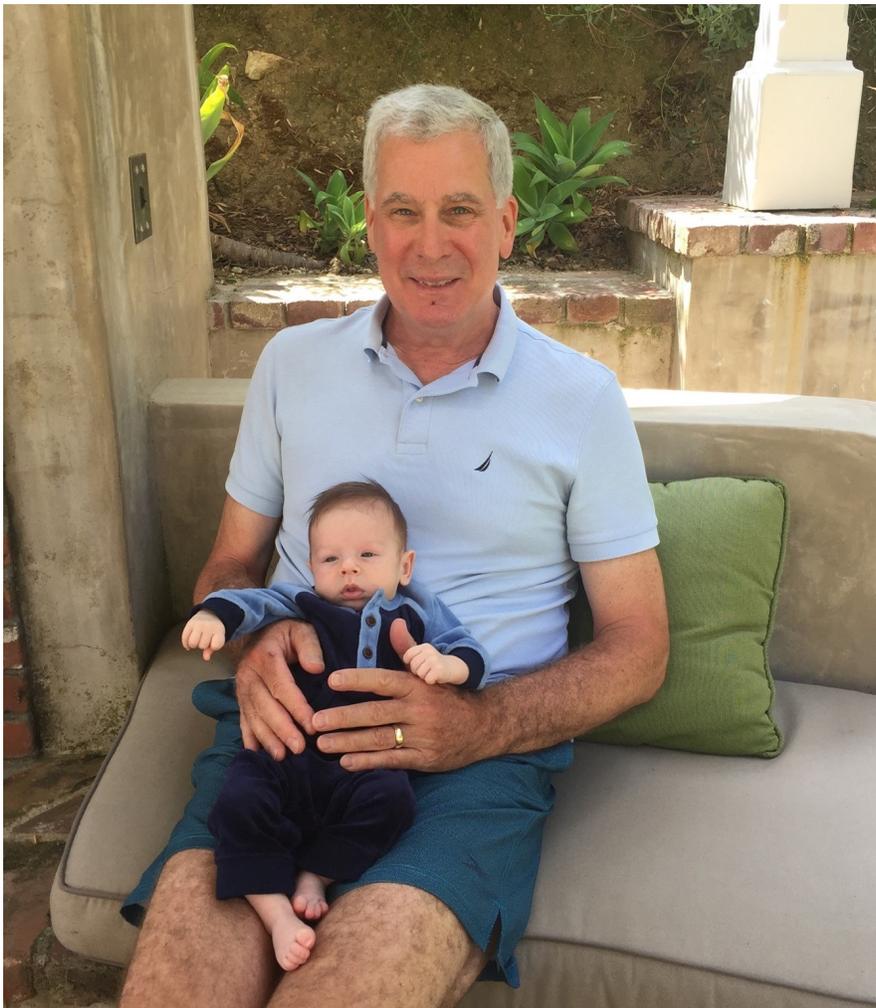




Life is a Precious Gift

We have some exciting news to share with you. In May, Cam and Jane welcomed their first grandson to the family. Meet Luke Ryan –



Luke was born on Mother's Day to John and Kate (Cam and Jane's daughter).

And in July, Cam and Jane welcomed their second grandson to the family. Meet Huston Joseph –



Huston was born just over three weeks ago on July 24 to Kim and Andrew (Cam and Jane's son).

As you can imagine, Cam and Jane are feeling blessed beyond words. Everyone is in good health and enjoying all that comes with welcoming these two baby boys to their family.

For those of you that are interested in what happened with the investment markets this week, following is a commentary report created by Cetera Investment Management LLC.

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Interpreting the Inverted Yield Curve

- Volatility has increased and the S&P 500 is now down over 6% from its peak.
- While the Treasury yield curve is inverted, it is still hard to predict future equity declines.
- We expect volatility to remain elevated and recommend diversifying risk factors.

The S&P 500 recorded its second-worst one day loss of the year, down roughly 3%, after new data showed China's industrial output grew at just 4.8% over the past year, well below projections and its lowest rate in over 17 years. China's unemployment rate also jumped to its highest level on record.

Adding to this bad global economic news, Germany's economy contracted slightly in the second quarter, its lowest growth rate since 2011 and fueling fears of a recession for the Eurozone's largest economy. Overall Eurozone economic growth expanded by just 0.2% in the second quarter, a meaningful slowdown from the 0.4% growth reported in the first quarter.

This bad data caused investors to sell equities and buy longer-dated Treasury bonds, which are viewed as a safe haven. Treasury yields move inversely to Treasury prices, so yields fell as investors purchased bonds. This buying, along with the nearly twelve-month rally in bond prices, pushed the yield on 10-year Treasury bonds below that of 2-year Treasury bonds.

Taking a step back, this seems counter-intuitive as long-term borrowing costs are cheaper than short-term borrowing costs. Since bond yields tend to track future economic growth prospects, this is the financial markets signaling that future economic growth will slow and it is better to lock these current long-term yields in today, before they decline further. This so-called "inverted" yield curve has happened many times in the past. While not always the case, recessions usually follow these yield curve inversions. With that said, keep in mind Eurozone nations, such as Germany and France, have negative interest rates. There is more than

\$16 trillion worth of negative-yielding debt globally. This makes U.S. Treasury rates attractive on a relative basis. Considering Treasury's relative attractiveness, this could put into question the predictive value of the inverted yield for an impending recession.

While an inverted yield curve is a bad sign for the economy, trying to time the stock market can be difficult. In the table below we show the last five times the yield curve has inverted, the start of the ensuing recession, and the return of the S&P 500 between that inversion until the official beginning of the ensuing recession.

| Date of Yield Curve Inversion | Recession Start Date | Lead (Months) | S&P 500 (Total Return) |
|--|---------------------------------|--------------------------|---------------------------------------|
| Aug-1978 | Jan-1980 | 17 | 23.0% |
| Sep-1980 | Jul-1981 | 10 | 11.9% |
| Dec-1988 | Jul-1990 | 19 | 37.7% |
| Feb-2000 | Mar-2001 | 13 | -15.6% |
| Dec-2005 | Dec-2007 | 24 | 22.2% |
| | | <i>Average</i> | <i>17</i> |
| | | | <i>15.8%</i> |

Source: Cetera Investment Management, National Bureau of Economic Research, Morningstar, Standard & Poor's. A yield curve inversion is when the 2-year Treasury Yield is greater than the 10-year Treasury Yield. The yield spread measures the difference between two and 10-year Treasury Yields. The S&P 500 Total Return shown is from the Yield Curve Inversion date to the start of the recession.

On average, the past five recessions took 17 months to occur following the inversion of the yield curve and S&P 500 returns were positive between the inversion to the start of the recession in four of the five occurrences. We are not suggesting returns will be positive this time, but we are merely suggesting timing equity declines is not easy and there are other factors involved.

After experiencing the second-worst day for the S&P 500, there are a couple potential catalysts that could reverse equity markets. The Federal Reserve raised interest rates seven times in the past two years before cutting interest rates 0.25% last month. The Fed could cut interest rates more aggressively to possibly prolong the economic expansion. Additionally, the United States and China could come to a trade resolution which would also be viewed favorably by market participants. Predicting the timing of these events is not easy and these are huge factors when determining the direction of equity markets.

The first half of 2019 saw little volatility as the stock market rarely moved up or down more than one percent in any given day. On the other hand, as we have seen recently with the sharp fluctuations in the stock market, we think volatility will remain elevated throughout the second half of this year as investors try to navigate the crosscurrents of mixed economic signals. For example, the consumer, labor markets, and the services side of the economy look strong while manufacturing continues to weaken.

Making a stock market prediction is difficult with all the factors that could derail predictions and there are many more factors than just the major two we mentioned earlier. We recommend looking over long-term risk and return objectives and sticking to that plan. The current bull market, the longest in history, has skewed many portfolios resulting in equity exposure that may be too high as suggested by long-term investment objectives. Diversifying risk factors, by not having too much exposure to any one risk, asset class, sector, or security is also important.

This is especially true in fixed income, which should be considered a portfolio's safety net. While fixed income can be a good diversifier to equity risk, during the current bull market, many investors overallocated to riskier and higher yielding bonds with lower credit ratings. Since these bonds likely have a high correlation to equities, they could suffer when equities fall, making them less of a diversifier to equity risk. Diversification is even more important in times of market volatility.

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Glossary

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

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