

ECONOMY:

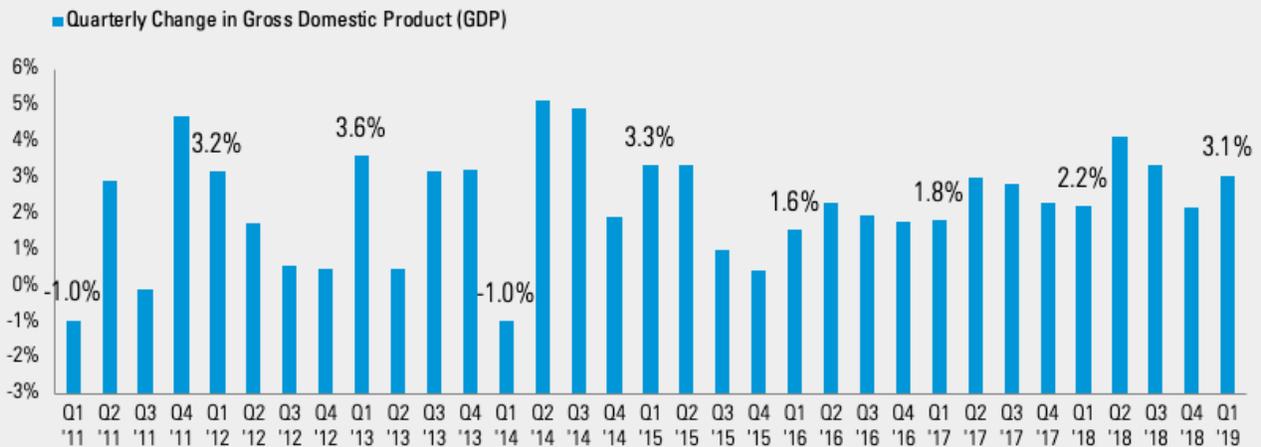
SIGNS OF ECONOMIC RESILIENCE IN MAY

U.S. economic data improved in May on balance, even as investors battled a resurgence in U.S.-China trade tensions.

Leading indicators signaled low odds of a recession in the coming year. The Conference Board’s Leading Economic Index (LEI) rose 2.7% year over year in April. As a reminder, April’s reading was its slowest pace of year-over-year growth since February 2017. Still, the LEI is squarely in positive territory, which shows that leading data are signaling growth.

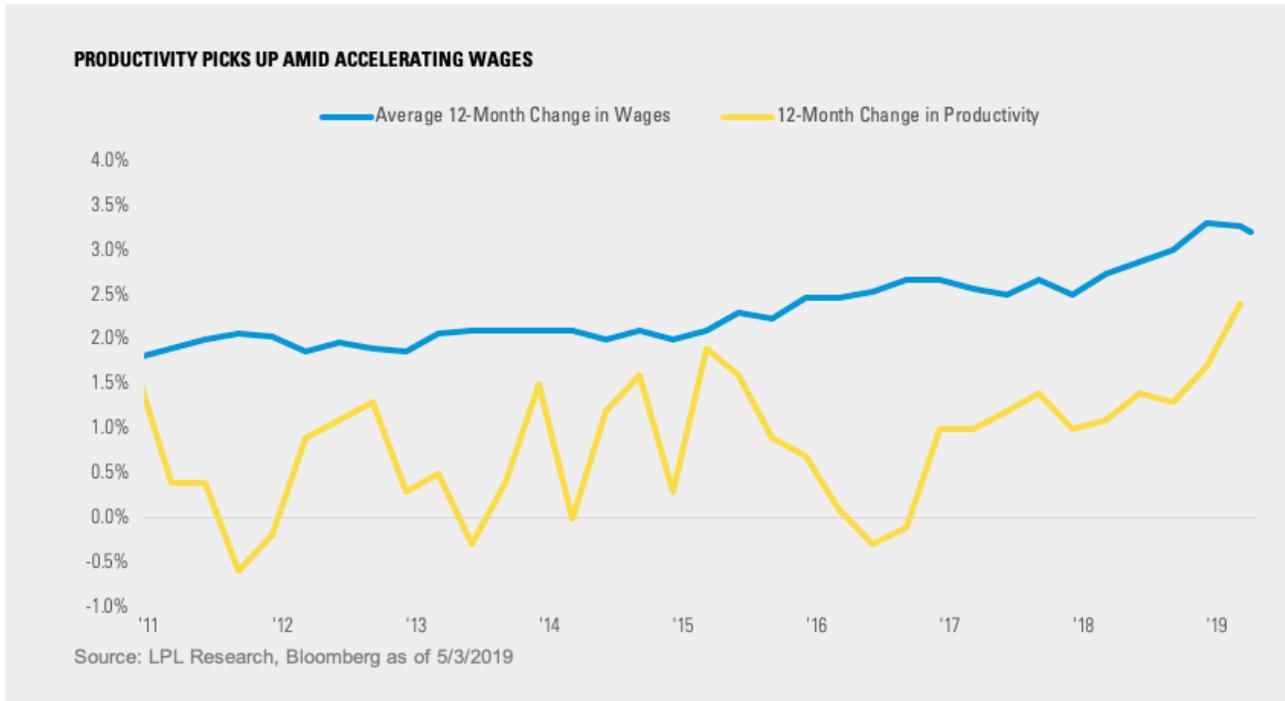
A second glance at first quarter gross domestic product (GDP) provided respite for investors fixated on negative headlines. GDP rose 3.1% in the first quarter, according to the first revision released May 29. Although headline growth was revised down, it was still the biggest first-quarter GDP gain since 2015, showing the U.S. economy remained resilient against trade and political headwinds [Figure 1]. Inventories and net exports still accounted for about half of first quarter GDP growth, a temporary boost that could reverse in future quarters. Consumer spending’s contribution was revised slightly upwards, and business spending’s contribution was cut.

STRONGEST FIRST QUARTER GROWTH SINCE 2015



Source: LPL Research, Bureau of Economic Analysis as of 5/30/2019

April jobs data showed U.S. hiring hasn’t wavered amid global uncertainty and trade tensions. Nonfarm payrolls growth exceeded estimates, while the unemployment rate fell to a cycle low. A separate report showed nonfarm productivity rose at the fastest year-over-year pace since 2010 in the first quarter, showing U.S. companies are prioritizing boosting output



with current labor [\[Figure 2\]](#). First-quarter unit labor costs rose at the slowest pace of growth since the fourth quarter of 2013. Overall, the U.S. labor market remains robust for this point in the cycle, with few signs of overheating or slowing.

Consumer inflation remained well contained. The core Consumer Price Index, which excludes food and energy, increased 2.1% year over year, rebounding from April's 13-month low. Core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred inflation gauge, rose 1.6% year over year in April, below policymakers' 2% target.

Wage and producer price growth remained steady. Average hourly earnings grew 3.2% year over year in April, a level of growth that should continue to bolster consumer confidence and support consumer spending. The core Producer Price Index (PPI), which excludes food and energy prices, rose 2.5% year over year in April.

U.S. manufacturing continued to deteriorate last month as global demand softened amid trade tensions. The Institute for Supply Management's (ISM) manufacturing Purchasing Managers Index (PMI), a gauge of U.S. manufacturing health, dropped to the lowest level since October 2016. Markit's PMI ticked up slightly in April, but preliminary May data showed the gauge fell further, and it's less than a point from contractionary territory (below 50).

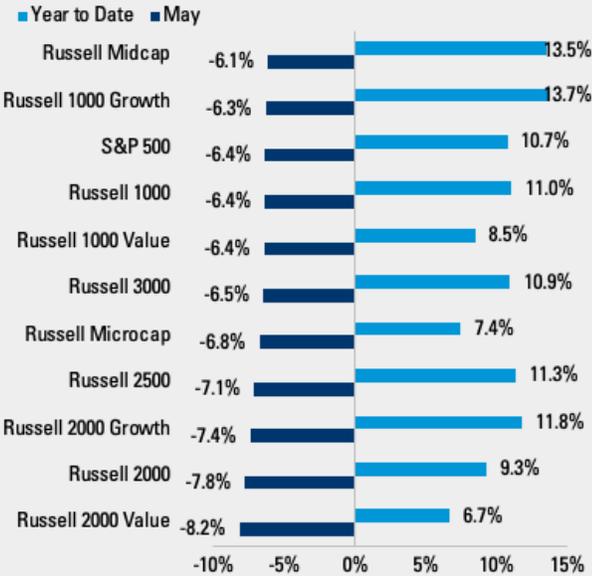
Confidence gauges rebounded, fueled by strong U.S. labor market conditions. The Conference Board's Consumer Confidence Index jumped to a six-month high in May, according to preliminary data; however, the cutoff date was May 16, so the data likely didn't capture much of the fallout after the latest trade flare-up. National Federation of Independent Business's (NFIB) measure of business confidence climbed to a year-to-date high in April.

Consumer and business spending data weakened, even as sentiment showed signs of recovery. Retail sales slid 0.2% in April after posting its biggest monthly gain since Sept. 2017 in March. New orders of nondefense capital goods slid 1% in April.

More Patience

Fed members unanimously voted to keep rates unchanged at the conclusion of their May policy meeting. Fed Chair Jerome Powell repeated several times in his May 1 post-meeting press conference that further policy patience is appropriate. Powell attributed lower consumer inflation to transitory factors, noting that core PCE growth stayed close to 2% for much of 2018. Still, markets are increasingly positioning for a rate cut before year-end, even amid the Fed's patient messaging and faith in the economy.

DOMESTIC INDEX PERFORMANCE



S&P 500 SECTOR PERFORMANCE



Source: FactSet 05/31/2019

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

**GLOBAL EQUITIES
STOCKS SUFFERED FIRST
DOWN MONTH OF 2019**

The S&P 500 Index lost 6.4% on a total return basis during May, its first down month of the year and its first four-week losing streak since October of 2014. The monthly loss followed the S&P 500's best four-month start to a year since 1987, so perhaps stocks were due for a pause. The Dow Jones Industrial Average (Dow) suffered a similar loss while the Nasdaq and Russell 2000 Index fell more, with both dropping 7.8%. Year to date the Nasdaq has led with a 12.9% return, followed by the S&P 500 (+10.7%), the Russell 2000 (+9.3%), and the Dow (+7.5%).

In a sharp reversal from April when optimism built for a U.S.-China trade agreement, headlines on trade and tariffs turned decidedly negative in early May. The breakdown of U.S.-China negotiations, the implementation of more tariffs, and threats of even more were the primary drivers of the sell-off. Economic data during the month also began to point more convincingly toward a second quarter slowdown in U.S. economic growth, although trade clearly dominated investor psyches.

It wasn't just trade tensions with China that dampened investor sentiment, as President Trump announced he would place tariffs on Mexico—and ratchet them higher—until the country does more to curb illegal immigration into the United States. Based on the generally positive relationship between the United States and Mexico, and seemingly more straightforward path to compromise, an agreement with Mexico has appeared easier to achieve than one with China. Nonetheless, fears of a prolonged trade war have increased as additional fronts have emerged. The threat of eventual European and Japanese auto tariffs lingers.

Some concerning signals from the bond market also weighed on market sentiment. Parts of the yield curve inverted again (short-term rates higher than long-term rates) amid fears that the bond market knows something equity investors don't. The Fed did not help matters with its message of patience in its policy announcement on May 1—market participants wanted more. A better-than-

expected first quarter earnings season and some positive U.S. economic data points provided only limited support.

As is typical when stocks fall, small cap stocks underperformed large caps during the month. The large cap Russell 1000 Index lost 6.4%, better than the 7.8% loss in the Russell 2000 small cap index. The Russell Midcap actually held up better



than both large and small caps with a 6.1% loss. The broad market sensitivity, or beta, of small caps outweighed the relatively more insulated position with regard to trade tensions that small companies tend to enjoy. Year to date, mid caps led with a 13.5% return, compared to 11% for large caps and 9.3% for small caps.

Growth and value produced similar returns during May. The value style was hurt by weakness in financials and energy, and was helped by utilities' strength. Growth was hurt by weakness in communication services, consumer discretionary, and technology. Growth leads value by about five percentage points year to date based on the Russell 1000 style indexes.

Unsurprisingly, defense sectors led in May, including real estate, utilities, healthcare, and staples—in that order. Market declines and interest rate sensitivity supported these sectors, while falling oil prices pressured energy, which suffered the biggest sector decline, followed by technology.

International

Global equities fell broadly during the month, but international developed equities held up better than both

U.S. and emerging market (EM) equities. The MSCI EAFE Index slipped 4.7% in May, ahead of the 7.2% decline in the MSCI EM Index and 6.4% loss in the S&P 500 Index. More defensive positioning (more consumer staples, less technology) helped the EAFE in May. Both international and EM equities are still lagging year to date with 8% and 4.2% returns, respectively. Year to date, the United States has benefited from being more growth oriented and from a strong U.S. dollar, which has hurt relative performance of international equities.

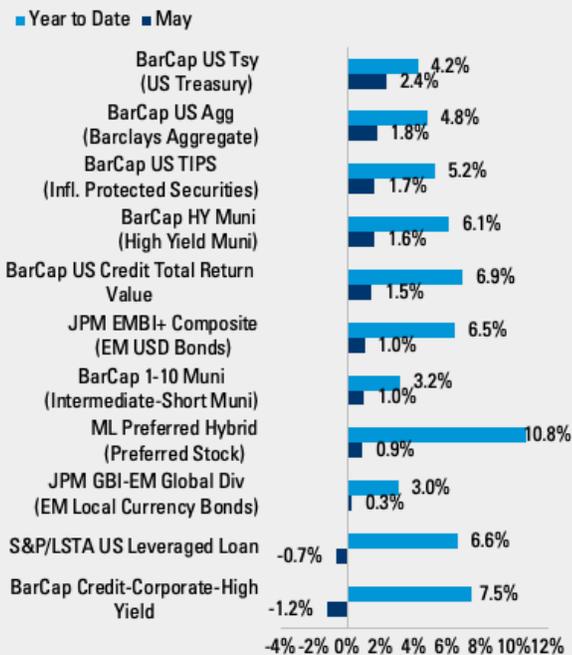
Leadership among developed international markets came from Australia, Switzerland, and Japan, based on MSCI country indexes. U.K. stocks outperformed U.S. stocks for the month despite ongoing Brexit uncertainty and British Prime Minister Theresa May's resignation, though the stocks slightly lagged the EAFE Index.

Trade tensions clearly weighed on EM, where China was by far the biggest drag on the MSCI EM Index. Export-driven Korean and Taiwanese equities also suffered outsized declines. Russia was a bright spot as its country index rose 3.6% during the month.

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

FIXED INCOME PERFORMANCE



US Treasury Yields

Security	4/30/19	5/31/19	Change in Yield
3 Month	2.43	2.35	-0.08
2 Year	2.27	1.95	-0.32
5 Year	2.28	1.93	-0.35
10 Year	2.51	2.14	-0.37
30 Year	2.93	2.58	-0.35

AAA Municipal Yields

Security	4/30/19	5/31/19	Change in Yield
2 Year	1.54	1.42	-0.12
5 Year	1.66	1.53	-0.13
10 Year	2.05	1.86	-0.19
20 Year	2.57	2.37	-0.20
30 Year	2.69	2.49	-0.20

Source: FactSet 05/31/2019

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

FIXED INCOME

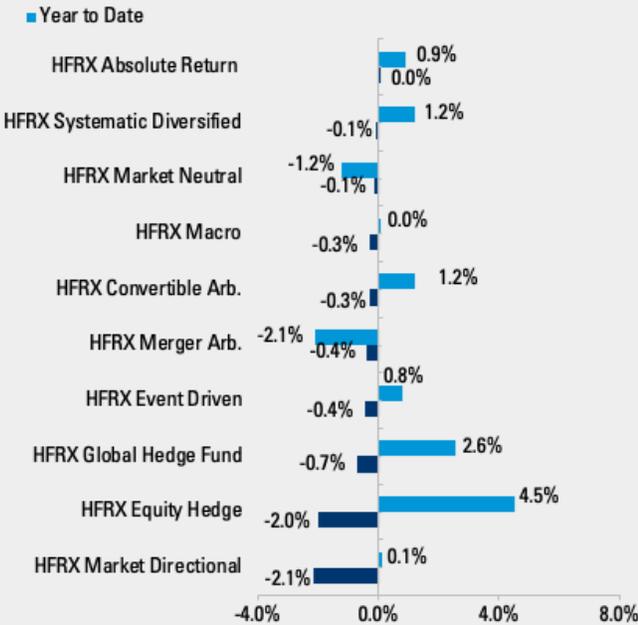
10-YEAR YIELD FALLS MOST IN FOUR YEARS

U.S. Treasury prices jumped and yields slid in May as a flare-up in trade tensions and stock volatility fueled demand for safe assets. The 10-year Treasury yield fell 38 basis points (0.38%) in May, its biggest monthly drop since January 2015. The benchmark yield closed the month at 2.12%, a 20-month low. Global investors have piled into U.S. Treasuries at an increasing rate this year as they search for income, safety, and liquidity. Global stocks' recent slide has also sparked a safe-haven rush into Treasuries as investors look to hedge stock losses.

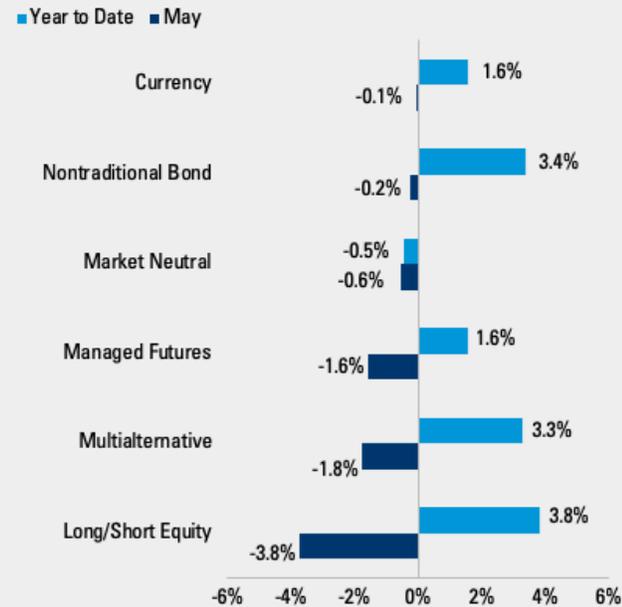
The spread between the 3-month and 10-year yield flipped negative for the second time this year. Other parts of the yield curve flattened while remaining positive. The spread between the 2-year and 10-year yields fell to 20 basis points (0.20%).

Higher-quality debt outperformed riskier fixed income in May, as shown in the Fixed Income Performance Table. U.S. Treasuries was the best-performing sector, while convertible debt was the worst-performing sector. The Bloomberg Barclays U.S. Aggregate Index rose 1.8% during the month.

HFRX INDEX PERFORMANCE



MORNINGSTAR PERFORMANCE



Source: FactSet 05/31/2019

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

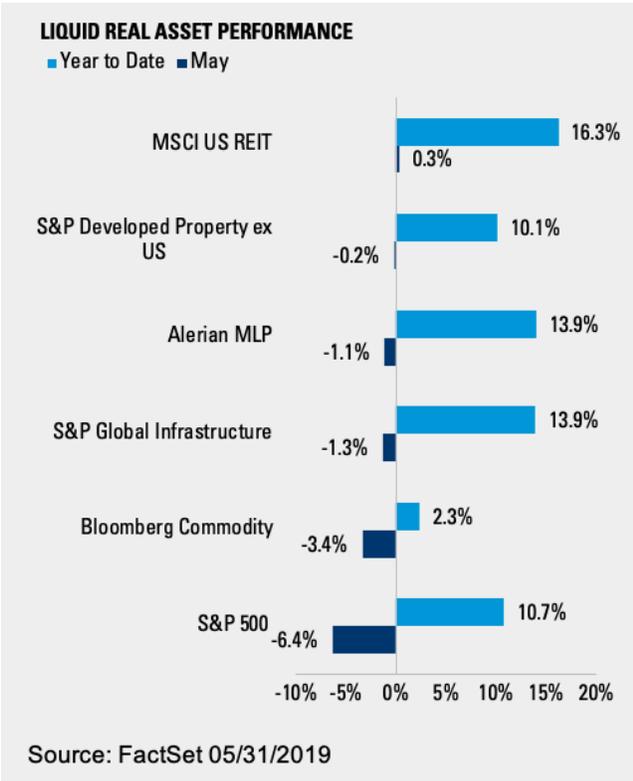
ALTERNATIVE INVESTMENTS

ALTERNATIVES PROVIDE DOWNSIDE PROTECTION

As the S&P 500 Index fell 6.4% during May, alternative investment strategies provided downside protection in line with their risk profiles. The HFRX Equity Hedge Index declined 2% as the industry's overweight to the consumer discretionary and information technology sectors weighed on performance. Short exposure in outperforming sectors such as healthcare and consumer staples also acted as a headwind. Year to date the HFRX Equity Hedge has gained 4.5%, which is marginally higher than the average fund's beta-adjusted exposure within the Index.

The HFRX Event Driven Index (0.42%) was one of the better performing subcategories, as the industry's limited exposure to broader market directionality proved beneficial. Overall, the merger and acquisitions environment remains healthy; however, the lack of any progress related to the ongoing trade negotiations between the United States and China continues to overshadow the space. While there is currently limited China-related exposure in most portfolios, the lack of clarity and progression may constrain the future volume of cross-border transactions the longer it continues.

The HFRX Macro: Systematic Diversified CTA Index also performed well on a relative basis, posting a loss of only 0.1%, for a year-to-date gain of 1.2%. Once again, profits within long fixed-income exposure drove returns, as the impressive rally across global bonds continued during the month. Unfortunately, the long equity exposure that has been increasing over the course of the year more than offset these gains. Select commodity exposure also detracted from performance, as the strong rally in crude oil reversed during the month, which led to losses in models with long exposure.



REAL ASSETS

GLOBAL INFRASTRUCTURE THE SOLE ADVANCER

Liquid real assets exhibited defensive characteristics during May as all major categories we track outperformed U.S. and global equities, led by global real estate.

Master Limited Partnerships

Master limited partnerships (MLP) handily outpaced the broad equity market in May as the Alerian MLP Index lost 1.1%. The group’s interest rate sensitivity and the market’s preference for more defensive investments helped offset the negative impact of falling oil and natural gas prices. MLPs have produced a solid 13.9% year-to-date return.

REITs and Global Infrastructure

Global real estate investment trusts (REIT) held up better than global equities in May. U.S. REITs managed to post a modestly positive return of 0.3% for the month, outperforming the S&P 500 Index by nearly seven percentage points in a sharp reversal from April’s relative performance. Domestic REITs are now outperforming

domestic equities by more than five percentage points year to date. Healthcare was the top performing real estate sector for the month with a 5.7% return. Industrial real estate continued its strong performance through May, maintaining its position as the top performing REIT sector so far in 2019, while retail continued to struggle. International real estate displayed similar resilience, as the S&P Developed Property ex. U.S. Index fell only 0.2% during the month.

The S&P Global Infrastructure Index outperformed domestic equities in May but slightly lagged domestic REITs and international real estate. Global infrastructure has outperformed domestic equities year to date with a 13.9% return, despite the underperformance of international equities relative to the United States.

Commodities

The Bloomberg Commodity Index fell 3.4% in May, bringing its year-to-date advance to 2.3%. The re-emergence of trade-war rhetoric and fears regarding elevated tariffs’ impacts on future global economic growth dominated price action as a more cautious tone took hold. In crude markets, focus shifted from the supply picture to demand concerns, sending prices down 16.4%. Trade-sensitive industrial metals suffered similarly with copper down 9.1%. Somewhat surprisingly, precious metals did not benefit as much as would be expected with silver down slightly and gold only marginally positive. In contrast, a planting season severely delayed due to heavy rains combined with overly bearish speculator positioning sent corn and wheat prices surging for the month.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.



IMPORTANT DISCLOSURES

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

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