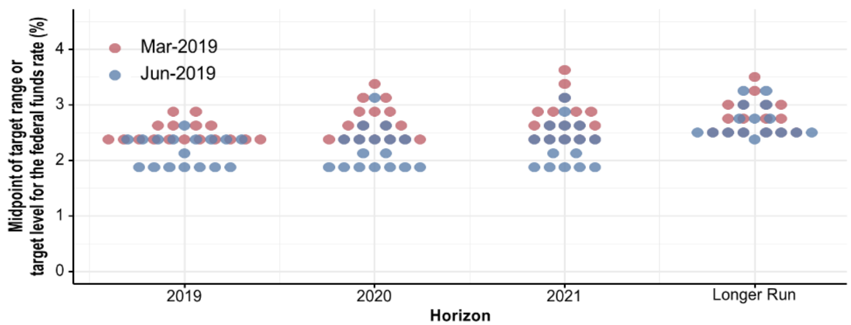
Federal Reserve Policy

Since a dramatic dovish turn in January, the Federal Open Market Committee (FOMC) has expressed a patient approach in future rate hike plans. As the pause in further rate hikes was widely expected and the committee maintained its interest rate target of 2.25% - 2.50%, market participants focused more on the Fed's communication and the "dot plot," which it uses to signal its outlook for future target interest rates.

According to the FOMC "dot plot" (see the *FOMC participants' assessments* chart), the distribution of participants' assessments in the June meeting (blue dots) skewed much lower relative to the March meeting (pink dots) for 2019 through the longer run, due to slowdowns in global economic growth and muted inflation pressures in the US. It projected two rate cuts in 2020, bringing the median fed funds rate to 2.1% by the end of 2020, from 2.6% previously. The median long-run rate, the so-called "neutral rate," was lowered to 2.5% from 2.8%. While the median projection for 2019 is still no rate cuts, unchanged from their March meeting, it was a dovish surprise that half the committee projected rate cuts by the end of 2019. In fact, while the committee did not cut rates, they strongly suggested that the members will lower rates unless the economic outlook consistently improves further. US short-term interest rate futures markets already priced at least a 25 basis point cut by their next meeting in July. If the Fed lowers rates in July, it would be the first cut since 2008.

FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

June 2019



Source: Federal Reserve Board Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Capital Markets

Equities

Global equity markets, represented by the MSCI World Equity Index, experienced a volatile quarter but eventually managed to climb higher with a return of +4.0%. Concerns about slowing global industrial activity and a global trade war rattled investors in May, but global central banks' dovish pivot and a positive surprise toward a trade settlement between the US and China helped the equity markets to bounce back and generate positive returns in June.

In the US, all major indices advanced on the back of the Fed's anticipated rate cuts and positive developments in trade disputes with China. The Dow Jones Industrial Average finished the quarter with a gain of +3.2%; the S&P 500 gained +4.3%; the NASDAQ Composite grew by +3.9% in the second quarter; and the Russell 2000 returned +2.1% for the quarter (see the *Index Returns* table on p. 8).

Within US equity markets, large cap stocks outperformed small cap while growth outpaced value across all market capitalizations, as investors chased stocks with secular growth potential in anticipation of an accommodative monetary environment. The Russell 1000 Growth Index of large cap growth stocks outperformed the Russell 1000 Value Index by +0.8%. The Russell Midcap Growth Index exceeded the Russell Midcap Value Index by +2.2%. Small growth stocks in the Russell 2000 Growth Index generated +2.7% relative to +1.4% by the Russell 2000 Value Index. Across market capitalizations, large cap stocks showed the strongest performance, with a return of +4.2% versus the +4.1% and +2.1% returns of mid and small cap stocks for the quarter, represented by the Russell 1000 Index, Russell Midcap and the Russell 2000 Index, respectively (see the *Equity Style Returns* table on p. 9).

Within the ten S&P Global BMI US economic sectors, pro-cyclical sectors outperformed defensive sectors. The Financial sector was the best performing sector with a return of +7.6%, as anticipated Fed rate cuts caused interest rate curves to steepen after recent flattening. It was followed by Information Technology (+5.7%) and Materials (+4.8%). The Energy sector was the worst performing sector with a loss of -4.0% due to falling oil prices as concerns over lower demand from a global economic slowdown weighted on the commodity. It was followed by Health Care (+1.5%) as worries over a renewed health care reform effort in Washington spooked the sector. There was wide overall performance dispersion among sectors during the quarter, with Financials outperforming the Energy sector by +11.6% (see the *Equity Sector Returns* table on p. 9).

International equity performance also followed that of US equity markets in a synchronized risk-on environment. Developed markets outperformed emerging markets as deteriorating economic data and global trade tensions still weighed on the emerging markets. The weaker US Dollar helped contribute to both developed and emerging market returns during the quarter. Developed market equities, represented by the MSCI EAFE Index, finished the quarter with a gain of +3.7%. The MSCI Emerging Markets Index of emerging markets stocks generated +0.6% for the quarter (see the *Index Returns* table on p. 8).

Within international equity markets, the developed European region, represented by the MSCI Europe ex UK Index, was the best performing sector with a return of +5.8% in the second quarter, as the ECB's dovish stance and better-than-anticipated economic data helped to support market sentiments. Next for the quarter was the developed Asia-Pacific region, represented by the MSCI Pacific ex Japan Index, which finished the quarter with +5.2% return. Emerging markets and the United Kingdom equity markets underperformed the rest of the international markets for the quarter, as signs of an economic slowdown and political turmoil were most intense in those markets (see the *Foreign Market Returns* table on p. 10).

Fixed Income

US interest rates declined during the quarter, except at the very short end of the yield curve where the Federal Reserve controls the rates. Disappointing global economic data and a high likelihood of rate cuts by the Federal Reserve sent interest rates lower across the board. While the Fed held its benchmark rate unchanged, the FOMC statement and Fed Chairman Jerome Powell's speech indicated their strong willingness to cut rates in the coming months. US short-term interest rate futures markets priced at least a quarter-point cut in the FOMC July meeting. US government bond markets have consistently priced rate cuts by the Fed this year, and with decelerating global economic activity, the Fed appears to be finally forced to cut rates this year.

In fact, many parts of the yield curve from 1-year through 10-year yields have traded below the 3-month interest rate this year, signaling that the Fed is behind the curve. An inversion of the yield curve in this section has often predicted recessions in the past. The New York Fed's recession model based on the spread between 10-year and 3-month rates showed a 32% probability of recession one year ahead. Since the 1970s, a recession occurred after the model's probability exceeded 30%.

The yield on the 3-month US Treasury bill fell to 2.1% from 2.4% the previous quarter; the 10-year US Treasury note fell from 2.4% at the end of March to 2.0% by the end of June; and the 30-year Treasury bond also declined from 2.8% in March to 2.5% in June (see the *US Treasury Yield Curve* chart).

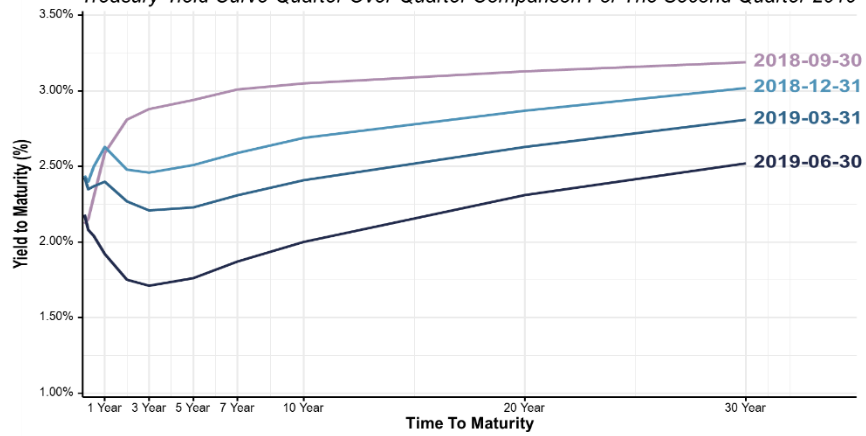
As shown in the *Historical Movement of US Treasury Yield Curve* graph, during the second quarter of 2019, longer parts of the US Treasury yield curve began to steepen in anticipation of the Federal Reserve's loosening monetary policy. While the difference between the 10-year and 2-year yields climbed to 0.3% by June, from 0.2% reached at the beginning of April, the difference between the 5-year and 1-year yields inverted further to -0.2% by the end of June, from -0.1% reached at the beginning of April.

Regarding fixed income sector performance, as interest rates declined over a slower economic growth outlook and credit spreads tightened in response to the Fed's dovish policy stance, all fixed income sectors generated positive returns. Investment grade credit fixed income sectors generated the best returns as investors sought high quality fixed income securities in anticipation of looming recession risk, and sectors considered to be sensitive to credit risk underperformed the rest of the market sectors. The broad US bond market, represented by the Bloomberg Barclays Capital U.S. Aggregate Index, finished the quarter with a gain of +3.1%, while high yield bonds, represented by the Bloomberg Barclays Capital High Yield Index of non-investment grade bonds, finished the quarter with a gain of +2.5% (see the *Index Returns* table on p. 8).

The investment grade credit spread narrowed more than the high yield credit spread, helping investment grade bonds, represented by the Bloomberg Barclays Capital Credit Index, to outperform the other US bond market sectors with a return of +4.3% for the quarter. High yield bonds, represented by the Bloomberg Barclays Capital High Yield Index, generated +2.5% for the quarter. Demand for commercial mortgage-backed securities (CMBS) were still strong during the quarter; CMBS and mortgage-backed securities (MBS) markets produced positive returns with +3.3% and +2.0% for the quarter, as represented by the Bloomberg Barclays Capital CMBS Index and Bloomberg Barclays Capital MBS Index, respectively. Asset-backed securities (ABS) underperformed the rest of fixed income sectors (see the *Fixed Income Sector Returns* table on p. 10).

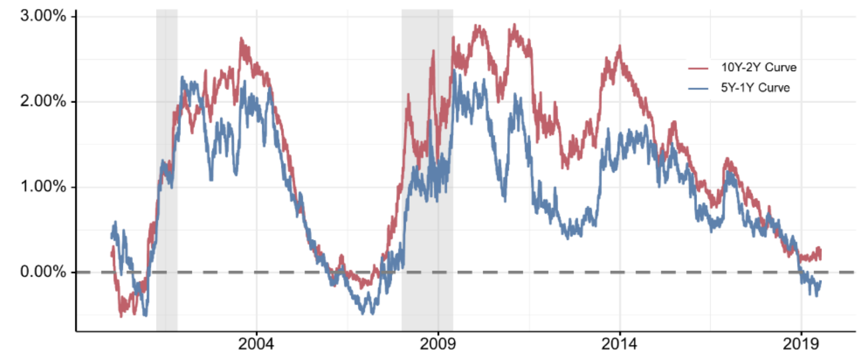
US Treasury Yield Curve

Treasury Yield Curve Quarter Over Quarter Comparison For The Second Quarter 2019



Source: Daily Treasury Yield Curve Rates, US Department of the Treasury

Historical Movement of US Treasury Yield Curve



Source : Federal Reserve
Note: The red line show the difference between benchmark 10- and two-year government bond yields in percentage points. The blue line show the difference between benchmark 5- and one-year government bond yields in percentage points. Gray bars indicate recessions as determined by the National Bureau of Economic Research.

Outlook

Equity and credit markets suffered steep sell-offs in May due to concerns over a global economic slowdown and escalating tension between the US and China. Global risky assets, however, enjoyed a sharp reversal on the back of dovish Fed comments and anticipation of more stimulus programs by the ECB. In fact, the Federal Reserve signaled in their June meeting that a rate cut will be implemented in July unless economic data significantly improves in coming months. Following a so-called “bad news is good news” psychology, risky assets responded more positively to weak economic data, and some of the major US equity indices reached all-time highs. Renewed hope from the G20 summit over a trade settlement between the US and China also added fuel to the rally.

In normal risk-on market dynamics, safe-haven assets such as US government bonds would decline. However, safe assets also rallied during the quarter. It appears that both sides embraced the anticipated lower interest rates by the Fed to be positive for their respective markets.

While the expected rate cut in July helped to buoy both risk and safe asset markets, expected outcomes from the rate cuts are drastically different between the two markets. Risky assets, represented by equity markets, expect that central banks will be able to extend the current business cycle in a similar fashion to 2016, when the Fed adjusted its policy due to financial market turbulence and falling economic activity. China also implemented the biggest stimulus package in its history, and two more years of the great bull run in global risky assets followed. Optimistic market participants believe that the Federal Reserve and other central banks will be able to do the same again this time.

Bond markets, on the other hand, seem to believe that this is the beginning of the end of the current business cycle. Treasury yield curves and Eurodollar short-term interest rate futures markets continued to price more rates cuts by the Fed in coming quarters. The spread between December 2019 and December 2020 Eurodollar futures contracts imply about two quarter-point rate cuts for the year 2020 after three cuts this year. The bond markets bet that the Federal Reserve will have to cut even more due to worsening economic conditions in the future. Pricing in bond markets implies that the Federal Reserve will not be able to extend the business cycle, which has become the longest one in history in July, outpacing the dot-com bubble era from 1991 to 2001, according to the National Bureau of Economic Research.

Which market proves to be correct comes down to whether central banks can extend the global business cycle again. While the ECB and BOJ do not seem to have enough room for stimulus policies, the Federal Reserve has 250 basis points it can cut and can re-enact asset purchasing programs. Market participants have already discussed the possibility of the Fed implementing both rate cuts and quantitative easing (QE) at the same time, a so-called “double-easing” policy. The Federal Reserve, as the central bank for the world reserve currency, is believed to have a much greater stimulus impact on the global economy by lowering the US Dollar and reflating global financial assets through their accommodative policies. Also, Christine Lagarde is expected to be the new head of the ECB. The consensus is that she will be able to engage Eurozone governments, mainly Germany, to enact fiscal stimulus policies, which will be supported by the ECB’s monetary programs. Fiscal stimulus in conjunction with monetary support can potentially be a powerful stimulus both to the European economy and the rest of the world.

It remains to be seen whether the US and global economies will rebound in the coming months or decelerate more from here, and how the current global trade conflicts evolve adds further uncertainty to the economic outlook. As the stock and government bond markets price nearly opposite views, the resolution of these diverging expectations may cause large drawdowns in whichever market has mispriced future economic developments. Economic data in the coming months are critical for this reason.

So far, the economic data support the bond markets’ view. Global economic activity has continued to slow down since its synchronized expansion in 2017. The Organization for Economic Cooperation and Development’s (OECD’s) Composite Leading Indicator, which was designed to provide early signals of turning points between the expansion and slowdown of global economic activity, fell for the 18th straight month in May, hitting its lowest level since late 2009. The OECD’s indicator typically precedes changes in economic activity by six to nine months. The indicator suggests that the global economic slowdown may continue into 2020, which confirms the bond markets’ view on the future global economy.

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Index Returns

Domestic Equity	Q2	YTD	1 year	3 years	5 years	10 years
S&P 500	4.3%	18.5%	10.4%	14.2%	10.7%	14.7%
Russell 1000	4.2%	18.8%	10.0%	14.1%	10.5%	14.8%
Russell 1000 Growth	4.6%	21.5%	11.6%	18.1%	13.4%	16.3%
Russell 1000 Value	3.8%	16.2%	8.5%	10.2%	7.5%	13.2%
Russell Midcap	4.1%	21.3%	7.8%	12.2%	8.6%	15.2%
Russell Midcap Growth	5.4%	26.1%	13.9%	16.5%	11.1%	16.0%
Russell Midcap Value	3.2%	18.0%	3.7%	8.9%	6.7%	14.6%
Russell 2000	2.1%	17.0%	-3.3%	12.3%	7.1%	13.4%
Russell 2000 Growth	2.7%	20.4%	-0.5%	14.7%	8.6%	14.4%
Russell 2000 Value	1.4%	13.5%	-6.2%	9.8%	5.4%	12.4%
Dow Jones Industrial Average	3.2%	15.4%	12.2%	16.8%	12.3%	15.0%
NASDAQ Composite	3.9%	21.3%	7.8%	19.6%	14.0%	17.2%
Foreign Equity						
MSCI EAFE	3.7%	14.0%	1.1%	9.1%	2.2%	6.9%
MSCI Emerging Markets	0.6%	10.6%	1.2%	10.7%	2.5%	5.8%
MSCI World	4.0%	17.0%	6.3%	11.8%	6.6%	10.7%
Real Estate						
FTSE Nareit Equity-Reits	1.2%	17.8%	11.2%	4.2%	7.9%	15.5%
Natural Resources						
S&P North American Natural Resources	-1.4%	14.6%	-14.1%	0.1%	-6.8%	3.4%
Fixed Income						
Bloomberg Barclays Capital U.S. Aggregate	3.1%	6.1%	7.9%	2.3%	2.9%	3.9%
Bloomberg Barclays Capital High Yield	2.5%	9.9%	7.5%	7.5%	4.7%	9.2%
Cash						
FTSE 3 Month US T Bill	0.6%	1.2%	2.3%	1.4%	0.8%	0.5%

* Source: Zephyr Associates Inc. This report has been prepared for informational purposes only. It is based on information generally available to the public from sources believed to be reliable. No representation is made that information is accurate or complete. Past performance is not indicative of future results. Additional information is available upon request. It is not possible to invest directly in an index. The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. All returns reflect the reinvestment of dividends and other income.

Equity Style Returns

Second Quarter

	Value	Blend	Growth
Large	3.8%	4.2%	4.6%
Mid	3.2%	4.1%	5.4%
Small	1.4%	2.1%	2.7%

Year-to-Date

	Value	Blend	Growth
Large	16.2%	18.8%	21.5%
Mid	18.0%	21.3%	26.1%
Small	13.5%	17.0%	20.4%

Trailing One Year

	Value	Blend	Growth
Large	8.5%	10.0%	11.6%
Mid	3.7%	7.8%	13.9%
Small	-6.2%	-3.3%	-0.5%

Trailing Three Years

	Value	Blend	Growth
Large	10.2%	14.1%	18.1%
Mid	8.9%	12.2%	16.5%
Small	9.8%	12.3%	14.7%

Trailing Five Years

	Value	Blend	Growth
Large	7.5%	10.5%	13.4%
Mid	6.7%	8.6%	11.1%
Small	5.4%	7.1%	8.6%

Trailing Ten Years

	Value	Blend	Growth
Large	13.2%	14.8%	16.3%
Mid	14.6%	15.2%	16.0%
Small	12.4%	13.4%	14.4%

Large Cap

Russell 1000 Value Index; Russell 1000 Index; Russell 1000 Growth Index.

Mid Cap

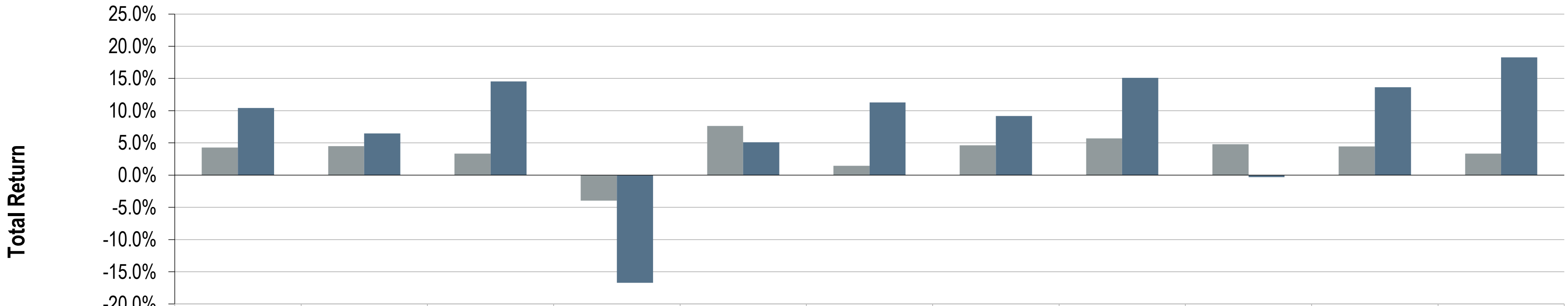
Russell Mid Cap Value Index; Russell Mid Cap Index; Russell Mid Cap Growth Index.

Small Cap

Russell 2000 Value Index; Russell 2000 Index; Russell 2000 Growth Index.

Source: Index Returns Taken from Zephyr StyleAdvisor.

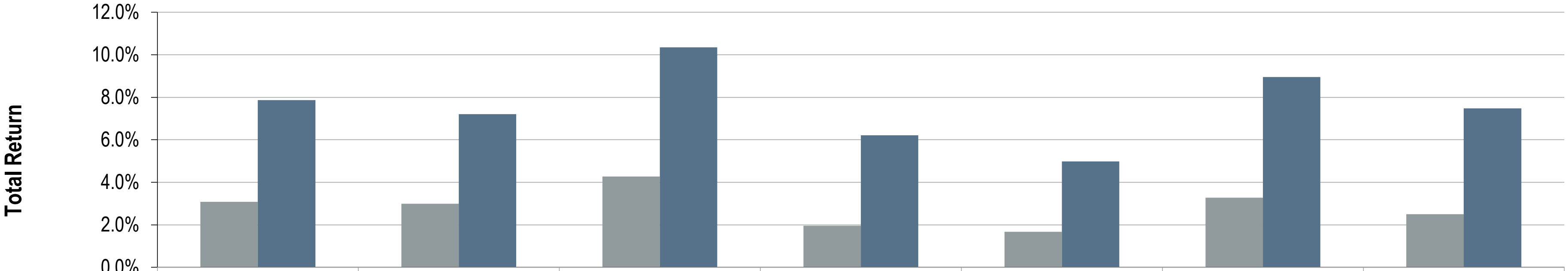
Equity Sector Returns (as of June 30, 2019)



	S&P 500	Cons. Discr.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info Tech	Materials	Telecom Services	Utilities
1 quarter	4.3%	4.5%	3.3%	-4.0%	7.6%	1.5%	4.6%	5.7%	4.8%	4.5%	3.3%
1 year	10.4%	6.5%	14.6%	-16.7%	5.1%	11.3%	9.2%	15.1%	-0.3%	13.6%	18.3%

* Source: Zephyr Associates Inc. Sectors represent the S&P Global BMI US GICS sector returns. This report has been prepared for informational purposes only. It is based on information generally available to the public from sources believed to be reliable. No representation is made that information is accurate or complete. Past performance is not indicative of future results. Additional information is available upon request. It is not possible to invest directly in an index. The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. All returns reflect the reinvestment of dividends and other income.

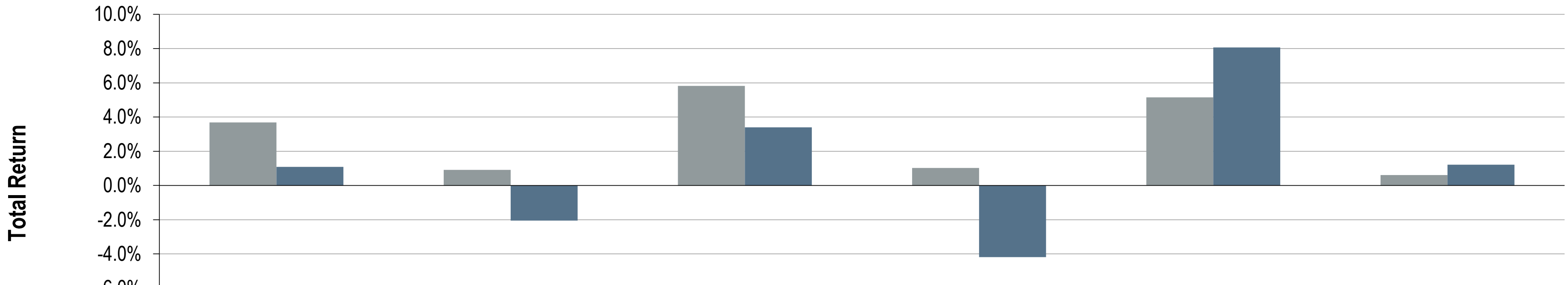
Fixed Income Sector Returns (as of June 30, 2019)



	BBgBarc US Agg Bond TR USD	BBgBarc US Government TR USD	BBgBarc US Credit TR USD	BBgBarc US MBS TR USD	BBgBarc ABS TR USD	BBgBarc CMBS IG Elig for US Agg TR USD	BBgBarc High Yield Corporate TR USD
1 quarter	3.1%	3.0%	4.3%	2.0%	1.7%	3.3%	2.5%
1 year	7.9%	7.2%	10.3%	6.2%	5.0%	9.0%	7.5%

* Source: Zephyr Associates Inc. and Morningstar. This report has been prepared for informational purposes only. It is based on information generally available to the public from sources believed to be reliable. No representation is made that information is accurate or complete. Past performance is not indicative of future results. Additional information is available upon request. It is not possible to invest directly in an index. The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. All returns reflect the reinvestment of dividends and other income.

Foreign Market Returns (as of June 30, 2019)



	MSCI EAFE (Net)	MSCI UNITED KINGDOM (Net)	MSCI EUROPE ex UK (Net)	MSCI JAPAN (Net)	MSCI PACIFIC ex JAPAN (Net)	MSCI EM (EMERGING MARKETS) (Net)
1 quarter	3.7%	0.9%	5.8%	1.0%	5.2%	0.6%
1 year	1.1%	-2.0%	3.4%	-4.2%	8.1%	1.2%

* Source: Zephyr Associates Inc. and Morningstar. This report has been prepared for informational purposes only. It is based on information generally available to the public from sources believed to be reliable. No representation is made that information is accurate or complete. Past performance is not indicative of future results. Additional information is available upon request. It is not possible to invest directly in an index. The indices are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. All returns reflect the reinvestment of dividends and other income.

Asset Class Returns (as of June 30, 2019)

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	10 Years (07/2009-06/2019)
Inv. Gr. Bond 5.2%	Emerging Markets 78.5%	Small Growth 29.1%	REITs 8.3%	Emerging Markets 18.2%	Small Growth 43.3%	REITs 30.1%	Large Growth 5.7%	Small Value 31.7%	Emerging Markets 37.3%	Inv. Gr. Bond +0.0%	Large Growth 21.5%	Large Growth 16.3%
High Yield -26.2%	High Yield 58.2%	REITs 28.0%	Inv. Gr. Bond 7.8%	REITs 18.1%	Small Value 34.5%	Large Value 13.5%	REITs 3.2%	Nat. Resour. 30.9%	Large Growth 30.2%	Large Growth -1.5%	Small Growth 20.4%	REITs 15.4%
Small Value -28.9%	Nat. Resour. 37.5%	Small Value 24.5%	High Yield 5.0%	Small Value 18.1%	Large Growth 33.5%	Large Growth 13.1%	Inv. Gr. Bond 0.6%	Large Value 17.3%	Developed Mkts 25.0%	High Yield -2.1%	REITs 17.8%	Small Growth 14.4%
Large Value -36.9%	Large Growth 37.2%	Nat. Resour. 23.9%	Large Growth 2.6%	Large Value 17.5%	Large Value 32.5%	Inv. Gr. Bond 6.0%	Developed Mkts -0.8%	High Yield 17.1%	Small Growth 22.2%	REITs -5.0%	Large Value 16.2%	Large Value 13.2%
REITs -37.7%	Small Growth 34.5%	Emerging Markets 18.9%	Large Value 0.4%	Developed Mkts 17.3%	Developed Mkts 22.8%	Small Growth 5.6%	Small Growth -1.4%	Small Growth 11.3%	Large Value 13.7%	Large Value -8.3%	Nat. Resour. 14.6%	Small Value 12.%
Large Growth -38.4%	Developed Mkts 31.8%	Large Growth 16.7%	Small Growth -2.9%	High Yield 15.8%	Nat. Resour. 16.5%	Small Value 4.2%	Large Value -3.8%	Emerging Markets 11.2%	Small Value 7.8%	Small Growth -9.3%	Developed Mkts 14.0%	High Yield 9.2%
Small Growth -38.5%	REITs 28.0%	Large Value 15.5%	Small Value -5.5%	Large Growth 15.3%	High Yield 7.4%	High Yield 2.5%	High Yield -4.5%	REITs 8.5%	High Yield 7.5%	Small Value -12.9%	Small Value 13.5%	Developed Mkts 6.9%
Nat. Resour. -42.6%	Small Value 20.6%	High Yield 15.1%	Nat. Resour. -7.4%	Small Growth 14.6%	REITs 2.5%	Emerging Markets -2.2%	Small Value -7.5%	Large Growth 7.1%	REITs 5.2%	Developed Mkts -13.8%	Emerging Markets 10.6%	Emerging Markets 5.8%
Developed Mkts -43.4%	Large Value 19.7%	Developed Mkts 7.8%	Developed Mkts -12.1%	Inv. Gr. Bond 4.2%	Inv. Gr. Bond -2.0%	Developed Mkts -4.9%	Emerging Markets -14.9%	Inv. Gr. Bond 2.7%	Inv. Gr. Bond 3.5%	Emerging Markets -14.6%	High Yield 9.9%	Inv. Gr. Bond 3.9%
Emerging Markets -53.3%	Inv. Gr. Bond 5.9%	Inv. Gr. Bond 6.5%	Emerging Markets -18.4%	Nat. Resour. 2.2%	Emerging Markets -2.6%	Nat. Resour. -9.8%	Nat. Resour. -24.3%	Developed Mkts 1.0%	Nat. Resour. 1.2%	Nat. Resour. -21.1%	Inv. Gr. Bond 6.1%	Nat. Resour. 3.4%

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Bloomberg Barclays Capital Asset-Backed Securities Index: Represents the ABS sleeve of the Bloomberg Barclays Capital U.S. Aggregate Index. This index is comprised of securitized debt within the credit cards, autos, and utilities subsectors.

Bloomberg Barclays Capital Commercial Mortgage-Backed Securities (CMBS) Investment Grade Index: Part of the Bloomberg Barclays CMBS Index family. This index consists of investment grade CMBS that are eligible for inclusion in the Bloomberg Barclays Capital U.S. Aggregate Bond Index.

Bloomberg Barclays Capital Credit Index: Includes all publicly issued, fixed rate, nonconvertible investment grade dollar-denominated, SEC-registered corporate debt. Included among Yankees is debt issued or guaranteed by foreign sovereign governments, municipalities, governmental agencies, or international agencies.

Bloomberg Barclays Capital Government Bond Index: Composed of the Bloomberg Barclays Capital Treasury Bond Index (all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues), and the Bloomberg Barclays Capital Agency Index (all publicly issued debt of U.S. Government agencies and quasi-federal corporations, and corporate debt guaranteed by the U.S. Government, excluding mortgage debt).

Bloomberg Barclays Capital High Yield Index: Covers the universe of fixed rate, non-investment grade debt. In general, all securities must be rated Ba1or lower by Moody's Investors Service, including defaulted issues. If no Moody's rating is available, bonds must be rated BB+ or lower by S&P; and if no S&P rating is available, bonds must be rated below investment grade by Fitch Investor's Service. A small number of unrated bonds are included in the index.

Bloomberg Barclays Capital Mortgage-Backed Securities (MBS) Index: Represents the MBS sleeve of the Bloomberg Barclays Capital U.S. Aggregate Bond Index. This index is comprised of fixed-rate and hybrid ARM pass throughs.

Bloomberg Barclays Capital U.S. Aggregate Bond Index: The index is a composite of four major sub-indexes: U.S. Government Index; U.S. Credit Index; U.S. Mortgage Back Securities Index and U.S. Asset Backed Securities Index. The index holds investment grade bonds. The ratings are based on S&P, Moody and Fitch bond ratings. The index does not include High Yield Bonds, Municipal Bonds, Inflation Indexed Treasury Bonds or Foreign Currency Bonds.

FTSE 3 Month US T Bill Index: This index measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three 3-month Treasury bill issues.

Dow Jones Industrial Average (DJIA): Computed by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value — one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities.

FTSE NAREIT Equity REITs Index: A free-float adjusted, capitalization-weighted index that is comprised of all Equity REITs not designated as Timber REITs or Infrastructure REITs. Equity REITs are defined as REITs with 75% or greater of their gross invested book assets invested directly or indirectly in the equity ownership of real estate.

MSCI EAFE Index: The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Emerging Markets Index: The MSCI Emerging Markets (EM) Index℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI Europe ex UK Index: Captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 340 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI Japan Index: Designed to measure the performance of the large and mid cap segments of the Japan market. With 316 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI Pacific ex Japan Index: Captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 148 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI United Kingdom: Designed to measure the performance of the large and mid cap segments of the UK market. With 107 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

MSCI World Index: The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of May 2005, the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Nasdaq Composite Index: Measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures.

Russell 1000® Index: Measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the Russell 3000 Index.

Russell 1000® Growth Index: Measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to book ratios and higher forecasted growth values.

Russell 1000® Value Index: Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

Russell 2000® Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 2000® Growth Index: Measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000® Value Index: Measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid Cap® Index: Measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies.

Russell Mid Cap® Growth Index: Measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid Cap® Value Index: Measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

S&P 500 Index: Measures the performance of the 500 leading companies in in the large cap segment of the market. Companies are chosen based upon their market size, liquidity and sector. Together these companies represent approximately 80% of the available market capitalization.

S&P Global BMI United States Sector Indices: A part of the S&P Global BMI benchmark series. All listed stocks must have at least $ 100 million in float adjusted market capitalization, and a value traded of at least $ 50 million for the last 12-months at the time of the annual reconstitution. Stocks are excluded if their market capitalization falls below $ 75 million, or if the value traded is less than US$ 35 million at the time of reconstitution. The S&P Global BMI adopted the Global Industry Classification Standard (GICS®) for its sector indices, which include Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecom Services, and Utilities.

S&P North American Natural Resources: The S&P North American Natural Resources Index provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS® energy and materials sector excluding the chemicals industry; and steel sub-industry.

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