MIRACLE MILE ADVISORS

MARKET LANDSCAPE

Q2 2019

2019 Q2 OVERVIEW

Q2 Performance Summary

Despite a slowdown in global growth and an escalation in U.S./China trade tensions, Q2 saw a broad-based appreciation in equity asset classes led by the U.S. The S&P 500 finished the quarter +4.3% for its best first half in over two decades (+18.5% YTD). The continued rally in equities was primarily driven by a shift in the Federal Reserve's receptivity to interest rate cuts to combat slower global growth.

While looser monetary policy was welcomed by the equity markets, it is unclear what effect it will have on reigniting growth this late in the economic cycle. Protectionist trade policies have increased business uncertainty and disrupted global supply chains. Global trade volume has decreased 4% in the last twelve months, and manufacturing activity has continued to decline. The June reading for the JP Morgan Global PMI Index indicated a contraction in the global manufacturing sector for the first time since 2012.

However, some of the slowdown could be transitory, especially if trade tensions decline. The global economy is still projected to grow at a solid rate of +2.6% in 2019 (World Bank estimate). Furthermore, the U.S. job market continues to strengthen and wages have increased slightly, a positive for the U.S. consumer who accounts for almost 70% of U.S. GDP growth.

Mounting concerns about slowing growth pushed bond yields lower in Q2. The yield on the U.S. 10-Yr treasury ended the quarter at 2.0% after starting the year at 2.7%. This steep decline in interest rates has made 2019 a banner year for fixed income returns thus far (bond prices move inversely to interest rates). The broader bond market, as measured by the Bloomberg Barclays U.S. Aggregate Index, posted a +3.1% return in Q2 and +6.1% for the first six months of the year.

One of the more notable developments in Q2 was the inversion of the yield curve. The situation of long-term rates below short-term rates is referred to as an inverted yield curve, and is usually taken as a signal of weakness in future economic growth. An inverted yield curve has historically been a reliable recession indicator as each of the last five recessions were preceded by an inversion. However, unprecedented central bank policy during the current economic cycle has artificially flattened the shape of the curve, which may make the yield curve less predictive of a downturn.

Q2 ECONOMIC HIGHLIGHTS

- Expectations for an imminent China/U.S. trade deal were shattered in May as the U.S. raised tariffs on $200bn of Chinese products. This effectively ended a four-month truce and ratcheted up tensions between the two countries.
- The Federal Reserve signaled a more dovish approach in its June meeting as the committee opened the door to potential rate cuts. As of June 30th, the futures market was pricing an 80% probability that the Fed will cut rates by 0.25% in July.
- Spurred by a more accommodative Federal Reserve, the S&P 500 hit a new all-time high in June.
- Bond yields continued to collapse in Q2 as the yield on the U.S. 10-Yr treasury fell below 2% for the first time since 2016. The yield curve (measured by the delta between 10-Yr and 3-Mo treasury yields), has been inverted since mid-May.

MMA CORE INVESTMENT THEMES

ECONOMIC DATA SHOWING SIGNS OF SLOWING GROWTH

Protectionist trade policies have reinforced a global growth cycle that was already slowing. This slowing is evident in the contraction in global manufacturing and declining trade volumes. We have tilted our portfolios defensively, holding more cash than usual in most portfolios, and favoring less economically sensitive equities.

A SLOWDOWN DOES NOT MEAN A RECESSION IS IMMINENT

The slowdown in global growth may be transitory especially if trade disputes are resolved and central banks are successful in stimulating economic activity. Hence, we are paying close attention to cyclical areas of the market that would benefit from a recovery of momentum.

TRADE WAR OUTCOME LIKELY TO TIP THE SCALE

So far equity markets have embraced the prospect of more accommodative monetary policy, while bond markets are pricing in a further economic slowdown. The mixed picture makes it likely that the outcome of the current trade wars will be a major determinant of which is correct – the strength in the stock market or that in the bond market. With the outcome being rather binary, we are favoring defensive areas of the market over more volatile ones.

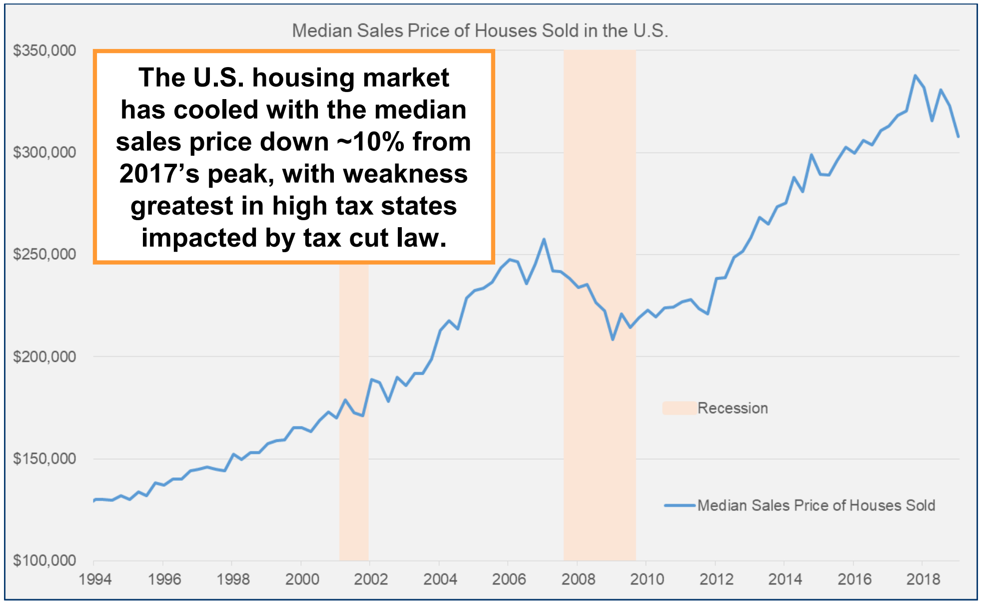
Sources: SPDR Indices, MSCI, Bloomberg Barclays, Institute for Supply Management, US Federal Reserve of Economic Data, ycharts.com

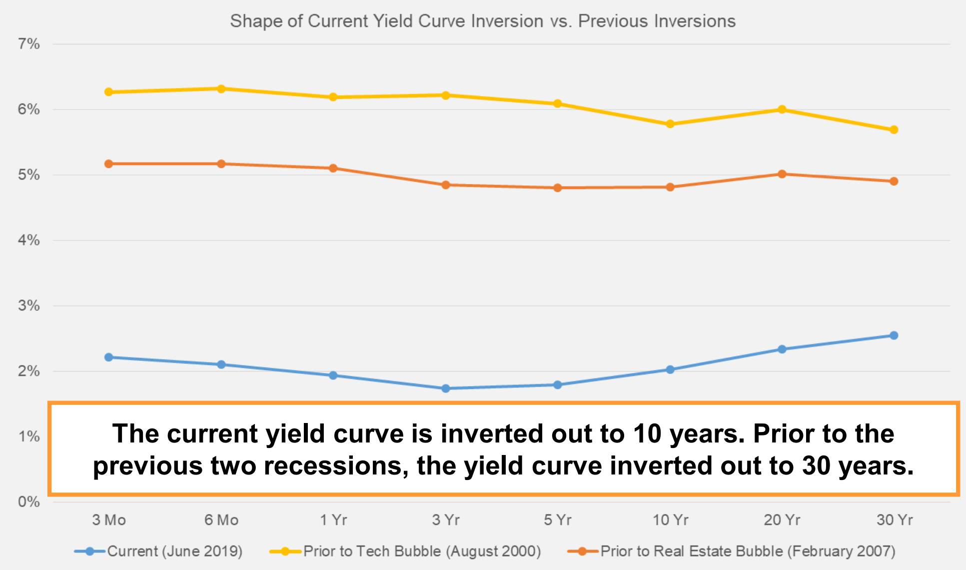
Economic Data Showing Signs of Slowing Growth

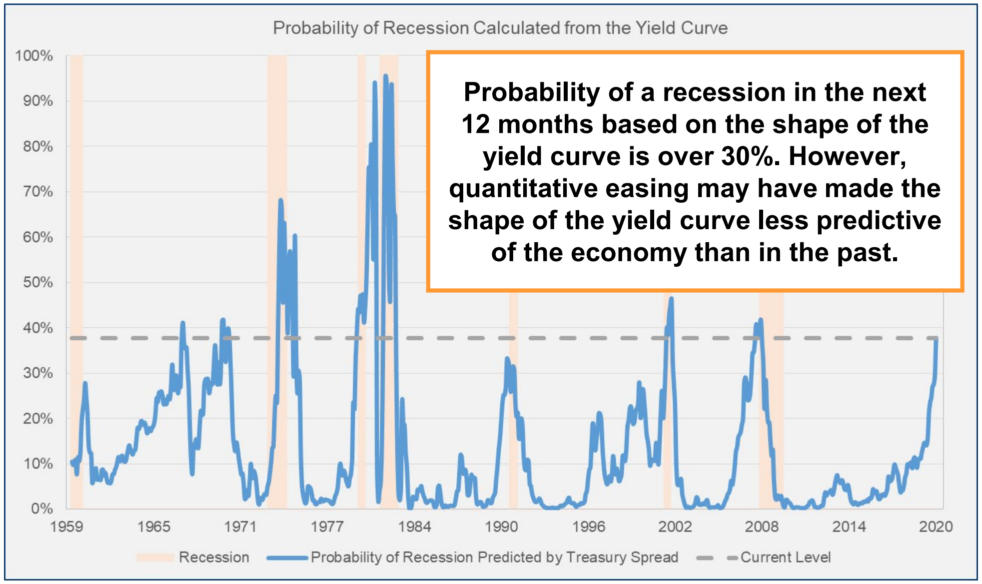
- The decline in long-term bond yields caused the U.S. 10-Yr vs. 3-month yield curve to invert for the first time since 2007. An inverted yield curve has preceded each of the last five recessions. However, the long end of the curve (30-year treasuries) which inverted prior to the 2001 and 2008 recessions is still upward sloping currently.
- Global manufacturing contracted in June for the first time since 2012. This has negatively affected countries which rely heavily on exports for growth, such as Germany and South Korea.
- S&P 500 companies that generated more than 50% of sales outside the U.S. experienced a year-over-year earnings decline of -12.8% in Q1 compared to +6.2% year-over-year growth for companies that generated less than 50% of sales outside the U.S.

ACTION ITEMS:

- Maintain defensive portfolio positioning in terms of cash levels and cyclicals vs. defensive sector weightings.







MMA CORE INVESTMENT THEMES

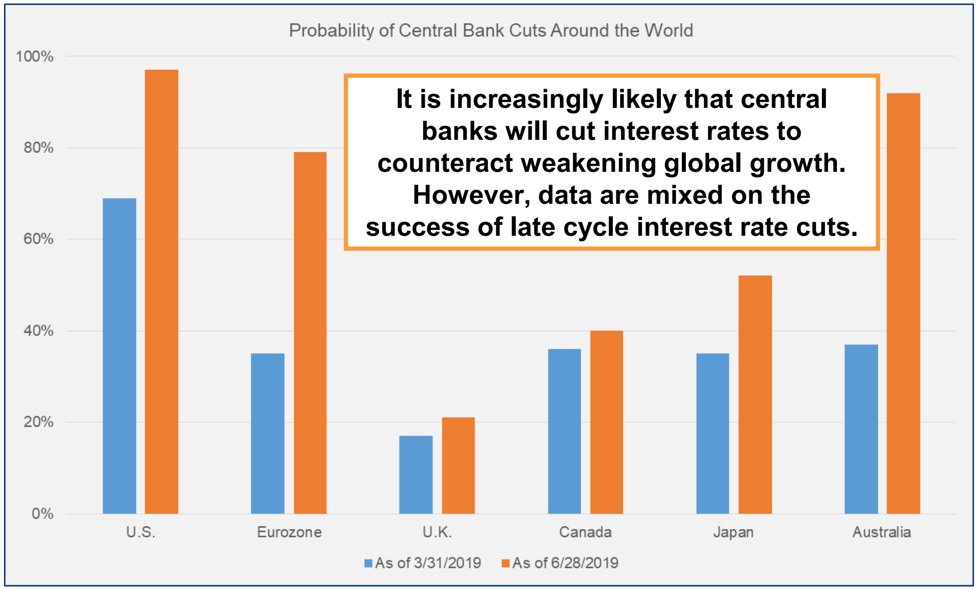
A Slowdown Does Not Necessarily Mean a Recession is Imminent

- **Temporary slowdowns are normal.** U.S. tax cuts and synchronized global growth pushed global GDP above trend in 2017-2018. While global economic growth is forecast to ease to a weaker-than-expected 2.6% in 2019, the World Bank expects momentum to pick-up in 2020.
- **U.S. consumer remains healthy.** The consumer comprises 70% of the U.S. economy and remains a vital component of the global demand function. A strong labor market and higher wages continue to buoy consumer confidence, a significant positive for the economy.
- **Central banks are taking action.** In response to weakening growth, central banks across the world have signaled that more stimulus is imminent. This shift in policy has already boosted global equity markets, although it remains unclear how successful these policies will be at stimulating growth this late in the cycle.

ACTION ITEMS:

- Look for opportunities to add to cyclical sectors of the market which could benefit the most from a reacceleration in growth.

In the current economic expansion, we have seen periods of transitory weakness (e.g., 2012 & 2016). The World Bank expects growth to stabilize next year but warns that risks are tilted to the downside.



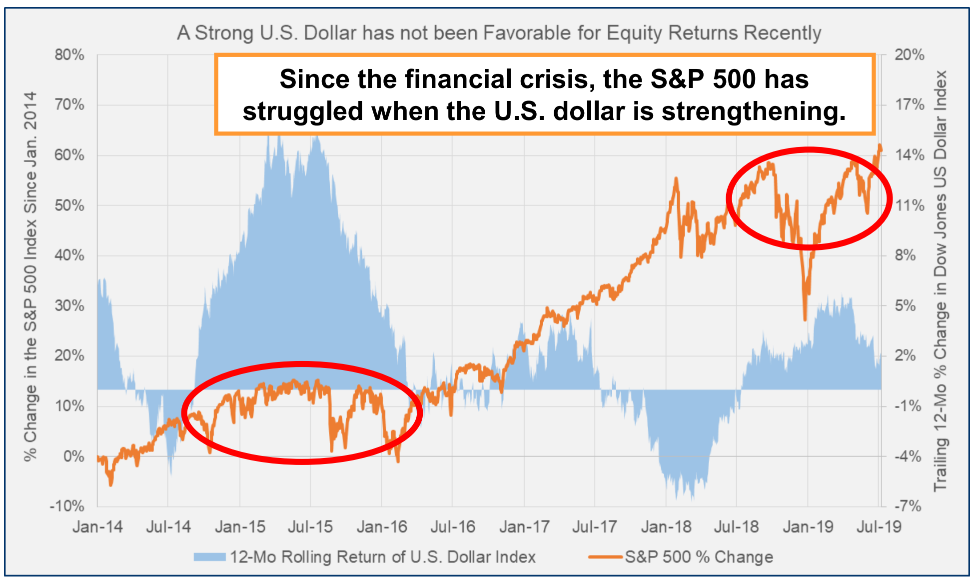
MMA CORE INVESTMENT THEMES

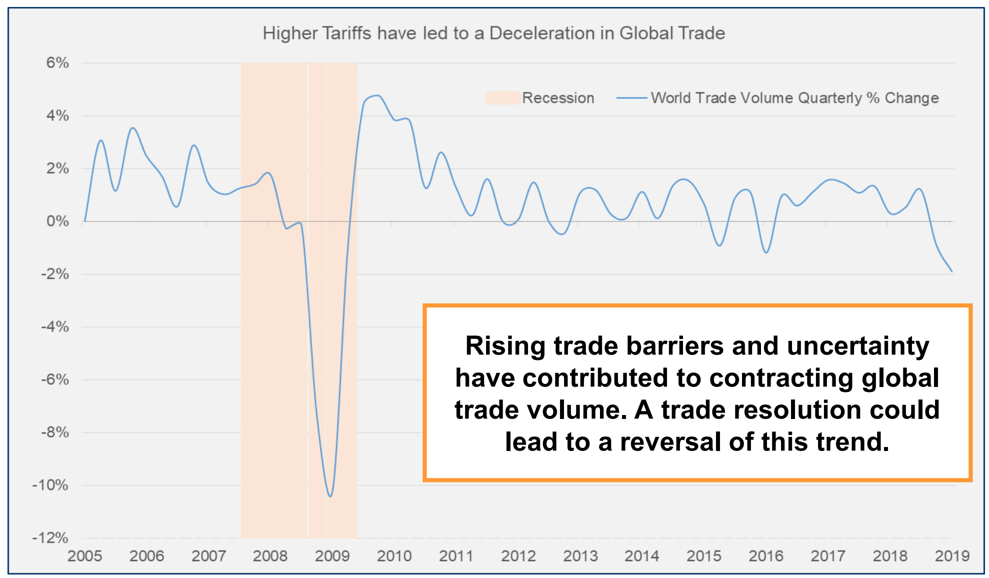
Economic Factors That Could Tip the Scales

- **Trade Negotiations.** The duration and path of the U.S./China trade war may be the largest determiner of the path of the global economy and the timing of the next U.S. recession. A near-term resolution could lead to a resumption in capital expenditures and global trade, while a prolonged stalemate would result in more permanent disruptions to the economy.
- **Direction of U.S. Dollar.** The dollar has strengthened over the last 24 months which has put pressure on emerging markets and U.S. multinational companies. A more accommodative Fed should put downward pressure on the dollar, which in the current context, would be positive for equities.
- **Credit Risk.** Widening high yield spreads are an indication of weakening macroeconomic conditions. Compared to historical norms, U.S. high yield spreads are relatively tight and have been stable in 2019.

ACTION ITEMS:

- With current mixed economic data, we remain cautious of higher volatility areas of the market in favor of more defensive sectors.





Market Risks and Opportunities

KEY RISKS

NEAR TERM

Europe Dips into Recession

- The German economy is expected to grow 0.5% in 2019 (down from a 1.1% estimate in February). The German manufacturing sector is already in contraction as its PMI Index has been below 50 since February.
- Business uncertainty is weighing on the UK economy. Economic activity data is plummeting, with the next Brexit deadline approaching on Oct 31st.

U.S. Corporate Profit Margins Under Pressure

- Profit margin expansion has accounted for a significant portion of stock price appreciation over the last decade.
- However, a number of profit drivers are under threat (rising labor costs, tariffs, business taxes). 49% of investors surveyed by RBC expect S&P 500 margins to contract over the next year vs. 10% expecting expansion.

LONGER TERM

Mounting Debt Levels

- China's corporate debt to GDP ratio is over 150%. Officially, government debt to GDP is only 48%, but the true number is much higher than this. The high debt levels inhibit policy response and could lead to a credit crunch if growth continues to slow.
- Italy's government debt to GDP ratio was 132% as of 2018 year end. This level of debt makes Italy's borrowing more expensive and could lead to fears of another euro crisis.

Decline in Fiscal Stimulus

- The U.S. is facing a $250B decline in fiscal stimulus in 2020 due to the roll-down embedded in the tax cut law. With an infrastructure deal unlikely, U.S. fiscal policy support appears limited.

KEY OPPORTUNITIES

NEAR TERM

Trade Resolutions Would Set Up Economy for Rebound

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

Monetary Stimulus

- In response to weakening global growth, central banks are promoting pro-cyclical policies to try to indemnify growth against a downturn.
- Accommodative central bank policy is usually a positive backdrop for equities. An expansion of global liquidity from central banks in 2016 contributed to strong equity performance over the next twelve months.

LONGER TERM

Potential for US Dollar to Depreciate

- After strengthening for the last two years, the U.S. dollar should face less upward pressure due to less restrictive monetary policy from the Fed. A weaker U.S. dollar benefits U.S. multinational companies and reduces pressure on emerging market economies. It would also reduce trade tensions as a weaker dollar helps limit the U.S. trade deficit.

Gradual Recovery Expected

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

Q2 2019 ASSET CLASS PERFORMANCE

Quarterly Performance Summary

Asset Class	Current Portfolio Weightings	Performance			
EQUITIES	**Underweight**	**Q2 19**	**YTD***	**2018**	**2017**
US Large Cap	**Overweight**	+4.30%	+18.54%	-4.38%	+21.83%
US Mid Cap	Neutral	+4.13%	+21.35%	-9.06%	+18.52%
US Small Cap	Neutral	+2.10%	+17.68%	-13.82%	+14.65%
International Developed	**Underweight**	+3.68%	+14.62%	-13.79%	+25.03%
Emerging Markets	Neutral	+0.61%	+11.31%	-14.58%	+37.28%
ALTERNATIVES	**Underweight**				
Opportunistic Yield	**Underweight**	+2.09%	+3.78%	-8.27%	+9.81%
FIXED INCOME	**Overweight**				
US Tax Exempt (Municipals)	Neutral	+2.14%	+5.16%	+1.28%	+1.90%
US Taxable (Corporates)	Neutral	+3.08%	+5.96%	+0.01%	+1.27%
Cash	**Overweight**	+0.64%	+1.26%	+1.88%	+0.85%

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

*As of 6/30/19. 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.

Important Disclosures

Page 3:
Median Sales Price of Houses Sold in the U.S. Source – Federal Reserve
Shape of Current Yield Curve Inversion vs. Previous Inversions. Source – U.S. Treasury
Probability of Recession Calculated from the Yield Curve. Source – New York Federal Reserve

Page 4:
Global Growth Expected to Improve in 2020. Source – World Bank
Rising Unemployment Claims have Preceded Past Recessions. Source – Federal Reserve
Probability of Central Bank Cuts Around the World. Source – StateStreet

Page 5:
U.S. High Yield Spreads Not Showing Signs of Stress. Source – Federal Reserve
A Strong U.S. Dollar has not been Favorable for Equity Returns Recently. Source – yCharts.com
Higher Tariffs have led to a Deceleration in Global Trade. Source – World Bank