MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q3 2019

2019 Q3 OVERVIEW

Q3 Market Summary

The S&P 500 rose 1.7% in Q3 as the U.S.'s relatively robust growth slowed enough to boost expectations of further monetary policy ease, with only a modest increase in recession fears. The MSCI All Country World Index (ACWI) was flat, falling 0.03% as gains in the U.S. were offset by losses abroad. The U.S.-China trade war impacted businesses across the globe, raising current costs and impeding business planning and decision-making. Driven by slowing growth in China, the MSCI Emerging Market Index fell 4.25% for the quarter.

Economic growth weakened in all regions, with manufacturing particularly hard hit. Although not directly involved in U.S.-China negotiations, Europe is feeling the trade war's effects, with the MSCI EAFE losing 1.07% for the quarter. Germany, whose export-based economy has long been the economic engine of Europe, will likely tip into recession in Q4. However, Germany's downturn has pushed its politicians to seriously discuss fiscal stimulus, a significant development given that monetary stimulus may be reaching its limits in Europe, and that Germany is the nation best able to apply meaningful fiscal stimulus.

Besides global tensions weighing on Europe, the Brexit drama lingers on, with yet another deadline (October 31). While the outcome is highly uncertain, associated brinksmanship and market volatility are assured.

The U.S. consumer – who accounts for 70% of U.S. GDP – has so far been a pillar of strength. Consumer spending rose 4.3% in Q3, well above the 2.1% growth rate of the U.S. economy as a whole. The consumer has been supported by the jobs picture (unemployment is at historic lows), strengthened balance sheets, and low interest rates which have sparked a rebound in housing and kept consumer debt service costs near 40-year lows.

The impeachment inquiry and its daily news flow has added to investor uncertainty. However, history indicates that impeachment proceedings have not had a significant near-term equity market impact. In the year following President Clinton's impeachment inquiry, the S&P gained 39%. During Nixon's impeachment process, the S&P dropped 33%. However, both periods saw events whose economic impacts far outweighed those of the days' political headlines.

Q3 ECONOMIC HIGHLIGHTS

- Since peaking in Q4-2017, the global economy has continued to slow. In Q3, trade war uncertainties added to the economic headwinds.
- More than 30 central banks have cut rates in 2019, the most since the financial crisis. The Federal Reserve cut rates 0.25% both at its July and September meetings. The fed funds futures market now indicates a 65% chance of another quarter-point cut at the Fed's October meeting.
- Based on supportive monetary policy, continued U.S. growth, and hopes for progress in resolving trade tensions, the S&P 500 index rose 1.7% in Q3. But fears of slower growth ahead for both the U.S. and globally, interest rates fell significantly. The bond market as measured by the Bloomberg Barclays Aggregate U.S. Bond Index rose 2.27% for the quarter.

MMA CORE INVESTMENT THEMES

GLOBAL GROWTH SLOWDOWN LIKELY TO CONTINUE

Manufacturing, often a leading indicator of overall economic activity, is contracting in both the U.S. and globally. This and other data point to a continuation of the global slowdown into 2020. Monetary policy is supportive in all regions, but an acceleration in growth likely awaits progress on trade and further fiscal stimulus. Such conditions lead us to favor larger cap companies with lower economic sensitivity.

U.S. CONSUMERS ARE THE BACKBONE OF THE GLOBAL ECONOMY

The U.S. is growing at a 2% real rate compared to Europe's 1% and 0% in Japan. With the U.S. consumer accounting for 70% of U.S. GDP, and growth in consumer spending outstripping growth of the U.S. economy as a whole, we favor exposure to domestic stocks that are levered to the consumer as opposed to business spending.

ECONOMIC UNCERTAINTY BOOSTS RATIONALE FOR DIVERSIFICATION

Over the past 12 months, U.S. bonds have outperformed U.S. equities. While this relative return pattern is not the historical norm, weak global growth and the risk of further slowing supports diversification across asset classes.

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

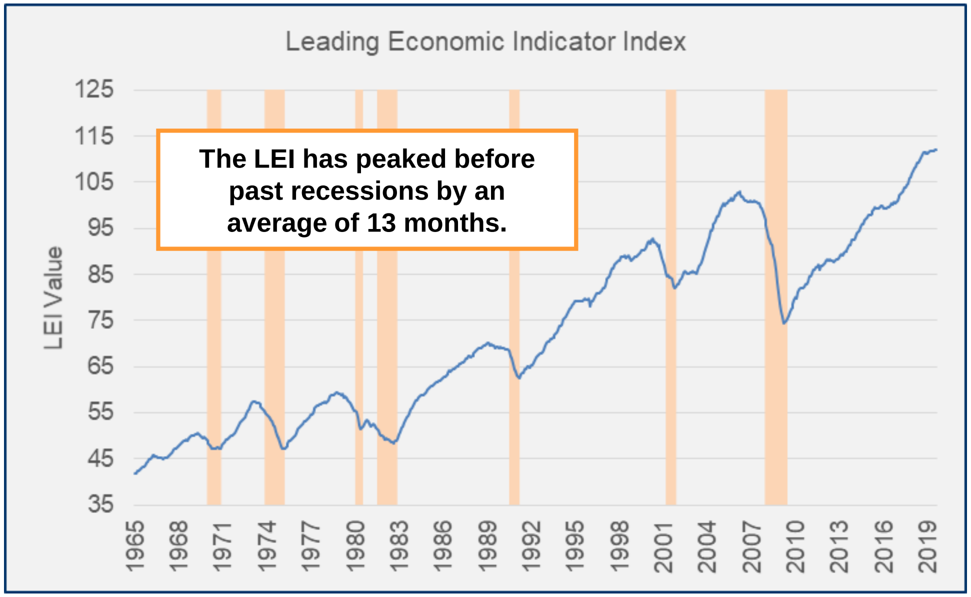
MMA CORE INVESTMENT THEMES

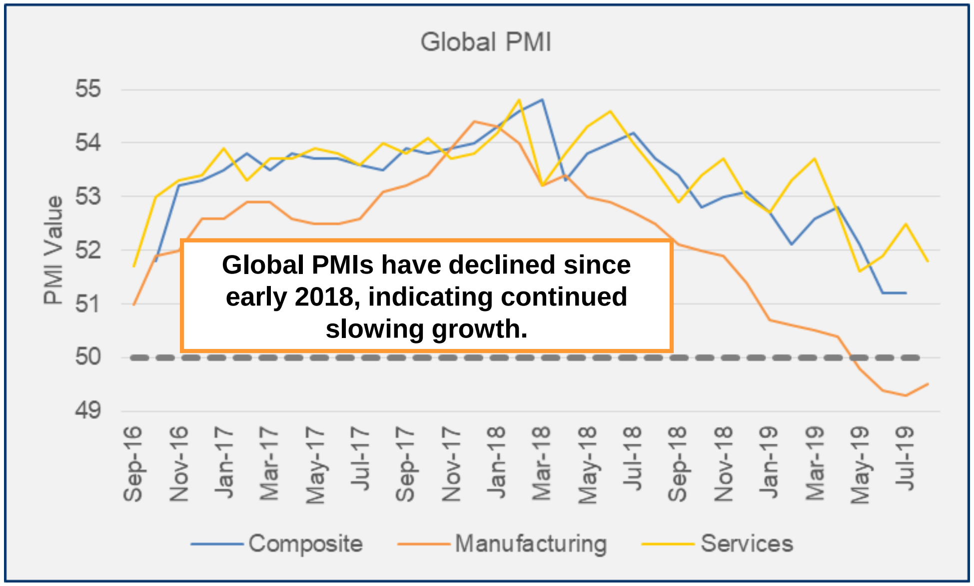
The Global Economy Continues to Slow

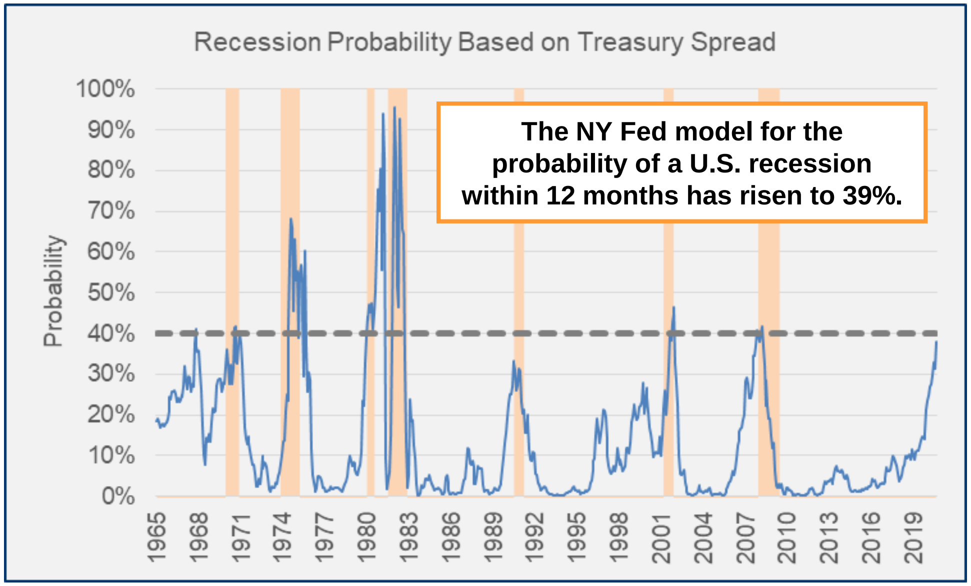
- **Manufacturing is Contracting, Services Slowing**. The September global manufacturing PMI dropped to 47.8 from 49.1 the prior month (a reading below 50 indicates contraction). Although at 52.6 the services sector is still expanding, this was a sharp decline from the 56.4 level of August.
- **Soft Data Weaker than Hard Data.** Surveys of what respondents expect looking ahead are called "soft data" as opposed to retrospective or "hard" economic data. While both soft and hard economic data can give false signals, soft data often turn before hard data. Soft data is now weaker than hard data, with 53% of CFOs expecting a U.S. recession within 12 months.
- **U.S. Leading Economic Indicators Are Still OK.** The Conference Board's index of Leading Economic Indicators (the "LEI") has historically turned lower before recessions, So far, the LEI continues to make new highs.

ACTION ITEMS:

- Maintain exposure to large-cap high-quality stocks which as an asset class have historically outperformed in later stage bull markets and in transitions to periods of contraction.







Shaded area in charts indicates recession

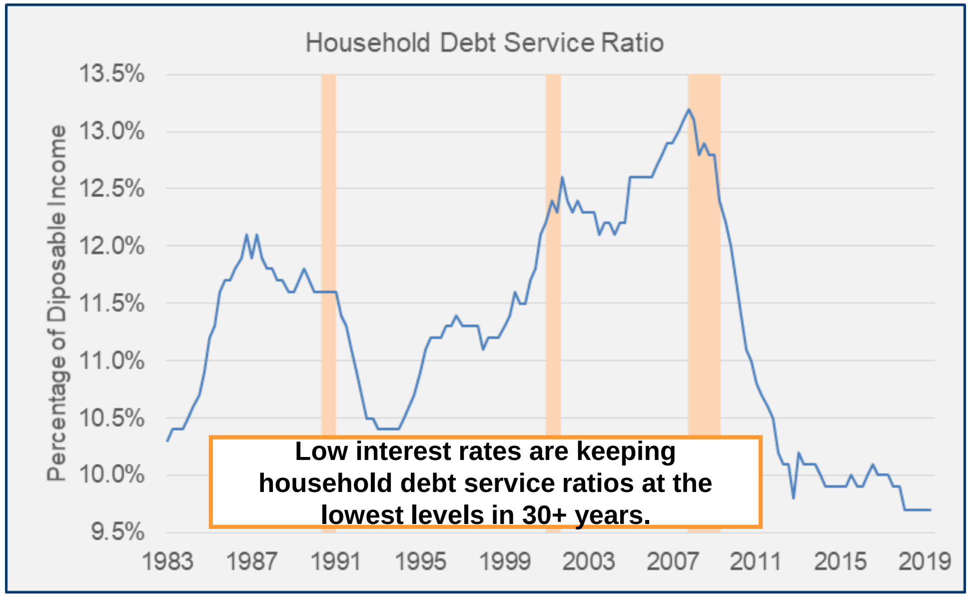
MMA CORE INVESTMENT THEMES

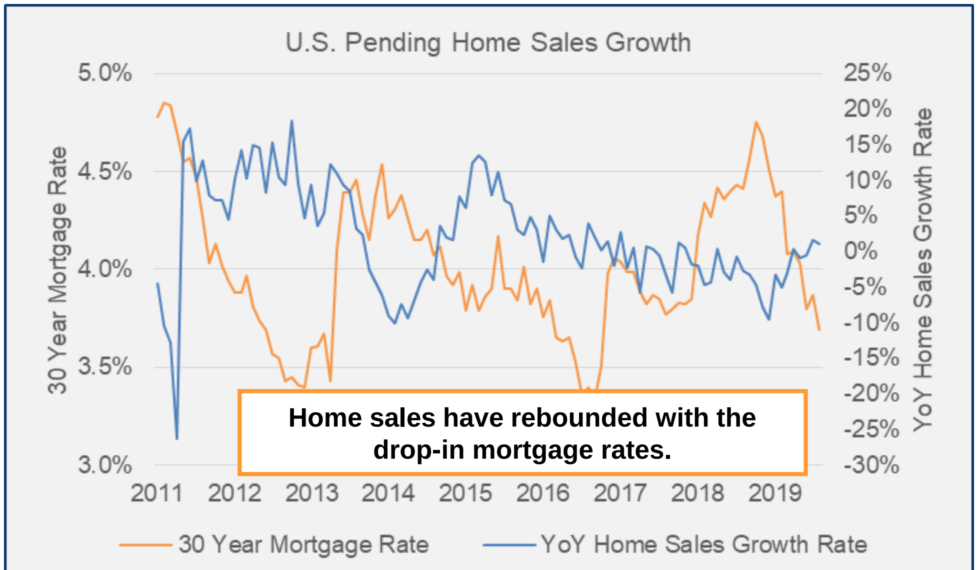
U.S. Consumers Are the Backbone of the Global Economy

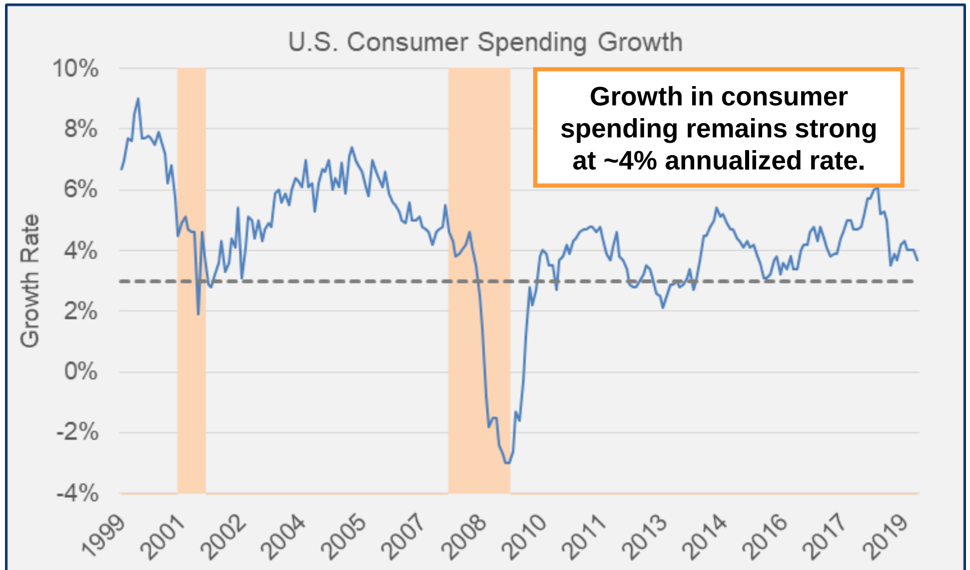
- **Unemployment Lowest in 50 Years.** The unemployment rate fell to 3.5% in September, the lowest rate since 1969, and hourly wages are rising.
- **Housing is Rebounding.** Low mortgage rates are lifting a housing market that had been struggling, with new home sales rising 7.1% in Q3. Housing has a significant multiplier effect for consumption, as new homeowners spend on improvements, new furniture, and appliances.
- **Consumer Balance Sheets are Strong.** Rebounding home prices and a strong stock market have boosted household net worth, and low interest rates have kept debt service ratios at >40 year lows.
- **Spending is Strong.** Consumer spending is running at a >4% annualized rate, well above the 2% growth rate of the U.S. economy as a whole.

ACTION ITEMS:

- Maintain domestic over international exposure, with a focus on stocks levered to the consumer until trade conditions improve. Watch the consumer discretionary vs. staples relationship for signs of consumer fatigue.







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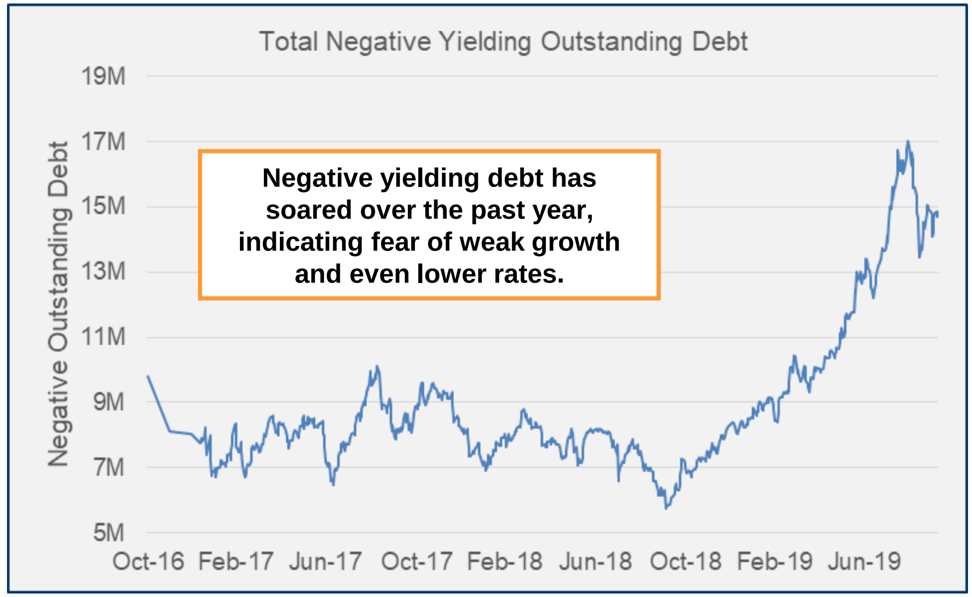
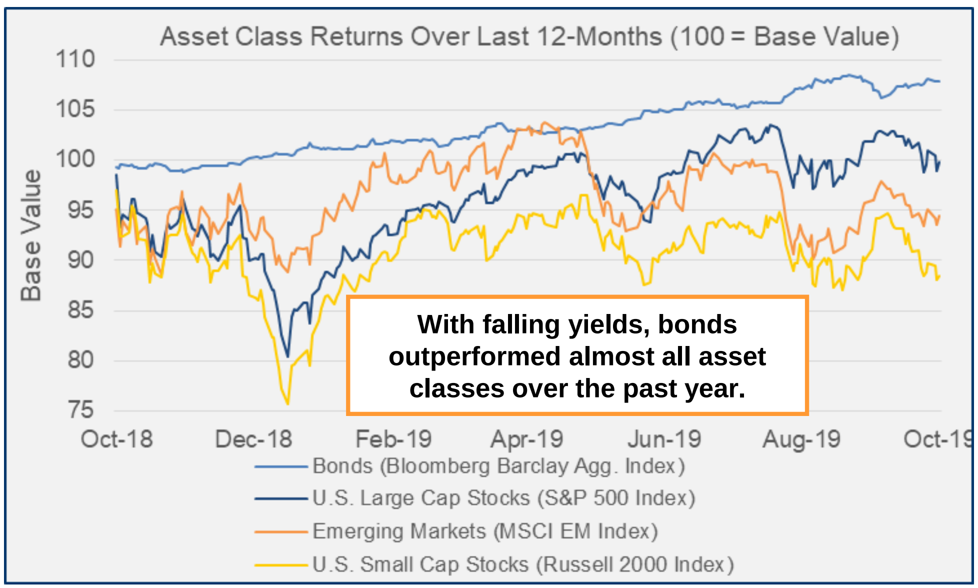
With Falling Yields, Bonds Have Outperformed Stocks Over the Past Year

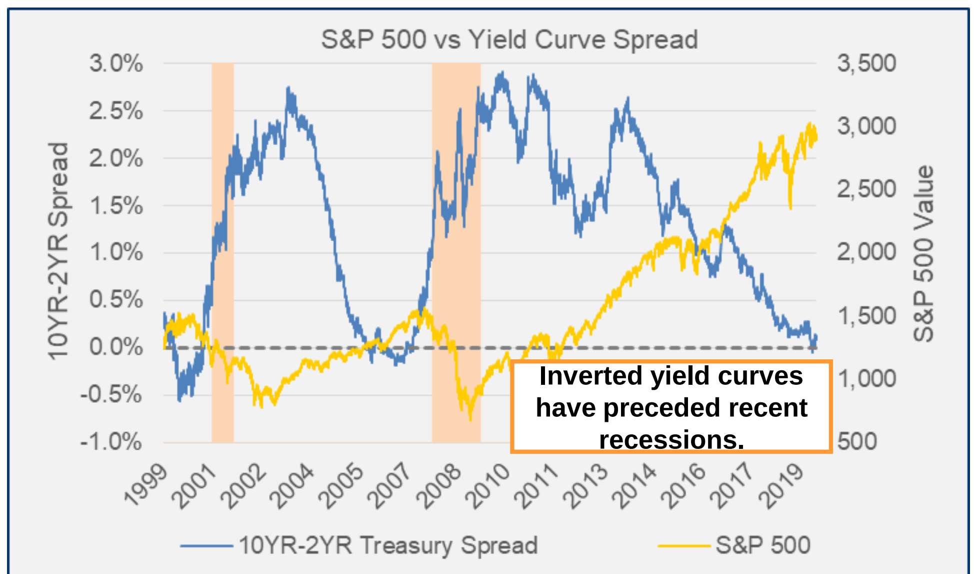
- **Bonds Have Provided More than a Safety Net.** When interest rates fall, bonds rise in value, especially those with longer duration. Over the past 12 months, the U.S. Bloomberg Barclays Aggregate Bond Index has returned 10.3% compared to the Russell 1000's large-cap equity return of 3.9%.
- **Low Rates Will Persist.** As the global economy has weakened, central banks around the world have cut rates, with negative yields now common in Europe and Japan. U.S. yields are not close to going negative, but are expected to stay very low for an extended period.
- **The Fed is Behind the Curve.** We side with those who view the Fed's monetary easing as having thus far under-responded to weakening economic conditions. The Fed appears to be counting on improvements in trade tensions or fiscal stimulus that may or may not happen.

ACTION ITEMS:

- Diversification to fixed income, especially higher quality holdings.







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Q3 2019 MARKET OUTLOOK

Market Risks and Opportunities

KEY RISKS

NEAR TERM

Expectations for Trade War Resolution May be Disappointed

- To the extent that expectations for trade war improvement are priced in, equities would respond negatively to disappointment on trade.

Brexit Deadline Approaching With No Deal in Sight

- An Oct 31st Brexit deadline is approaching with little prospect of any deal that would avoid the economic turmoil of a No-Deal Brexit.

Impeachment Conflict is Ramping

- The impeachment process is raising prospects of a constitutional crisis and fears as to what Trump might do to divert attention from the impeachment proceedings.

LONGER TERM

Recession Warning Signals Continue to Appear

- Recession signals are becoming more prevalent. Given current very low interest rates, monetary policy may not be able to stave off recession without progress on trade and support from fiscal stimulus.

2020 Election Uncertainty

- The 2020 elections could result in an administration with significantly less business-friendly policies.

U.S. Debt Levels

- While almost no politicians want to talk about it, U.S. debt levels could trigger a financial crisis later in the decade.

KEY OPPORTUNITIES

NEAR TERM

Even a Partial Trade War Resolution Could Boost Equities

- Progress on trade would likely boost investor sentiment, spur business investment, and lower prices for consumers.

Response to 2019 Stimulus Measures by China and Europe Should Kick in by Early 2020.

- Monetary policy works with a 6-9 month lag. Economic conditions in these regions and globally should benefit from recent actions by Q1 2020.

LONGER TERM

Global Central Bank Policies Are Likely to Remain Accommodative

- Central banks are likely to keep interest rates low for the foreseeable future, supporting both fixed income and equities.

The S&P 500 Dividend Yield Exceeds That of 10-Year Treasuries

- Dividend yields above 10-year rates have historically marked good entry points for equities.

Q3 2019 ASSET CLASS PERFORMANCE

Quarterly Performance Summary

Asset Class	Performance			
EQUITIES	**Q3 19**	**YTD***	**2018**	**2017**
US Large Cap	+1.70%	+20.55%	-4.38%	+21.83%
US Mid Cap	+0.48%	+21.93%	-9.06%	+18.52%
US Small Cap	-2.46%	+14.12%	-11.01%	+14.65%
International Developed	-1.07%	+12.80%	-13.79%	+25.03%
Emerging Markets	-4.25%	+5.89%	-14.58%	+37.28%
ALTERNATIVES				
Opportunistic Yield	+1.59%	+5.62%	-8.27%	+9.81%
FIXED INCOME				
US Tax Exempt (Municipals)	+1.58%	+6.75%	+1.28%	+5.45%
US Taxable (Corporates)	+2.27%	+8.52%	+0.01%	+3.54%
Cash	+0.57%	+1.81%	+1.88%	+0.85%

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

*As of 9/30/19. 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.

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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

Page 3:
Global PMI as composite, services, and manufacturing. Source – JP Morgan
Leading Economic Indicators Peaking Before Recessions. Source – Conference Board US
Probability of Recession Calculated from the Yield Curve. Source – New York Federal Reserve

Page 4:
U.S. Pending Home Sales Compared to 30 Year Mortgage Rates. Source – National Assoc. of Realtors & Bankrate
Household Debt Service Ratio. Source – Federal Reserve
Consumer Growth Remains Strong in U.S. Source– Bureau of Economic Analysis

Page 5:
Asset Class Returns over Past 12 Months. Source – Bloomberg
Negative Yielding Debt Outstanding Increased Worldwide. Source – Bloomberg
Higher Tariffs have led to a Deceleration in Global Trade. Source – Bloomberg