## IN THIS ISSUE

SPOTLIGHT 2
ECONOMY 3
EQUITIES 5
FIXED INCOME 7
OUTLOOK 9
DISCLOSURES 12

# QUARTERLY MARKET INSIGHTS
## 3RD QUARTER 2019

SPOTLIGHT

## SHAREHOLDER VS. STAKEHOLDER

Do the rules by which U.S. corporations govern themselves need an overhaul? Calls for reform of corporate governance structures in place for decades have increasingly made headlines in 2019. The Accountable Capitalism Act, introduced in August 2018 by leading Democratic presidential candidate Senator Elizabeth Warren, is at the front line of this debate. Warren describes her legislation as designed to push corporations toward business decisions that are considered socially advantageous and supportive of the American middle class. Her proposals include a mandate that U.S. corporations with more than $1 billion of annual revenue ensure that at least 40% of corporate directors are selected by employees. Implementing this would dramatically alter the corporate board construction process currently decided by exclusively shareholder votes.

Warren's plan would mark a paradigm shift from the model underpinning corporate governance in the U.S. since the 1970s. This model elevates the interests of a company’s shareholders (or owners) over other stakeholders including employees, customers and citizens of the communities in which the business operates. This “shareholder primacy” theory was introduced by economist Milton Friedman in 1970, and asserts that the primary responsibility of a company’s executives is to maximize returns to shareholders as the owners of a corporation so long as the company operates within the guidelines of free and open competition. Friedman and his supporters contend that in a system where CEOs assume responsibility for spending corporate profits on “social purposes” they begin to function as public servants or unelected legislators. This model has been criticized by some for widening inequality in America given the small percentage of U.S. citizens who own shares of companies but see their cost of living outpace their wage growth. Conversely, Warren’s proposals have attracted criticism from moderates and conservatives who maintain that her policies would restrict economic expansion and suppress innovation.

The playing field in the debate between shareholders and stakeholders may have shifted earlier this year when 181 of the 188 CEOs comprising The Business Roundtable (BRT) declared that the purpose of a corporation is no longer to exclusively serve its owners (i.e., shareholders), but to create value for all stakeholders including employees, customers, suppliers and the communities in which the firm operates.[1] The implication of the BRT’s pronouncement seems to be that corporations, like governmental bodies, should strive to address economic and social problems. Firms adopting this approach could encounter potentially significant implications for competition, profitability and long-term investment decisions. To comply with this hypothetical new landscape, companies with the lowest levels of capital expenditures relative to sales and those with the highest proportion of low-wage employees could face pressure on their profit margins and cash flows.

When deciding how to allocate after-tax profits, a firm's executive management and board will generally choose between capital expenditures to expand the business, paying dividends to shareholders or repurchasing shares. Of these, share buybacks have faced increasing scrutiny in recent years. Politicians on the left and right have criticized the U.S. corporate sector for spending a significant portion of the $1.5 trillion made available following the December 2017 tax cut on share buybacks. Republican Senator Marco Rubio suggested Congress consider legislation to raise capital gains tax rates in order to discourage share buybacks. Senator Rubio’s plan combines higher tax rates on share buybacks with extending a provision in the 2017 tax bill that allows companies to immediately and fully deduct the cost of new investments designed to push companies toward increased capital expenditures. In a February 2019 *New York Times* opinion article, Democratic Senators Chuck Schumer and Bernie Sanders pledged to introduce legislation to mandate minimum levels of investment by companies in their employees and the long-term viability of the company as preconditions for share buybacks.

Battle lines are emerging between advocates of shareholder primacy versus stakeholder primacy and share buybacks versus other uses of corporate profits. Depending on who wins the Democratic presidential nomination, the 2020 election could prove to be a fascinating testing ground for how strongly American voters feel either way about these issues.

[1] “Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’.” Business Roundtable (August 19, 2019) www.businessroundtable.org

# ECONOMY

## ECONOMIC GROWTH SLOWS BUT REMAINS STEADY

The Commerce Department announced U.S. GDP increased at an annual rate of 2.0% in the second quarter of 2019, unchanged from the previous estimate and in line with estimates. Personal consumption rose at a 4.6% pace, a tick lower than the original reading of 4.7%. Inflation data rose slightly in August as the Personal Income and Outlays report saw an increase in the Core PCE price index to 1.8% over the prior year, up from a previously revised 1.7% in July. Personal income rose 0.4% over the prior month. Consumer spending rose 0.1%, noticeably less than the 0.5% increase in July.

In September, the Federal Reserve delivered a much anticipated quarter-point cut to its benchmark rate, lowering it to a range of 1.75% to 2.00%. Chairman Jerome Powell said the central bank's main concerns continue to be the slowdown in global growth and trade policy uncertainty caused by the U.S.-China trade war. Any insight into future policy decisions was carefully side-stepped by Powell during the press conference, as he reiterated that the Fed would act as appropriate to sustain the expansion.

Consumer confidence fell 7.0% in September to a reading of 125.1 from 134.2 in August according to a Conference Board survey. Consumer expectations of income growth were a strong detractor as expectations declined sharply over the prior month. The report also included an uptick in bearish stock market sentiment to 35.3%, outpacing bullish sentiment at 31.6%, and unchanged at 33.1%.

| ECONOMIC INDICATORS | LATEST | 3MO PRIOR | CHANGE* |
|---|---|---|---|
| REAL GDP (QoQ ANNUALIZED) | 2.0% | 3.1% | ▼ |
| TRADE BALANCE | -54.9 | -55.8 | ▲ |
| UNEMPLOYMENT RATE | 3.5% | 3.7% | ▲ |
| NON-FARM PAYROLLS | 136K | 178K | ▼ |
| ISM MANUFACTURING | 47.8 | 51.7 | ▼ |
| ISM NON-MANUFACTURING | 52.6 | 55.1 | ▼ |
| RETAIL SALES (LESS AUTOS) | 0.1% | 0.6% | ▼ |
| INDUSTRIAL PRODUCTION | 0.7% | 0.2% | ▲ |
| HOUSING STARTS | 1364M | 1264M | ▲ |
| CONSUMER PRICE INDEX (YoY) | 1.7% | 1.6% | ▼ |
| CONSUMER CONFIDENCE | 125.1 | 124.3 | ▲ |
| EXISTING HOME SALES | 5.49M | 5.36M | ▲ |
| CONSUMER CREDIT | 17.9B | 17.08B | ▲ |
| CRUDE OIL PRICE | 54.07 | 58.47 | ▲ |

Source: Bloomberg. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

### EMPLOYMENT AND MANUFACTURING

The September nonfarm payrolls report was weaker than expected, as U.S. employers hired 136,000 workers compared to the consensus estimate of 145,000. The report was not completely disappointing, however, as the unemployment rate declined from 3.7% to 3.5%, marking its lowest level since 1969. Meanwhile, there were positive revisions of 45,000 jobs to the prior two months; the change in total nonfarm payroll employment for July was revised up 7,000 from 159,000 to 166,000, and August was revised up 38,000 from 130,000 to 168,000. After these revisions, the average monthly gain thus far in 2019 is 161,000 compared to an average monthly gain of 223,000 in 2018. September's job growth undershot the 2018

and 2019 average monthly gains by 87,000 and 25,000, respectively. This suggests a moderate slowdown in hiring across the domestic labor market is underway.

In September, average hourly earnings for U.S. workers dipped slightly to $28.09 from $28.10, pushing down the year-over-year gain in wages to 2.9% compared to an average of 3.2% in the first eight months of 2019. Following the release of the September jobs report, fed funds futures markets' implied probability of another 0.25% rate cut at the Fed's October 30 meeting declined to 75% from 85% a day earlier.

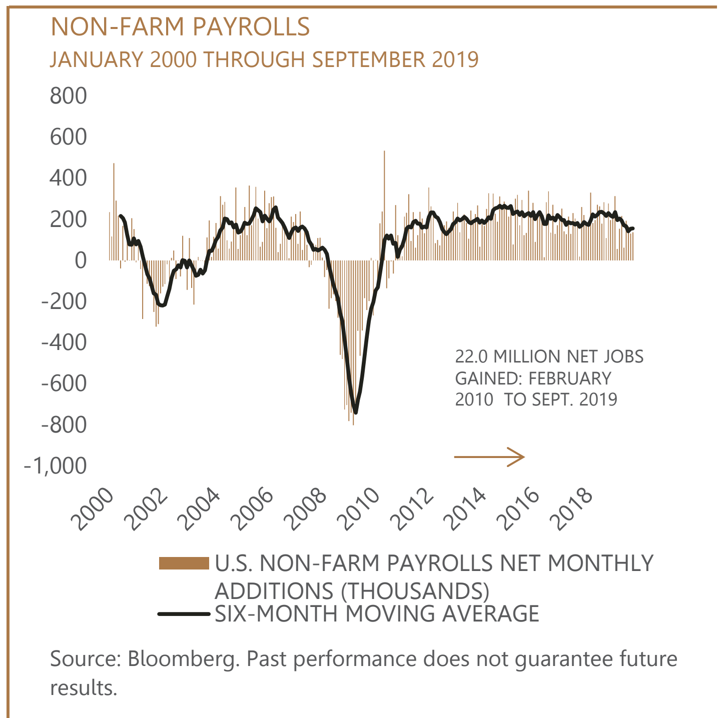
Domestic manufacturing continued to slow as the ISM Manufacturing report indicated U.S. manufacturing activity further slipped into contractionary territory in September. The new export orders component of the index fell to its lowest level since March 2009. The manufacturing index dropped to 47.8 in September, its lowest level since June 2009 and worse than what economists had expected.

The index measures month-to-month changes in the industry, and a reading above 50 denotes growth in the sector. "Global trade remains the most significant issue, as demonstrated by the contraction in new export orders that began in July 2019," said Timothy Fiore, chair of the ISM's manufacturing business survey committee.

## HOUSING

Supported by lower mortgage rates and a robust labor market, housing improved in August as new home sales rose to an annualized rate of 713,000, up from 666,000 in July. Pending home sales increased 1.6% for August, improving upon the prior month's decrease of 2.5%. The rate at which builders broke ground on new residential units in August compared to the previous month rose at the fastest pace since 2007. Building permits, often considered an indicator for future housing starts, also increased in August at the quickest rate in over a decade.

Sales of previously owned homes increased 1.3% in August to an annualized amount of 5.49 million units, above consensus expectations of 5.38 million units. Some economic commentators have suggested that low mortgage rates, improved home affordability, a solid labor market and healthy consumer sentiment may be finally combining to boost the dormant U.S. housing market. Residential construction has not been a positive contributor to U.S. GDP growth since 2017.




Source: Bloomberg. Past performance does not guarantee future results.

# EQUITY

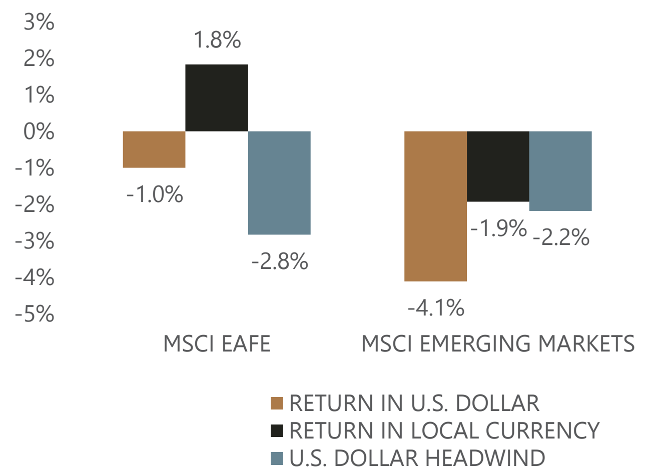
## DOMESTIC DEFENSIVE SECTORS IN FAVOR

The ebb and flow of the U.S.-China trade war, recession concerns, and expectations for Federal Reserve interest rate cuts jolted domestic equities up and down for another quarter. Investors' anticipation of a Federal Reserve interest rate cut helped equities start the quarter on a positive note, highlighted by the S&P 500 all-time closing high of 3,025.86 on July 26. As market participants expected, the Federal Reserve reduced interest rates at the end of July for the first time since 2007. A swift escalation of negative sentiment occurred in August due to a reescalation in the U.S.-China trade war and recession concerns fueled by the U.S. yield curve inversion. August's wave of selling resulted in the S&P 500 declining 1.6% in the month while domestic mid cap and small cap stocks lost over 4%. Equities quickly recovered most of their August losses in September amid easing trade tensions, cooling recession fears, and a second Federal Reserve interest rate cut. Global equities finished the quarter roughly where they began with the MSCI ACWI index rising a modest 0.1%.

Turning to sector performance, defensive sectors, including utilities and consumer staples, were among the sector leaders with quarterly returns of 9.3% and 6.1%, respectively. The decline of market interest rates to multi-year lows drove real estate's strong 7.7% return. Financials experienced a bumpy ride as the sector traded in line with interest rates during a volatile August and September. The energy sector's 6.3% decline made it the worst performing area of the market for a second consecutive quarter. Shares of companies involved in the production of oil and natural gas have come under pressure in 2019 amid concerns surrounding softer global growth damaging oil demand and analysts lowering their 2019 earnings forecasts. Value stocks ended their recent dry spell by outperforming growth stocks in the quarter for only the third time in the last three years. Value stocks were helped by their large performance gap over momentum-oriented stocks in September; although the momentum factor's poor relative performance was influenced by major index providers' rebalancing earlier in 2019 leading to a greater allocation to traditionally defensive sectors.

U.S. equities outperformed foreign equities for a third straight quarter and seventh of the last eight quarters. The S&P 500's 1.7% quarterly gain made domestic large cap the only equity sub-asset class with a positive quarterly return.

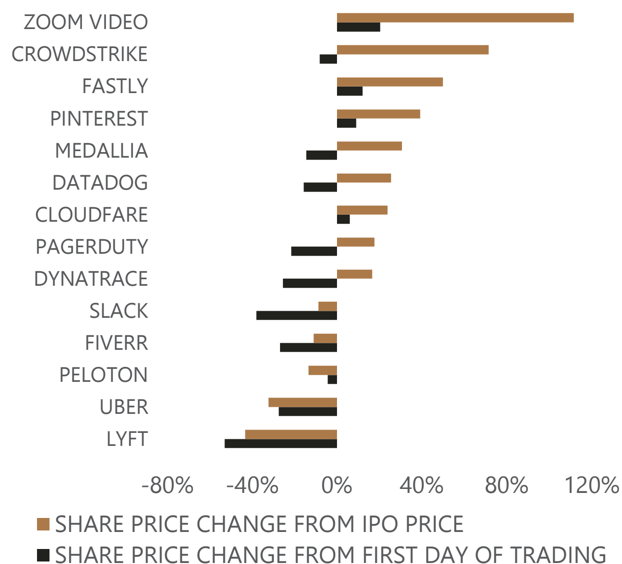
### THIRD QUARTER U.S. DOLLAR HEADWINDS




Source: Morningstar. Past performance does not guarantee future results.

Despite recording gains above 3.0% in September, domestic mid cap and small cap indexes were unable to overcome their large August declines and finished the quarter with small losses. Foreign equities struggled in the quarter, as the foreign developed MSCI EAFE index lost 1.0% and the MSCI Emerging Markets index fell 4.1%. The fallout from the U.S.-China trade war, Japan-South Korea trade dispute, and massive protests in Hong Kong continue to plague foreign equities. The stronger U.S. dollar created an additional headwind for foreign equities and reduced their returns by over 2.0% as illustrated in the accompanying chart.

In the U.S., a sentiment shift in the initial public offering (IPO) market seemed to crystalize in the third quarter. Many investors had lofty expectations for a group of highly anticipated IPOs in 2019. This cohort included some of the largest, well known and nearly ubiquitous consumer technology companies including Uber, Lyft and Airbnb. Yet, excitement gave way to disappointment in many cases, as many of the big new technology issues in 2019 now trade significantly below their opening prices from the first day of trading. As seen in the chart (right), shares of ride-sharing giants Uber and Lyft both traded at least 30% below their respective IPO prices as of September 30. More recently, corporate real estate rental juggernaut WeWork suspended its plans for a 2019 IPO amid building criticisms of its corporate governance structures, business model and lofty valuation. Shares of Peloton, the maker of high-end stationary bikes that allow users to live-stream spinning classes, fell to 25% below its IPO price in the days following its September 25 IPO. Underscoring this shift, the Renaissance IPO exchange-traded fund climbed 40% year-to-date through June 20 compared to a 19% gain for the S&P 500. From June 20 through September 30, however, it declined 13% compared to the S&P 500’s 1% advance. Not all IPOs have been duds in 2019; shares of plant-based meat substitute producer Beyond Meat Inc. have surged over 400% from its May 1 IPO price. Nevertheless, the disappointing IPO market of 2019 has led some notable venture capital funds to organize a summit in early October with about 100 CEOs of late-stage private companies to discuss going public through direct listings instead of IPOs.



Source: Bloomberg. Past performance does not guarantee future results.

## FIXED INCOME

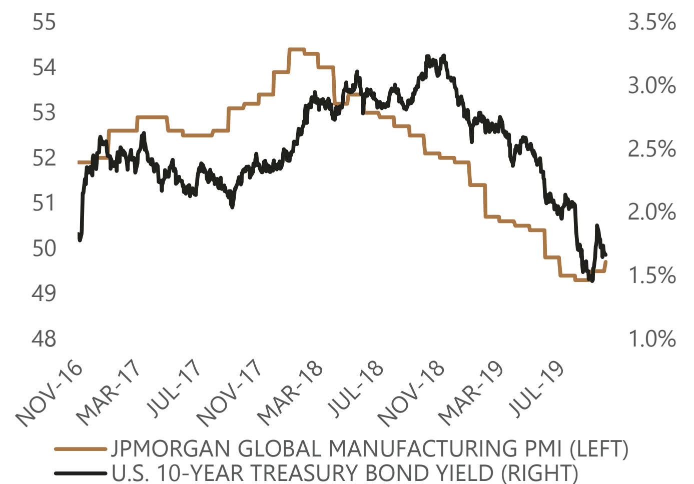
### BEHIND THE CURVE?

In the third quarter, a continuation of trade tensions between the U.S. and China alongside a weakening global economic environment resulted in a shift toward a more accommodative interest rate policy stance from the Federal Open Market Committee (FOMC). During the quarter, the FOMC met twice and cut its reference rate range by 0.25% at each meeting to end up within a range of 1.75% to 2.00%. Neither rate cut decision was unanimous, however, as two FOMC voting members dissented in July and three members dissented in September. Prior to the July rate cut, there had been no change in the fed funds rate since a 0.25% rate hike on December 19, 2018, which increased the target range to 2.25% - 2.50%. The initial 0.25% cut in July marked the first rate cut of this eleven-year economic expansion. As of the second week of October, fed funds futures markets project a greater than 90% probability of at least one more 0.25% Fed rate cut in 2019. Market participants are close to evenly split on whether that rate cut will occur at the FOMC's October or December meeting. Looking further out on the horizon, fed funds futures markets expect the mid-point of the reference rate range to be 1.06% in December 2020. This suggests market participants view the current policy rate as too restrictive and expect another 0.75% to 1.00% of interest rate cuts between now and the end of 2020.

The FOMC's interest rate policy shift had a significant impact on the U.S. Treasury yield curve, as yields fell across the maturity spectrum in the third quarter. Declines in yields were most pronounced at the longer end of the curve with the 30-year and ten-year Treasury yields declining 0.42% and 0.34%, respectively. Meanwhile, the three-month Treasury yield declined 0.28% during the quarter. In the middle section of the curve, yields fell by slightly less, as the two-year and five-year Treasury yields declined 0.13% and 0.22%, respectively. The result at the end of the quarter was lower yields across the curve with a less pronounced inversion than at the end of the second quarter. A yield curve inversion occurs when yields of shorter maturity bonds are greater than yields of their longer maturity counterparts. This has happened before every recession in the post-World War II era, although there have been several occasions where a yield curve inversion did not immediately precede a recession.

Many market participants point to the yield spread between the three-month and ten-year Treasury bonds and the two-year and ten-year Treasury bonds to gauge

GLOBAL MANUFACTURING AND U.S. YIELDS
NOVEMBER 2016 THROUGH SEPTEMBER 2019




Source: Bloomberg. Past performance does not guarantee future results.

inversions. This year, each of the curves inverted for the first time since 2007. The three-month Treasury yielded more than the ten-year Treasury and flirted with inversion for a few days in late March before entering inversion territory on May 22. This part of the yield curve has been inverted since then with the exception of one day in late July. Another widely cited portion of the U.S. Treasury yield curve, the spread between the yields of the two-year and ten-year maturities, avoided inversion territory except for about ten days in late August. Given our view that an imminent recession in the U.S. is not likely, we recommend investor portfolios be positioned with less duration (or interest rate sensitivity) than their benchmarks.

In broadening the discussion to other areas of the fixed income market, it is evident that credit and government bond markets are not in sync when it comes to pricing in odds for a recession. For instance, credit spreads have generally narrowed in 2019, while yields on long-term U.S. government bonds have tumbled. Under the surface of credit markets, U.S. investment grade credit indexes have generally outperformed their U.S. high yield and emerging markets debt counterparts. Within the investment grade sector, issuances in the technology and banking sectors significantly outperformed those in tobacco and various consumer products industries.

Looking forward, we believe market driven U.S. interest rates will probably continue to be influenced by the level and direction of comparable high quality government bonds around the world and primarily in Europe and Japan. At least in the near term, a dovish U.S. Federal Reserve, muted inflation and decelerating global growth will likely keep U.S. rates anchored to rates of other major developed market international economies. Although foreign investors generally look to U.S. government bonds for safety and a relative yield advantage, many U.S. investors largely continue to favor Treasury bonds for portfolio management reasons. This is because even with historically low yields, U.S. Treasuries are still expected to provide liquidity and diversification benefits during periods of stock market volatility. The combination of the above factors will likely prevent U.S. yields from rising significantly in the near term. This, in turn, limits the appeal of government bonds to income-focused investors who will be forced to seek higher income elsewhere.

DEVELOPED MARKET BOND YIELDS
2009 THROUGH 2019

Source: Bloomberg. Past performance does not guarantee future results.

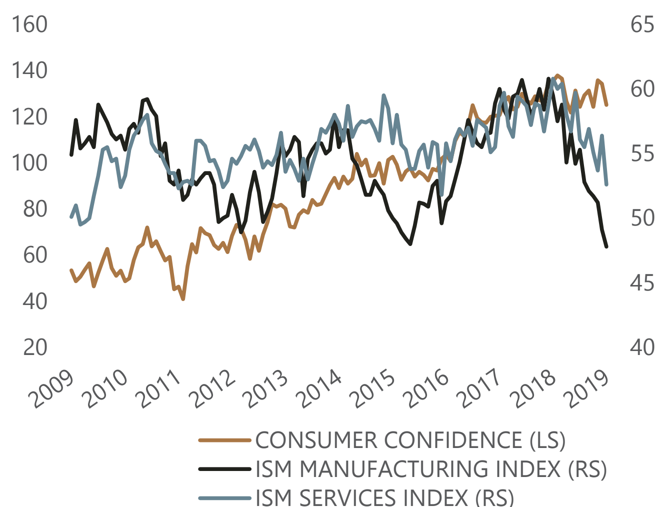
OUTLOOK

## WILL CONSUMERS CATCH THE MANUFACTURING COLD?

Have you had your flu shot yet? The manufacturing sector of the U.S. economy seems to have come down with a bug in recent months. As investors survey the market landscape, they might be more concerned about the inoculation status of U.S. consumers rather than their own well-being. As seen in the chart (below right), the Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) fell into contractionary territory below a reading of 50 in August and September for the first time since early 2016. How concerned should investors be that weakness observed in domestic manufacturing will eventually hurt U.S. consumers? As it relates to the overall health of the economy, is it the stuff of Nostradamus or Chicken Little? To be clear, this is sentiment data or so called "soft" data based on responses to a set of questions from a sample of managers in charge of purchasing decisions at U.S. manufacturing companies. The respondents weigh in about their expectations for new orders, export activity and inventory levels. Unlike so-called "hard data," "soft data" is information describing highly informed human expectations, but not what actually occurred in the economy looking backwards. It seems likely to us that the current trade and tariff dispute between the U.S. and China has caused increased uncertainty related to supply chain management and business expansion for a portion of the respondents to the ISM Manufacturing PMI survey. Outside of the trade clash, the current General Motors labor strike could also be contributing to the recent erosion of manufacturing sentiment given the size of the company's operations and supply chain.

As we can see in the chart on page 10, the manufacturing sector is certainly a smaller part of the U.S. economy than in previous decades based on its contribution to nominal Gross Domestic Product (GDP). Despite its reduced size, many economists and market commentators view it as a leading indicator for the overall economy. It is true that the average American in 2019 is much more likely to be employed in the financial, healthcare or retail services industries than to work in a manufacturing plant. Yet, companies in services industries and consumers themselves are often significant end markets for many manufacturers. If a maker of tool bits in the Midwest has reduced its expectations for new orders, this could mean that one of its customers in another region who manufactures consumer products faces softer demand in their retail markets. If the managers of these companies are less certain about future business activity, they might be more likely to cut back on hiring plans and wage increases for their workers. On a large enough scale, reduced prospects for jobs and higher wages could imperil U.S. consumer health. Although we acknowledge this could happen, we do not believe there is sufficient evidence to claim that manufacturing sector weakness is causing consumer confidence or the labor market to stall out. Major

SENTIMENT INDICATORS
SEPTEMBER 2009 THROUGH SEPTEMBER 2019

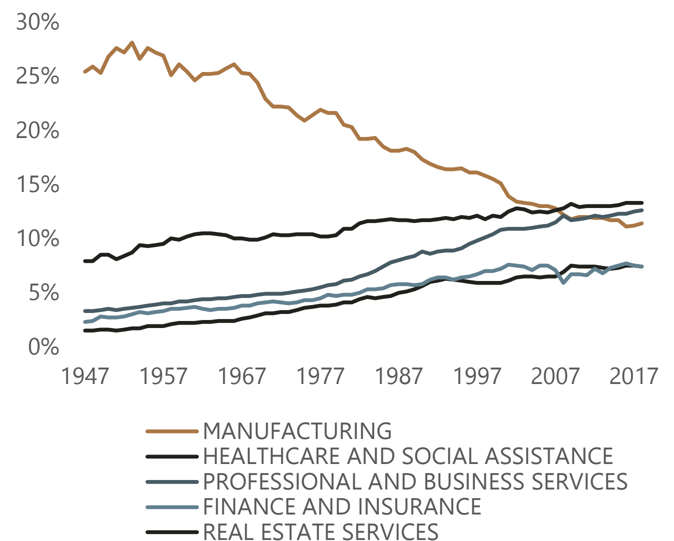



Source: Bloomberg. Past performance does not guarantee future results.

sentiment indicators and national retail sales numbers have been solid in recent months. Meanwhile, better-than-expected sales growth numbers from large national consumer-oriented companies including PepsiCo, Walmart, Target and The Home Depot suggest to us that U.S. consumer activity remains on track heading into the holiday season.

We believe the dichotomy of a weakened manufacturing picture alongside a resilient U.S. consumer and labor market underscores the balance of risks and opportunities facing investors in the final months of 2019. Last quarter's Outlook section discussed the disparity between low government bond yields and stock market levels near all-time high, and what that meant for investors when considering near-term economic prospects. We continue to believe that the bond market and investors who are projecting an imminent recession based on poor manufacturing sector sentiment data are most likely overreacting. To be clear, we acknowledge the U.S.-China trade dispute and slowdowns in several major international economies are risks worth monitoring. We believe this should put a ceiling on significant equity market gains over the next several quarters. Yet, central banks across most of the world have clearly pivoted to a more accommodative policy stance and U.S. consumers (the largest component of the world's largest economy) do not appear to be weighed down by a slowdown in manufacturing activity.

Given our views outlined above, we believe it makes sense for client portfolios to be positioned moderately underweight to fixed income and neutral to equity relative to the mid-point of their respective strategic ranges. While we do not see signs of an economic contraction around the corner, we expect elevated equity market volatility and limited upside to fixed income returns given historically low yields across most of our investment grade bond universe. As such, we recommend that client portfolios include an overweight allocation to alternative investment strategies that have demonstrated an ability to provide enhanced portfolio diversification during choppy market environments.

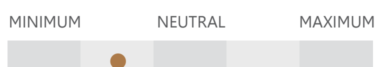



Source: U.S. Bureau of Economic Analysis. Past performance does not guarantee future results.

# ECONOMIC OUTLOOK AND INVESTMENT POLICY

| ECONOMIC FACTORS | CURRENT OUTLOOK |
|---|---|
| U.S. GDP Growth | The Bloomberg consensus economists' expectation for full-year 2019 U.S. GDP growth declined to 2.3% in October from 2.5% in July. |
| Federal Funds Rate | Fed funds futures markets project a roughly 50% probability of two additional quarter-point rate cuts in the fourth quarter as of October 7. |
| Inflation | Bond market participants' expectations for average annual inflation over the next five years fell to a three-year low of 1.26% in early October. |
| Employment | The hiring plans of U.S. small businesses receded in September, but still remain significantly higher than in 2009 through 2016. |
| Consumer Confidence | The enthusiasm of U.S. consumers has slightly eroded in recent months driven by lowered expectations for economic growth and job prospects. |
| Oil | The recent attacks on Saudi oil supply infrastructure could add a risk premium to oil prices in the fourth quarter. |
| Housing | A nearly 1.0% decline in the average U.S. 30-year fixed mortgage loan rate in the first nine months of 2019 could boost a dormant housing market. |
| International Economies | In September, the ECB reduced its forecast for 2019 GDP growth across the European Union to 1.1%, down from 1.2% in June. |

## FIXED INCOME

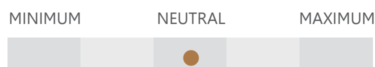


| | MINIMUM | | NEUTRAL | | MAXIMUM |
|---|---|---|---|---|---|
| FIXED INCOME | | ● | | | |
| Core Bonds | | | ● | | |
| TIPS | | | | ● | |
| Non-Investment Grade | | | ● | | |
| International | ● | | | | |

CURRENT OUTLOOK

We believe client portfolios should be moderately underweight fixed income relative to the mid-point of our strategic range. The rationale for this stance is grounded in our view that no clear signs of an imminent economic contraction are present, while historically low yield levels persist across most of the investment grade portion of our fixed income investment universe. While it seems likely that the Federal Reserve will implement at least another 0.25% of rate cuts in the fourth quarter of 2019, we view the slowdown in growth driving the rate cuts as most likely transitory. Trends in credit spreads appear benign to us as well, especially compared to periods before the beginning of the two most recent recessions. We continue to see limited appeal in the broad international fixed income asset class.

## EQUITIES

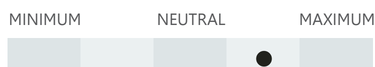


| | MINIMUM | | NEUTRAL | | MAXIMUM |
|---|---|---|---|---|---|
| EQUITIES | | | ● | | |
| Large Cap | | | ● | | |
| Mid Cap | | | | ● | |
| Small Cap | | | ● | | |
| Developed International | | ● | | | |
| Emerging Markets | | ● | | | |

CURRENT OUTLOOK

In our view, the equity allocation of client portfolios should be positioned in a neutral stance relative to the mid-point of our strategic range. Current valuations of most global equity indexes are well within historical ranges, while most major global central banks have shifted their policies to promote easier financial conditions. Yet, unresolved trade disputes, economic slowdowns in China and Europe and the current soft patch in U.S. corporate earnings growth justify a more cautious stance than we recommended in 2018. A majority of our concerns would likely have a disproportionate effect on international economies. As such, an underweight to developed market international equities remains appropriate until we see durable signs of improvements in trade policy negotiations and positive economic momentum in both China and Europe.

## ALTERNATIVES*



| | MINIMUM | | NEUTRAL | | MAXIMUM |
|---|---|---|---|---|---|
| ALTERNATIVES* | | | | ● | |

| | CAP PRES | IWSG | BAL | GWSI | GROWTH |
|---|---|---|---|---|---|
| Global Real Estate | | | ● | ● | ● |
| Global Infrastructure | | ● | ● | ● | ● |
| Hedged Equity | ● | ● | ● | ● | ● |
| Arbitrage | ● | ● | ● | | |
| Strategic Income | ● | ● | ● | ● | |

CURRENT OUTLOOK

Following a relatively calm first half of 2019, equity market volatility perked up in the third quarter amid heightened trade tensions. Market choppiness has coincided with a steep drop in U.S. government bond yields and a surge in gold prices, two indicators of market participants' growing concerns about a potential deceleration of U.S. economic growth. Despite some reductions in the U.S.-China trade war tension, we expect risk asset volatility to remain above its historical average for the remainder of 2019. In our view, government bonds are fairly valued, while the broad equity asset class is increasingly exposed to trade policy uncertainty and a deceleration of economic growth outside of the U.S. As such, we recommend that client portfolios include an overweight to alternative investments that are able to provide enhanced portfolio diversification. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.
*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

The material is prepared and distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The information presented has been obtained with care from sources believed to be reliable, but is not guaranteed. Opinions herein are not statements of facts and may include “forward-looking statements” which may or may not be accurate over the long term. Report includes candid statements and observations regarding investment strategies, asset allocation, individual securities, and economic and market conditions. Statements, opinions, or forecasts not guaranteed and are as of this date appearing only. Do not place undue reliance on forward-looking statements. Client accounts may not reflect the opinions expressed herein. Investing involves risk, and may result in loss. This information is subject to change at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.

ATG Trust Company
1 South Wacker Drive, 24th Floor
Chicago, Illinois 60606
atgtrust.com

MainStreet Investment Advisors, LLC ("MainStreet Advisors") is an investment adviser registered with the Securities and Exchange Commission. The information and opinions expressed in this publication are not intended to constitute a recommendation to buy or sell any security or to offer advisory services by MainStreet Advisors. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to participate in any trading strategy, and should not be relied on for accounting, tax or legal advice. The securities and financial instruments described in this document may not be suitable for you, and not all strategies are appropriate at all times. This publication is not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's account should or would be handled, as appropriate investment strategies depend upon the client's investment objectives. The portfolio risk management process and the process of building efficient portfolios includes an effort to monitor and manage risk, but should not be confused with or does not imply low or no risk. The charts are for educational purposes only and should not be used to predict security prices or market levels. Any suggestion of cause and effect or of the predictability of economic or investment cycles is unintentional. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions.

Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete, and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. The information expressed may include forward-looking statements which may or may not be accurate over the long term. This publication includes candid statements and observations regarding investment strategies, sector allocations, individual securities, and economic and market conditions; however, there is no guarantee that the statements, opinions, or forecasts in this publication will prove to be correct. Actual results could differ materially from those described in these forward-looking statements. Diversification does not ensure a profit and may not protect against loss in declining markets. We and our affiliates, officers, directors, and employees may from time to time have long or short positions in, and buy or sell, the securities, if any, referred to in this report.

There are substantial risks involved with investing in Alternative Investments. Alternative Investments represent speculative investments and involve a high degree of risk. An investor could lose all or a substantial portion of his/her investment. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in an Alternative Investment.

Traditional and Efficient Portfolio Statistics include various indexes that are unmanaged and are a common measure of performance of their respective asset classes. The indexes are not available for direct investments. Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. Investing for short periods may make losses more likely. Any investments purchased or sold are not deposit accounts and are not endorsed by or insured by the Federal Deposit Insurance Corporation (FDIC), are not obligations of the Bank, are not guaranteed by the Bank or any other entity and involve investment risk, including possible loss of principal.

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition. The information is not intended to provide and should not be relied on for account, legal or tax advice. Diversification does not guarantee investment returns and does not eliminate the risk of loss. We and our affiliates, officers, directors, and employees may from time to time have long or short positions in, and buy or sell, the securities, if any, referred to in this report.

| NOT A DEPOSIT | NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED |
|---|---|---|---|
| NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | | | |