MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q1 2019

2019 Q1 OVERVIEW

Q1 Performance Summary

Despite a slowdown in global economic growth, the markets bounced back in Q1 19. Most equity asset classes recovered almost all of their losses from the previous quarter's sell-off.

The S&P 500 finished the quarter +13.7%, which was its highest quarterly return since 2009. As of the end of Q1, the index had rallied +16.5% off of its December lows and was trading only 3% below its all-time high. While the price action of the index was certainly positive, the underlying earnings expectations continued to decline in Q1. The current expected earnings growth rate for the S&P 500 in 2019 is +3.7%, which is about 50% lower than the projected growth rate for 2019 at the beginning of the quarter (+7.4%).

International equities, represented by the MSCI EAFE Index, were +9.9% in Q1 despite a lack of progress in Brexit negotiations and a serious slowdown in Germany, which has been the primary driver of European growth. Slowing momentum has forced the European Central Bank to back off of its plans to raise interest rates as the region is expected to grow by only 1% in 2019.

Emerging markets also participated in the market rebound, with the MSCI EM Index +9.9% in Q1. The index was led by strong performance in China (MSCI China Index +17.7%) as stimulus measures in the world's second largest economy began to take effect towards the end of the quarter.

Long-term rates retreated in Q1 in response to weakening growth and a more dovish Fed. The yield on the 10-Yr treasury fell from 2.7% to 2.4% which is its lowest level since December 2017. The decline in interest rates boosted bond prices as the Bloomberg Barclays Aggregate Index finished +2.9%.

After getting slammed in Q4, commodities mounted a comeback in Q1 with the Goldman Sachs Commodity Index +14.9%. The index appreciated primarily on the back of higher oil prices with WTI oil rising back above $60/barrel.

Economic data underwhelmed in Q1, although there were some positive prints out of China and the US towards the end of the quarter. In the months ahead, the markets will increasingly be looking to 2020 where US policy support now seems limited to one or more interest rate cuts and possibly a trade deal with China.

Q1 ECONOMIC HIGHLIGHTS

- After a brutal Q4, risk assets bounced back across the board in Q1. The S&P 500 finished +13.7%, which is the highest quarterly return for the index since 2009.
- The US endured its longest ever government shutdown in January. The Congressional Budget Office estimates that the shutdown, which lasted 35 days, shaved 0.4% off US GDP growth in Q1.
- In March, the Fed announced that no more rate hikes will be coming this year and that it will end its balance sheet roll-off in Q3.
- In late March, the 2-10 Year yield curve inverted for the first time since 2007. An inverted yield curve has preceded the last five recessions although there is typically a 12-18 month lag between the inversion and the start of recession.

MMA CORE INVESTMENT THEMES

FED'S Q1 PIVOT HAS MAJOR IMPLICATIONS FOR STOCKS AND BONDS

After playing tough in Q4, the Fed capitulated to the market in Q1 as the central bank put a pause on rate hikes for 2019. The Fed's dovish pivot drove stocks higher and bond yields significantly lower. While it is too early to tell, the Fed's patience may have prolonged the current economic expansion.

MAJOR REGIONS ARE IN DIFFERENT PHASES OF THE ECONOMIC CYCLE

While the overall global economy is slowing, the US, China, and Europe all appear to be in different phases of the economic cycle. Europe is on the brink of a recession, the US economy is slowing but still close to trend, while China is showing signs of recovery. Hence, our portfolios are underweight to Europe and overweight to Emerging Markets.

CORPORATE EARNINGS EXPECTATIONS RESET

Even though global stock prices rebounded in Q1, corporate earnings guidance continued to decline in part due to uncertainty regarding global trade negotiations and the US government shutdown. This expectations reset should make earnings "beats" more likely for Q1 reports given the US fundamentals remain generally positive. We continue to look to add to secular growth areas of the market.

Sources: SPDR Indices, MSCI, Bloomberg Barclays, Institute for Supply Management, US Federal Reserve of Economic Data, ycharts.com

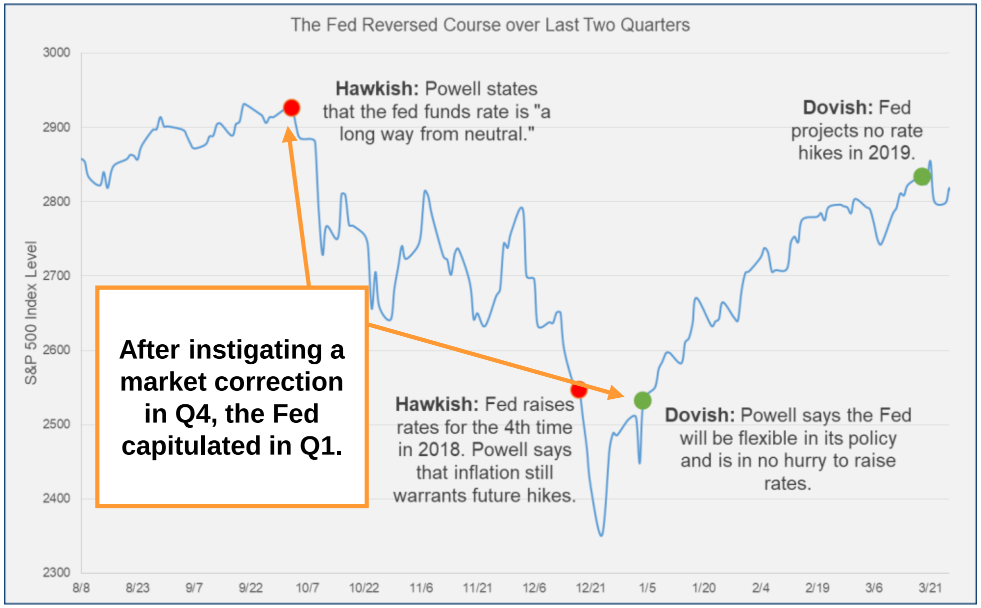
MMA CORE INVESTMENT THEMES

Dovish Pivot by the Fed Spurred Stocks Higher and Bond Yields Lower

- Six months removed from saying that the federal funds rate was a long-way from neutral, Fed Chairman Powell put a pause on hiking rates in 2019. This reversal in stance aided the equity market recovery in Q1, but drove bond yields lower.
- The decline in long-term bond yields caused the 2-10Yr yield curve to invert for the first time since 2007. An inverted yield curve has preceded each of the last five recessions. When the yield curve inverts, it gives banks less incentive to lend as they tend to profit off of the spread between long-term and short-term rates. A slowdown in lending can then create a negative feedback loop for economic growth expectations.
- However, there is usually a lag from when the yield curve inverts and the recession starts. During these periods, the S&P 500 has averaged a +10% return in the last five cycles.

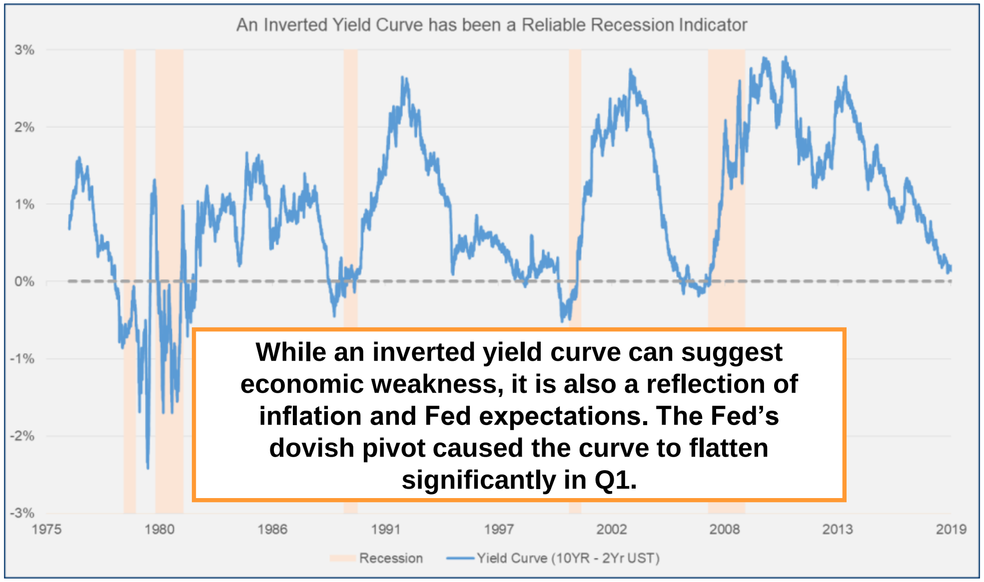
ACTION ITEMS:

- Extended the duration of the portfolio's fixed income holdings in 2018 in anticipation of lower interest rates.



There is Usually a Lag Between the Yield Curve Inversion and the Start of Recession

10-2yr Curve Inversion Starting Month	# of Months Between 10-2yr Inversion and the Start of Recession	S&P 500 Return Between the Curve Inversion and the Start of Recession	# of Months Between Start of Inversion and S&P 500 Peak	S&P 500 Peak to Trough Losses (%) Following Curve Inversion
12/31/2005	24	18%	21	-57%
2/29/2000	13	-17%	0	-49%
1/31/1989	18	28%	11	-18%
9/30/1980	10	7%	1	-27%
8/31/1978	17	14%	0	-14%

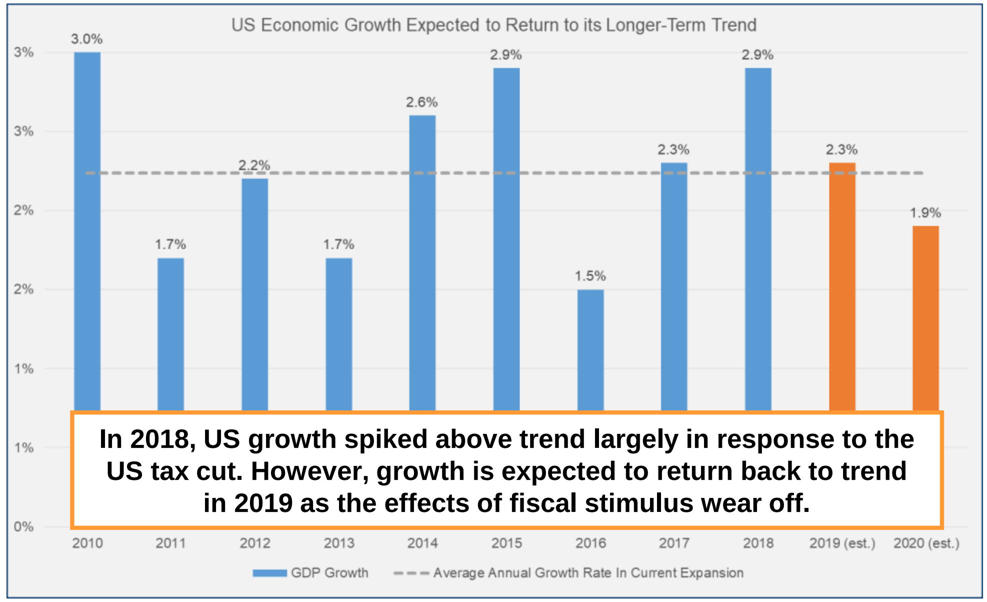


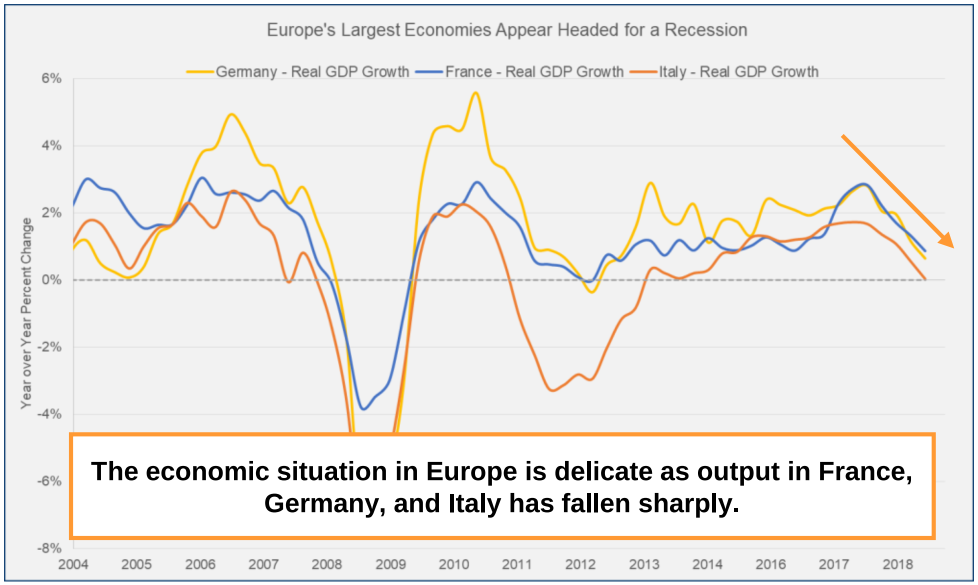
Major Regions are in Different Phases of the Economic Cycle

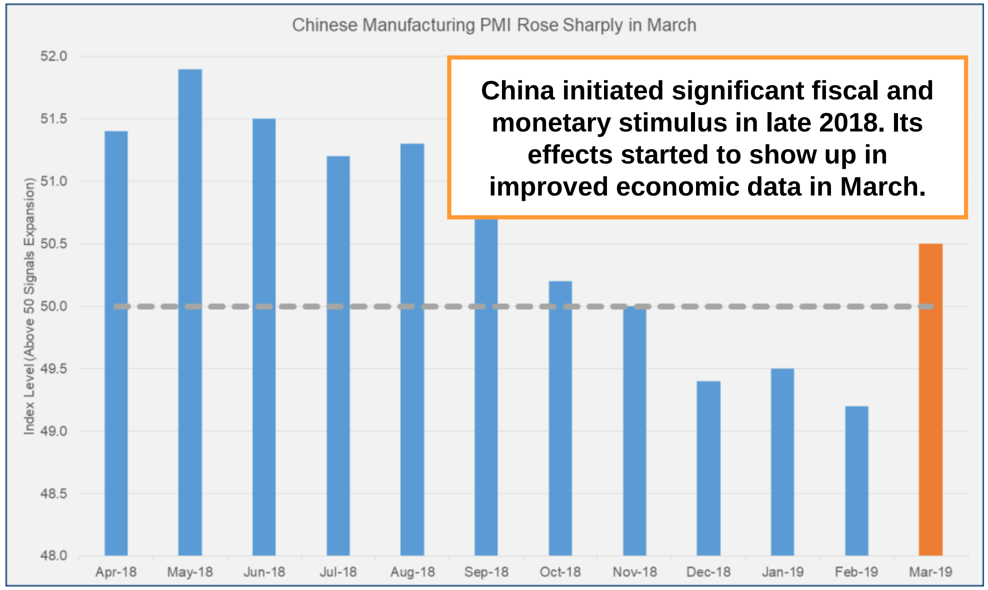
- **Europe –** In addition to unresolved Brexit negotiations, Europe is also dealing with stalling economic growth. Italy suffered a recession at the end of 2018 while Germany only barely avoided the same fate. With downside risks elevated, it is possible that the region could continue to suffer well into 2019.
- **U.S. –** While US economic data has been slowing along with the most of the globe, its GDP growth is still expected to surpass 2% in 2019. With the effects of fiscal stimulus fading, the U.S. economy is in the later stages of the economic expansion.
- **China –** In response to weakening growth and the threat of U.S. trade actions, China enacted significant stimulus measures in late 2018. The effects of the stimulus are starting to show in the economic data as well as the performance of the Chinese stock market (MSCI China Index +17.7% in Q1).

ACTION ITEMS:

- Remain underweight to Europe and overweight to emerging markets.







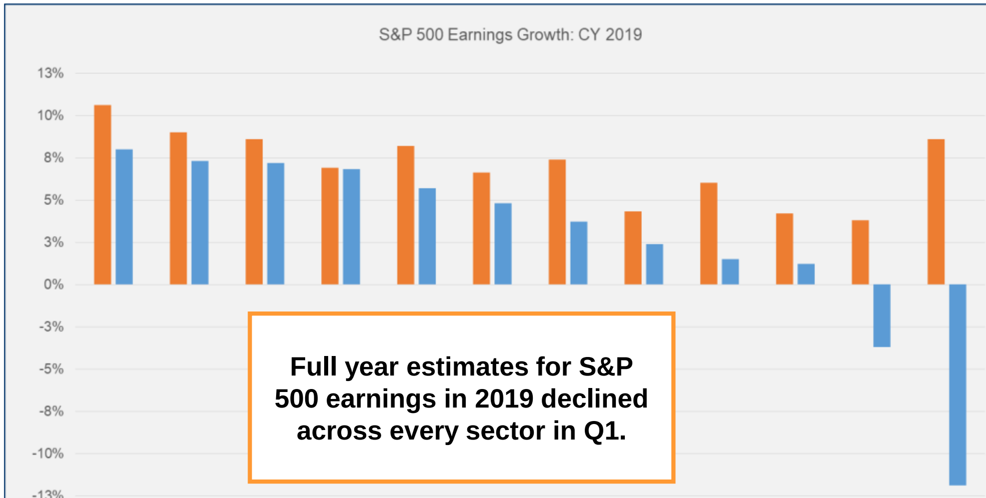
MMA CORE INVESTMENT THEMES

Corporate Earnings Expectations Reset

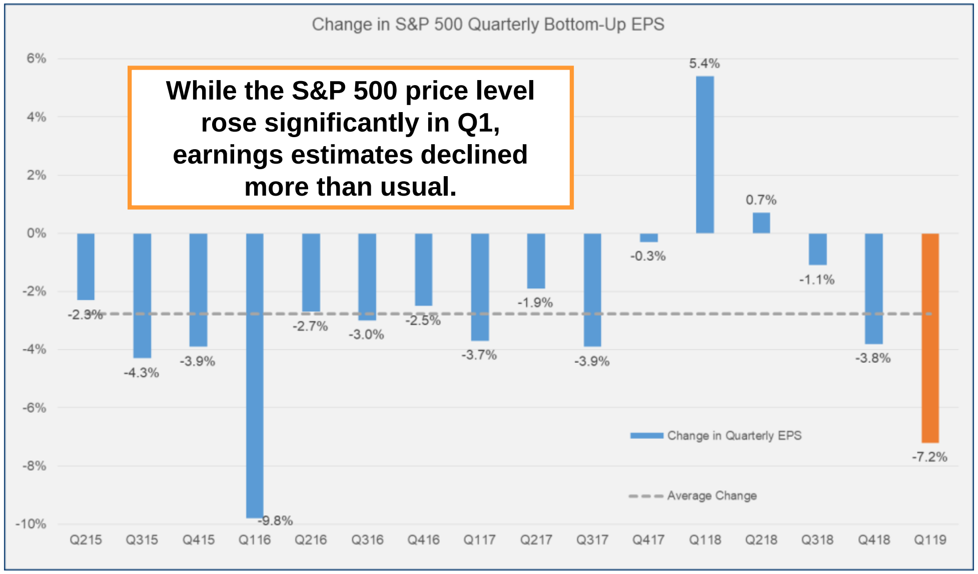
- For Q1, the estimated earnings decline for the S&P 500 is -4.2%. If earnings does decline for the quarter, it will mark the first year-over-year decline in earnings for the index since Q2 2016.
- Corporate earnings guidance has been clouded by uncertainty due to global trade negotiations and sentiment has likely overshot to the downside.
- The change in quarterly EPS in Q1 2019 (-7.2%) was the largest decline since Q1 2016 (-9.8%).
- This expectations reset should make earnings "beats" more likely for Q1 reports given that US fundamentals remain (generally positive).
- After bottoming in January, sentiment has started to slowly tick higher over the last two months (see bottom right chart).

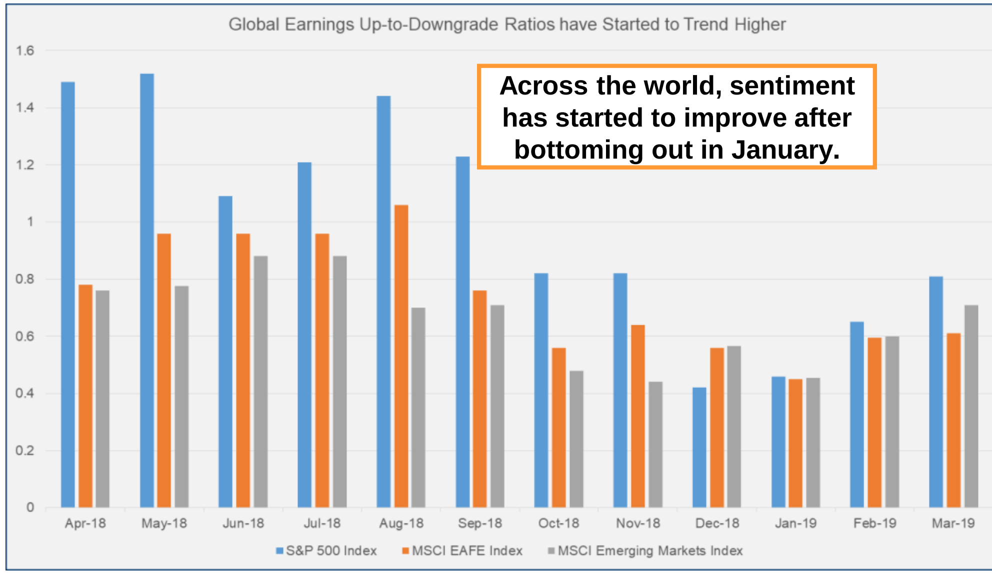
ACTION ITEMS:

- Look for opportunities to add to secular growth areas of the market at attractive valuations.



	Industrials	Consumer Disc.	Financials	Utilities	Comm. Services	Health Care	S&P 500	Real Estate	Info. Technology	Consumer Staples	Materials	Energy
31-Mar	8.0%	7.3%	7.2%	6.8%	5.7%	4.8%	3.7%	2.4%	1.5%	1.2%	-3.7%	-11.9%
31-Dec	10.6%	9.0%	8.6%	6.9%	8.2%	6.6%	7.4%	4.3%	6.0%	4.2%	3.8%	8.6%





Q1 19 MARKET OUTLOOK

Market Risks and Opportunities

KEY RISKS

NEAR TERM

The UK Crashes out of the European Union

- While the deadline for the UK to leave the EU was extended to October, both sides remain far off in negotiations.
- With Euro Area growth hovering around 1%, a messy divorce with the UK could drive the region into a recession.

US Corporate Profits on the Decline

- Q1 corporate profits for the S&P 500 Index are expected to decline for the first time in three years. Q1 numbers tend to be weak due to seasonality effects but with the US government shutdown in January, there were more than the usual reasons for Q1 weakness. Hence, we expect price movements to be driven even more by Q2 guidance.

LONG TERM

Weakening Global Expansion

- The International Monetary Fund (IMF) cut their 2019 global GDP growth outlook to 3.3% from a prior estimate of 3.6%. This is the third time in six months that the organization has revised its outlook downward.
- The IMF also noted that there is still significant downside risk due to mounting debt levels and trade tensions.

Decline in Fiscal Stimulus

- The US is facing a $250B decline in fiscal stimulus in 2020 vs. 2019 due to tax cut roll-down.
- With an infrastructure deal unlikely, US fiscal policy support seems limited to a trade deal with China.

KEY OPPORTUNITIES

NEAR TERM

Trade Resolutions Sets Up Economy for Rebound

- Uncertainty regarding US/China and EU/UK resolutions have lowered future global growth expectations.
- If agreements are reached, there could be a release of pent-up demand, which could act as a slingshot for the global economy.

China Stimulus

- In response to weakening growth and the threat of US trade actions, China initiated significant fiscal and monetary stimulus in late 2018.
- These effects of these measures have started to show up in improving economic data as well as a substantial rally in the country's equity market. In Q1, the MSCI China Index was +17.7%.

LONG TERM

Dovish Central Bank Stance

- In response to a slowdown in the global economy, the Federal Reserve announced in March that it would not raise rates in 2019 and would end its balance sheet roll-off in Q3.
- The subsequent retreat in interest rates could stimulate the economy for longer than previously expected. After reaching historic lows in December, high yield issuance picked up again in Q1, signaling that there is still healthy demand for credit.

Gradual Recovery Expected

- While the growth outlook for 2019 has been dimming, the IMF expects the global economy to pick up in steam in 2020 if costly policy mistakes are avoided. Global growth is expected to be buoyed by robust expansions in India (+7.7%, 2020 GDP estimate) and China (+6.2%, 2020 GDP estimate).

Q1 19 ASSET CLASS PERFORMANCE

Quarterly Performance Summary

Asset Class	Current Portfolio Weighting	Performance			
EQUITIES	**Underweight**	**Q1 19**	**2018**	**2017**	**2016**
US Large Cap	**Overweight**	+13.65%	-4.38%	+21.83%	+11.96%
US Mid Cap	Neutral	+16.54%	-9.06%	+18.52%	+13.79%
US Small Cap	Neutral	+14.58%	-13.82%	+14.65%	+21.31%
International Developed	**Underweight**	+9.97%	-13.79%	+25.03%	+1.00%
Emerging Markets	**Overweight**	+9.89%	-14.58%	+37.28%	+11.19%
ALTERNATIVES	**Neutral**				
Opportunistic Yield	Neutral	+1.84%	-8.27%	+9.81%	+6.35%
FIXED INCOME	**Overweight**				
US Tax Exempt (Municipals)	Neutral	+2.90%	+1.28%	+1.90%	+0.00%
US Taxable (Corporates)	Neutral	+2.94%	+0.01%	+1.27%	+1.56%
Cash	**Overweight**	+0.59%	+1.88%	+0.85%	+0.33%

*As of 3/31/19. Performance values are the returns of the respective indices and are not inclusive of management fees: US Large Cap = S&P 500 Composite, US Mid Cap = Russell Midcap, US Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, US Tax Exempt (Municipals) = Bloomberg Barclays US Municipal Index, US Taxable (Corporates) = Bloomberg Barclays US Aggregate Index, Cash = ICE Bank of America/Merrill Lynch US T-Bill 3 Month, Opportunistic Yield = actual returns from client accounts. Past performance is no guarantee of future results.

Sources: SPDR Indices, MSCI, Bloomberg Barclays, ycharts.com

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Investing in securities involves risk and the possibility of loss of principal. Investing should be based on an individual's own goals, time horizon, and tolerance for risk

<u>Page 3: Dovish Pivot by the Fed Spurred Stocks Higher and Bond Yields Lower</u>

The Fed Reversed Course over Last Two Quarters: Chart shows the S&P 500 Index Level (blue line) from August 2018 to March 2019. The red dots show commentary or actions by the Fed that were considered hawkish. The green dots show commentary or actions by the Fed that were considered dovish. Source – ycharts, Federal Reserve

There is usually a Lag between the Yield Curve Inversion and the Start of Recession: The table shows data from previous instances where the 10-2yr yield curve has inverted. Source – State Street Global Advisors. Bloomberg Finance, LP.

An Inverted Yield Curve has been a Reliable Recession Indicator: Chart shows the spread between the 10Yr and 2Yr US Treasury yield since 1975. Orange shaded areas were recessionary periods. Source – Federal Reserve Economic Data

<u>Page 4: Major Regions are in Different Phases of the Economic Cycle</u>

US Economic Growth Expected to Return to its Longer-Term Trend: Chart shows the annual year-over-year GDP growth for the US economy from 2010 to 2018 in the blue columns. It also shows the projected GDP growth for the US in 2019 and 2020. Source – ycharts, International Monetary Fund

Europe's Largest Economies Appear Headed for a Recession: Chart shows the year-over-year annualized GDP growth for Germany (yellow line), France (blue line), Italy (orange line) from 2004 to 2018. Source – Federal Reserve Economic Data

Chinese Manufacturing PMI Rose Sharply in March: Chart shows the Chinese PMI over the last twelve months. Reading above 50 signals manufacturing expansion whereas a level below 50 signals manufacturing contraction. Source – Trading Economics

<u>Page 5: Corporate Profits Expectations Reset</u>

S&P 500 Earnings Growth: CY 2019: Chart shows the projected earnings growth for each sector in the S&P 500 for 2019. The orange line shows the estimates as of 12/31/18 and the blue line shows the estimates as of 3/31/19. Source – Factset

Change in S&P 500 Quarterly Bottom-Up EPS: Chart shows the change in quarterly EPS from Q215 to Q119 as well as the average change over the time period (grey line). Source – Factset

Global Earnings Up-to-Downgrade Ratios have Started to Trend Higher: Chart shows the ratio of earning upgrades to downgrades for the S&P 500 Index (blue bar), MSCI EAFE Index (orange bar), and the MSCI EM Index (grey bar). When the ratio is declining it means that there are more downgrades relative to upgrades and vice versa. Source – State Street Global Advisors