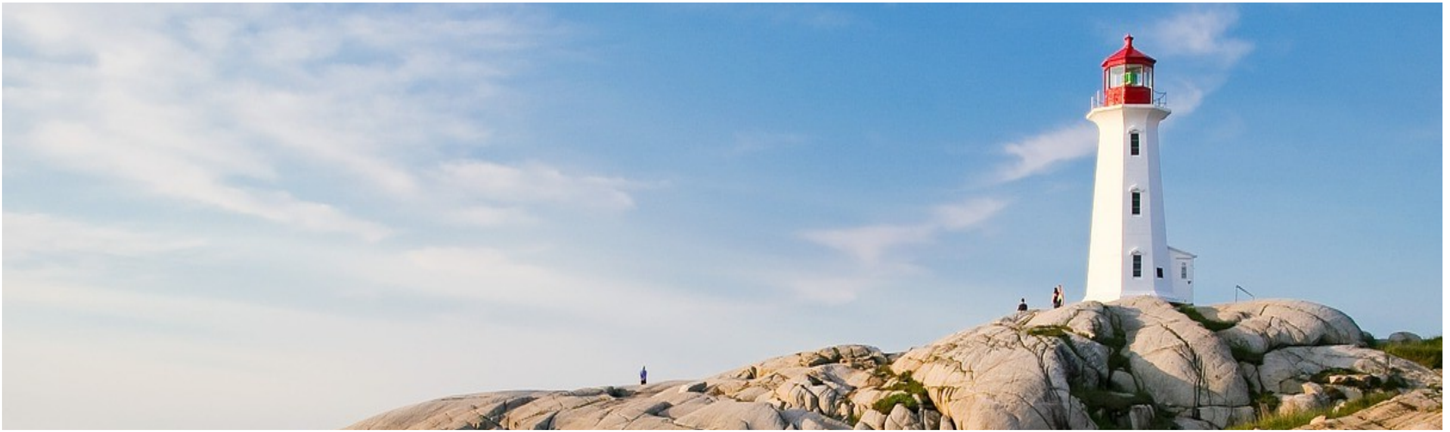

Market Overview: *The Late Stage Bull*

After a disappointing end to 2018, financial markets snapped back during the first half of 2019. The risks that were forecasted so heavily by financial media outlets during the fourth quarter of 2018 largely went unrealized, volatility receded, and financial markets strengthened. As both the stock and bond markets posted strong returns at the midpoint of 2019, we must now consider what the second half of the year holds. Although market concerns relating to continued tightening by the Federal Reserve receded, risks around trade negotiations, Brexit, Iran and Venezuela persist. Adding to the body of concerns, valuations increased measurably in both the equity and fixed income markets, while corporate sentiment waned, triggering numerous downward revisions to earnings estimates. As these and other risks rank and reorder through the balance of the year and beyond, risk management will likely take priority.

Diversification Works[1]

Time and again, diversification serves its purpose. In the last 15 years, the world endured multiple natural disasters, numerous geopolitical conflicts and the deepest economic recession in the post-WWII era.

Through it all, a diversified portfolio of stocks, bonds and other uncorrelated asset classes proved itself a winner.

- JP Morgan, Principles for Successful Long-Term Investing

Given this backdrop, we continue to feel volatility will return and likely for longer periods than what we have experienced over the prior decade. We view this to be favorable. Extreme levels of volatility, either high or low are not ideal for markets. Markets need to have healthy consolidation at regular intervals to minimize investor complacency and prevent "bubbles." A certain level of volatility is welcomed as it creates opportunities and provides an environment where the benefits of a well-defined asset allocation policy can be realized. A multitude of "big issues" needing resolution in the coming months and years exist. These include broad direction of domestic and foreign central bank policy, escalating sovereign debt, geo politics, global growth concerns and international trade, increasing the likelihood of a bumpier ride. We need to remain vigilant as these issues impact confidence and result in elevated volatility.

Our allocation to equities remains neutral given diverging points of focus. As a solid but slowing macroeconomic environment and slightly elevated valuations battle these "big issues" we are likely to feel the impact. With the current bull market in equities in its later stages, a greater level of discipline with respect to asset allocation and valuation is warranted. We believe the probability of financial market turbulence continues to increase at this point in the cycle, which should benefit companies that are well-positioned within their respective industries and are good stewards of capital. Accordingly, we must remain highly aware of risk and favor companies with strong balance sheets and disciplined capital allocation strategies. Our predisposition is to maintain our neutral stance with respect to macro equity allocation. Conversely, our fixed income viewpoint is cautious as the risk-reward relationship became less favorable after the strong results during the first half of 2019. As always, we believe a properly risk-allocated portfolio is one that is well-diversified across asset classes and cognizant of the risk inherent in these underlying assets.

Equity Markets

Both domestic and international equities soared higher during the first half of the year, realizing gains that most investors would gladly book for a full year. Despite many perceived obstacles both foreign and domestic equities provided strong returns through the end of June proving once again that trying to time the market is a fool's errand. We fundamentally believe committing to a disciplined asset allocation policy provides investors the greatest likelihood of achieving their investment goals. Though the rally was broad-based in domestic equities, large caps outperformed mid-caps and small-caps during the first half of 2019 while growth stocks noticeably bested value; all points that are common to markets entering the later stages. By sector; information technology, consumer discretionary, industrials, real estate and communication services performed best while healthcare, energy, utilities and consumer staples all lagged against broader domestic indices. From a global standpoint, developing markets outperformed emerging markets, albeit by a smaller amount than in recent history. This may point to opportunity given the relative valuation disparity which appears to favor emerging market companies versus their developed counterparts.

As we look to the back half of the year, we believe that risks are amplified with respect to elevated valuations coupled with a slowing macro backdrop. This is offset in a positive way by the Federal Reserve Bank which is trending towards further reflation of markets through accommodative monetary policy. While this likely lifts most markets in unison at the outset, going forward the strategy will need to generate stronger macroeconomic growth, or it will result in pressure on both earnings and valuations. In our view, this reinforces the importance of quality stock selection. From an allocation perspective we continue to remain neutral, balancing the potential positives from an accommodative monetary policy with risks associated with elevated valuation, slowing macroeconomic growth, headwinds from U.S./China trade and political risks that likely build as the U.S. heads into an election year. As the U.S dollar weakened, emerging market equity valuations improved while domestic value stocks began to show strength relative to domestic growth stocks with large cap financials such as J.P. Morgan and Citigroup benefiting from their scale and capital flexibility.

Exhibit 1[2]

Exchange Traded Fund Equity Indexes	**Performance through June 30, 2019**						
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Vanguard Total Stock Market	VTI	18.70%	9.02%	14.04%	10.18%	14.71%	9.01%
iShares MSCI EAFE	EFA	14.09%	1.04%	9.04%	2.18%	6.79%	5.24%
Vanguard FTSE Emerging Markets	VWO	12.40%	3.49%	9.36%	2.32%	5.58%	8.35%

Fixed Income

Debt markets rallied during the first half of the year after a difficult Q4. They benefitted from the significant decline in prevailing interest rates; driving price appreciation on interest rate sensitive debt. The aggregate bond category ended June +6.1% year-to-date in total return thanks to retracement in rates connected to the global uncertainty and prospects of coordinated central bank monetary easing. Additionally, the high yield category saw increases of slightly over 10% through mid-year celebrating lower interest rates while convertible bonds rallied even more dramatically on the lower rates and the strong equity market. Finally, municipal bonds produced respectable mid-single digit percentage gains during the first half of the year as less than normal supply and continued strong demand drove solid total returns. The international fixed income complex responded similarly as the selloff in Q4 2018 provided an attractive entry point driving mid-single digit returns in developed markets and high single-digit returns in emerging markets during the front half of 2019.

Moving to the back half of the year expectations are likely muted given the solid returns thus far in 2019. Our bias is towards steady rates as expectations for a significant amount of easing from the Federal Reserve may not materialize as some forecasts anticipate. Sustained economic growth, albeit modestly slower than anticipated, coupled with accommodative global central banks and manageable inflation all point to continued favorable repayment rates and low defaults in the broad fixed income complex. Our predisposition on the margin is towards having slightly higher exposure to the floating rate, low duration and high yield categories.

Exhibit 2[3]

Exchange Traded Fund Fixed Income Indexes	Performance through June 30, 2019						
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
iShares Core US Aggregate Bond	AGG	6.10%	7.84%	2.26%	2.91%	3.78%	4.13%
SPDR Barclays High Yield Bond	JNK	10.55%	7.80%	6.82%	3.09%	7.96%	

Exhibit 3[4]

Exchange Traded Fund	Performance through June 30, 2019					
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years
iShares Core Aggressive Allocation	AOA	13.83%	5.60%	9.73%	6.06%	10.74%
iShares Core Growth Allocation	AOR	11.89%	6.16%	7.95%	5.37%	8.61%
iShares Core Moderate Allocation	AOM	9.95%	6.73%	6.13%	4.29%	6.61%
iShares Core Conservative Allocation	AOK	9.04%	7.00%	5.22%	3.84%	5.55%

Exhibit 4[5]

		Value	Core	Growth
	US Market 18.88%	13.93%	18.44%	23.74%
Large Cap	18.09%	13.75%	17.65%	21.60%
Mid Cap	22.01%	15.02%	20.97%	29.58%
Small Cap	18.05%	12.72%	18.87%	22.38%

Data as of 06-30-19

KbC Equity and Allocation Strategy Model Portfolios

KbC equity strategies performed well during the first half of the year with nearly all outperforming in a strong up and to the right market. Stock selection proved to be paramount in outperforming versus respective benchmarks as our "core" portfolios benefited from positions that tilt growth in addition to value positions that performed very well during the front part of 2019. The Dividend strategies led the outperformance charge, benefiting from the lower interest rate environment as the gap between the average holding's dividend yield and the 10-year U.S. Treasury yield widened. This, along with strong stock selection, drove outperformance versus its respective benchmarks during the first half of the year. KbC Market and Mid Cap strategies also experienced alpha generation during the period, while Alpha Leaders and Alpha Tax/Qualified lagged marginally during the first half with Alpha Leaders being impacted by the underperformance in healthcare and Alpha Tax/Qualified being impacted by their equal weighting methodology. As we continue to expect elevated levels of volatility, we feel strongly that the risk-reward tradeoff of the equal weighting methodology is well positioned in the current environment and going forward. Lastly, our Strategic Asset Allocation strategies performed in line with benchmarks and expectations.

Dividend Strategies

KbC Dividend Strategies experienced strong performance during the first half of the year, besting their respective benchmarks by modest to significant levels. Portfolio exposure as near-core with a slight bend towards value did not hold the strategy back at all and staying exposed to a few positions which lagged at the end of last year has paid off handsomely with Ameriprise Financial (AMP) and Blackstone (BX) both driving significant outperformance relative to the broader market. We continue to view the strategy as well positioned, especially from a risk-reward perspective as markets move into what looks to be increasingly volatile times benefiting from ownership of both offensive (growth) and defensive (value) positions. Our philosophy towards income producing strategies is to employ a barbell approach of holding both consistent dividend payers and those increasing their dividend at outsized rates versus the broader market. Thus far in 2019 exposure in this regard has paid off as both outsized dividend growers, companies with mostly higher growth profiles and consistent dividend payers, companies exhibiting value features have performed well. Strong performers year-to-date in addition to those mentioned above have included Ford (F), Honeywell (HON), Lockheed Martin (LMT), Microsoft (MSFT) and United Technologies (UTX), all outperforming the broader market. Conversely, the strategy's exposure to the following positions, including Altria (MO), CVS Health (CVS), UnitedHealthcare Group (UNH) and Walgreens Boots Alliance (WBA-a position exited in April and pair-swapped for CVS on better underlying fundamentals) have all negatively impacted relative performance.

Market Strategies

KbC's Market Strategies modestly outperformed their respective benchmarks during the first half of 2019. Performance from the strategies financial services positions drove nearly half of the alpha with Ameriprise Financial (AMP), Citigroup (C) and RenaissanceRe Holdings (RNR) all increasing at twice the rate of the broader market. Additionally, Ball (BLL), a beverage can maker that is digesting last year's Rexam acquisition, continues to take share within the category and execute well from a fundamental perspective—driving 55% year-to-date gains. Conversely, positions in CVS Health (CVS), Altria (MO), UnitedHealth Group (UNH) and iShares Nasdaq Biotechnology ETF (IBB) dragged on performance though only slightly and not enough to offset strong performance elsewhere. This strategy seems well positioned moving into the back half of the year with its natural mix of offense and defense acting appropriately and playing off each other.

Mid Cap Strategies

KbC's Mid Cap Strategies slightly outperformed their respective benchmark during the first half of the year. Given these portfolios bend the most growth of our core strategies they benefited modestly from the significant growth-to-value divergence that reappeared during H1, after narrowing dramatically late last year. Our belief is that some of this wide divergence will dissipate during the second half of the year and should bode favorably for the strategy given its "core" style. Strong performance year-to-date was experienced in a handful of positions including ACADIA Pharmaceuticals (ACAD), Ball (BLL), Arch Capital Group (ACGL), Ameriprise Financial (AMP) and Jacobs Engineering (JEC) all significantly outperforming the broader market (at better than 2:1). Lagging performance was seen in the following positions: Rite Aid (RAD), Adamas Pharmaceuticals (ADMS), ANGI Homeservices (ANGI), Sierra Wireless (SWIR) and Cognizant Technology Solutions (CTSH). As a result of deteriorating fundamentals both ADMS and CTSH were exited during the first half of 2019.

Alpha Leaders trailed its respective benchmark (S&P 500) during the first half of 2019 as its exposure to healthcare (lagging sector) created a negative impact and drove approximately two-thirds of the underperformance. While we view the holdings in this portfolio strategy as leaders in their respective sectors, from time to time certain sectors lag the broader market as was the case with healthcare thus far in 2019. That said, we view the current valuation of the sector as favorable and from a technical perspective we see the sector as oversold. As a result, we have added to one held position (Biogen (BIIB)) and continue to look for opportunity where we feel the market has mis-priced certain companies. Year-to-date, the strategy's better performers have included: Lockheed Martin (LMT), Microsoft (MSFT), Danaher (DHR), Visa (V) and Amazon (AMZN) all of which have significantly outperformed the S&P 500. Conversely, lagging constituents have included: Biogen (BIIB), CVS Health (CVS), New Relic (NEWR) and Simon Property Group (SPG). That said, we don't manage our portfolio strategies for the near-term but instead try to identify and hold companies that we feel have a greater success of outperforming over an entire market cycle and the four aforementioned year-to-date laggards all meet that criteria and as a result remain solidly in the portfolio.

Alpha Tax/Qualified performed as expected given the market environment but as a result modestly lagged its benchmark, the S&P 100 which is market capitalization-weighted as opposed to Alpha Tax/Qualified strategy which equal weights the S&P 100 components. The rationale behind the equal-weighted nature of the strategy is to limit downside from mega-cap weighted positions which at some point are likely to underperform (after years of outperforming) and catch upside from those positions at smaller weightings which have underperformed and currently provide favorable risk/reward at this late stage of the broader economic/ market cycle. While the portfolio strategy has modestly lagged year-to-date, it did outperform during the second half of 2018 when volatility spiked and the broader market sold off. By design, that is exactly how it is supposed to perform and this year's modest underperformance (especially given such a strong domestic equity run) is what we expected. In both cases, the portfolio strategy is acting how we thought it would in these two very different market climates.

Strategic Asset Allocation strategies experienced a strong first half of the year benefiting from robust performance of both the equity and fixed income markets. Absolute performance of the model strategies year-to-date has ranged from increases of ~10% in the Conservative Allocation to ~14% in the Aggressive Allocation as strong equity performance driven by near 20% returns from exposure to real estate (iShares Core US REIT ETF-USRT) and total stock market (SPDR Portfolio Total Stock Market ETF-SPTM) positions which comprise ~1/3rd of the respective portfolio strategies provided offense. Additionally, the more defensive part of the portfolio strategies provided strong returns also, benefiting from exposure to the preferred stock (Invesco Variable Rate Preferred ETF-VRP) and high yield (JP Morgan Disciplined High Yield ETF-JPHY) categories. As we move to the back half of the year, we are cognizant of the significant run-up year-to-date and are appropriately weighing risk-reward of each position as well as rebalancing when suitable to not stray too far from the client's profiled allocation level.

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1: https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/principles-for-investing

2: Exhibit 1: Data source Morningstar Office

3: Exhibit 2: Data source Morningstar Office

4: Exhibit 3: Source; Standard & Poor's, FactSet, JP Morgan Asset Management. Returns are based on price only and do not include dividends. For illustrative purposes only.

5 Exhibit 4: Morningstar Market Barometer provides a visualization of the performance of Morningstar Indexes. ©2019 Morningstar