Economic and Market Overview

First Quarter 2019

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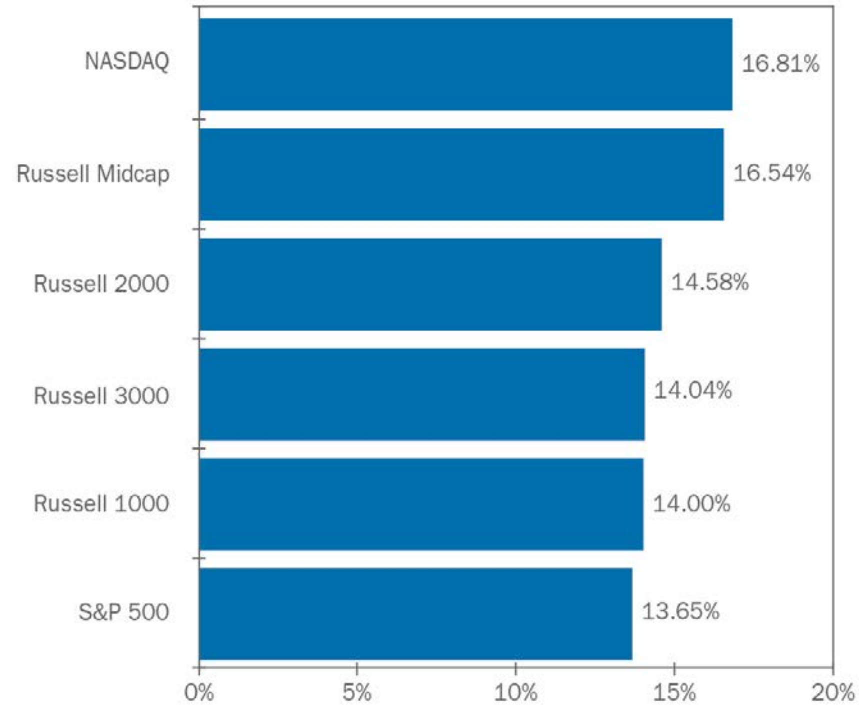
The following commentary summarizes prior financial market activity, and uses data obtained from public sources. This commentary is intended for ***one-on-one use with a client's financial advisor only,*** *as a resource to manage assets and evaluate investment portfolio performance.*

The Economy

The US economy's growth moderated somewhat in the first quarter. The Bureau of Economic Analysis reported its second estimate of fourth quarter 2018 gross domestic product (GDP) of 2.2%, lower than the prior estimate of 2.6%, and also lower than the third quarter's 3.4% reading. The employment situation slowed in the latest month, but continued to deliver gains, with an average of approximately 186,000 jobs added each month. The unemployment declined to 3.8% from the prior month's level of 4.0%. The Federal Open Market Committee (FOMC) maintained its existing interest rate policy by keeping the federal funds rate target at a range of 2.25% to 2.50%. Economists do not expect there to be any additional interest rate increases in 2019 as economic growth has eased.

Board Market Index Returns
First Quarter 1Q19



Source: Morningstar,Inc.

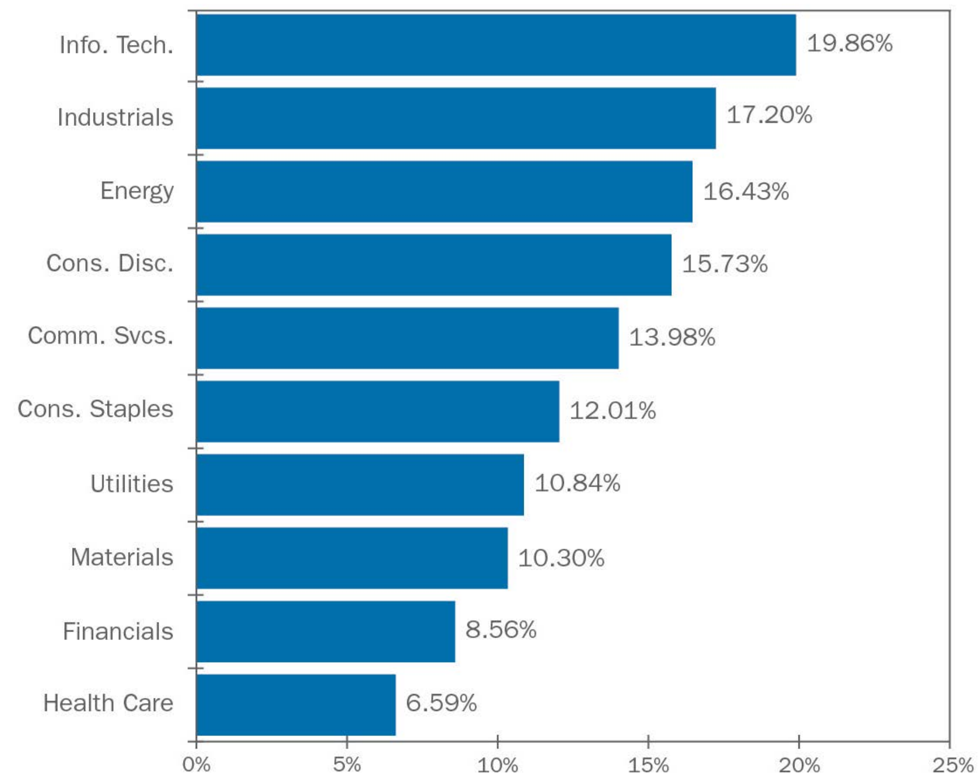
The global economic environment has softened somewhat, with some economists saying the global expansion is now past its peak for this cycle. The reasons for the slowing are attributed to the cooling in world trade, capacity constraints and a tightening in monetary conditions. The European Central Bank has again loosened monetary policy in an effort to catalyze the slowing Eurozone economy, and the Brexit outcome will also impact the region's outlook. China's policymakers are attempting to transition the economy to one that can deliver more sustainable growth. At the same time, growth is cooling, and trade talks with the US could complicate matters.

Highlights and Perspectives

GROSS DOMESTIC PRODUCT (GDP)

The Bureau of Economic Analysis released the second estimate of the fourth quarter 2018 real GDP, a seasonally adjusted annualized rate of 2.2%, down fairly materially from the third quarter's 3.4% annualized growth, and lower than the 2.6% prior estimate. The economy slowed from the second and third quarters of 2018 when the benefits of the deficit-financed tax cuts were in full force. Consumer spending was the primary driver of the growth, followed by fixed investment. Corporate profits fell by 0.4% (not annualized) during the quarter, while real disposable income rose by 4.3%. Economists and analysts are not in agreement as to whether the slowdown is the start of something more serious – perhaps leading to a recession – or merely temporary. On the positive side, the government shutdown that occurred during the latter stages of the quarter is over, and over the past few years GDP growth has been somewhat seasonal, with slowing in the fourth and first quarters and acceleration in the second and third. In addition, economists believe that the economy's significant momentum will enable it to avert a recession in the foreseeable future.

US Equity Market Returns by Major Sector
(GICS Sectors in S&P 500, First Quarter 1Q19)



Source: Morningstar,Inc.

HOUSING

The housing segment rebounded sharply after consolidating for most of the past year due to rising mortgage rates. Existing-home sales for February (the latest monthly data available) grew at an annualized rate of 5.5 million units, almost 12% higher than the results from January, but down about 2% from year-ago levels. The inventory of existing homes was at about four months of supply, up somewhat from the prior year. Existing-home prices in February increased 3.6% from February 2018. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at 62, the same as February's level, but much lower than the levels experienced earlier in 2018. The outlook for housing remains positive, as wages continue to increase, and mortgage rates have declined from recent levels.

EMPLOYMENT

The employment situation slowed dramatically in February, exhibiting signs of weakness following a long period of generally robust gains. Employers added only 20,000 jobs during the month, well below the consensus expectations of 180,000 new jobs, and far below the prior month's gain of 311,000. Analysts point to seasonality as being one of the key reasons for the slowdown in payroll growth. The three-month moving average also fell as a result of the meager gains in February, coming in at 186,000. The unemployment rate in February declined to 3.8%, and economists are generally of the opinion that it will end the year even lower. Average hourly earnings increased by a 3.4% from the year-ago level.

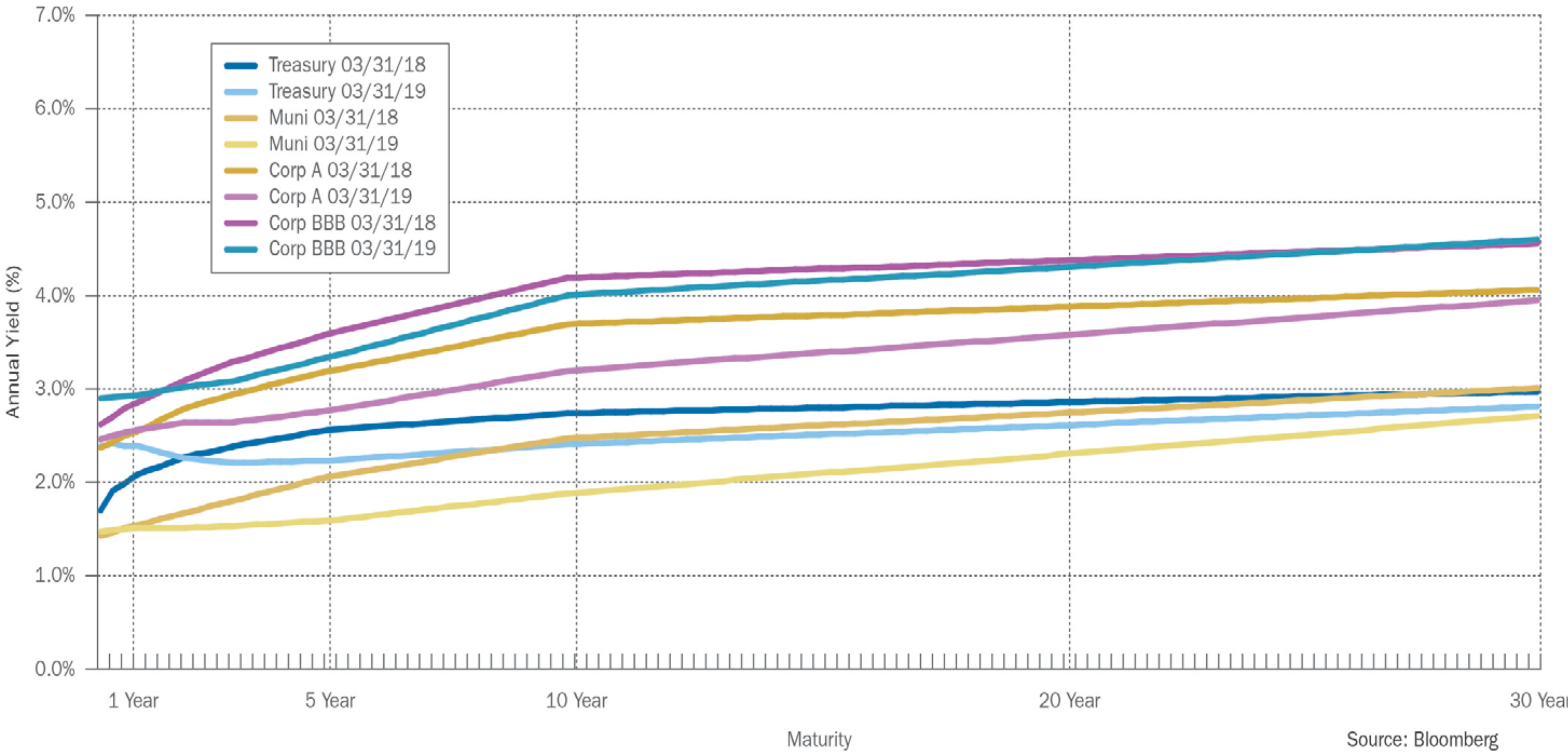
FEDERAL RESERVE POLICY

The FOMC ended its recent March meeting by announcing that there would be no change in the federal funds rate target range to 2.25% to 2.50%. The decision to stand pat was widely expected, and was seemingly a commitment by the committee to take a more sustained pause. Many economists believe that rate increases for this cycle are now over as the FOMC does not want to derail the expansion. Analysts do not expect any rate increases for the remainder of 2019.

INTEREST RATES

Fixed income securities' prices and yields were impacted by concerns about slowing global economic growth during the quarter. The FOMC has acknowledged the slowdown and in a desire not to drive the US economy into a recession has backed off of further rate increases. This pause has resulted in a rally in bond prices, and a drop in yields. Some economists have pointed out that now that the FOMC has hit the pause button in its rate-hike program this cycle, it will be difficult to raise rates this year if the economy begins to heat up due to the repercussions such an unanticipated move would have on the financial markets. In a change from the previous quarter, most analysts, and the FOMC itself, expect there will not be any more rate increases in 2019.

U.S. Treasury, Muni and Corporate 30-Year Yield Curves



Source: Bloomberg

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As has been the trend in recent quarters, the Treasury yield curve flattened again during the first quarter, with yields on short-term maturities staying relatively stable and those on intermediate-term maturities falling. By the end of the quarter, the yield on the benchmark 10-year US Treasury note was lower, ending the quarter at 2.41%, compared to 2.69% on December 31.

As mentioned above, interest rates in the quarter headed steadily lower as a result of concerns about the slowing pace of global growth. In addition, investors were also attempting to digest the potential Brexit outcomes and scenarios of trade talks between the U.S. and China, as well as the Federal Reserve's ongoing balance sheet unwinding. Yields at the short end of the yield curve (up to three years) ended the quarter generally about 5-20 basis points lower than in December, while those on the longer end were lower by up to almost 30 basis points. The yield on the 3-month Treasury Bill settled at 2.39% at the end of the quarter, up about three basis points from the end of the previous quarter. The yield on the 5-year Treasury Note ended the quarter at 2.23%, compared to 2.51% on December 31, and as mentioned above, the yield on the 10-year Treasury Note fell to 2.41% from 2.69% over the same period. At the same time, the yield on the 30-year Treasury Bond declined, ending the period at 2.82%, compared to its beginning level of 3.02%. Inflation expectations were somewhat higher, with the Fed's gauge of five-year forward inflation expectations rising slightly from 1.77% on December 31.

Total returns on fixed income securities were positive across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index jumped by +2.2% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index surged +5.4% during the three months. High yield securities, which often follow the performance of equities, climbed, delivering a positive return of +7.3%. Municipals fared well, as the Bloomberg Barclays Municipal Bond Index rallied by +2.9% during the quarter. Prices of non-US fixed income securities were also higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced +1.5%. Emerging markets bonds made a robust recovery, with the JPM EMBI Global Index gaining +6.6%.

EQUITIES

Equity markets did an about-face during the quarter, generating the largest quarterly advance since the third quarter of 2009. Stocks' first quarter performance almost completely recouped the losses of the prior quarter. Whereas the losses in the fourth quarter of 2018 were prompted by fears that the FOMC was being unnecessarily aggressive in raising rates, the gains of the first quarter can largely be attributed to the FOMC's curtailing of its rate-increase program. Investors were heartened by the decision, which appears was made in time to avert a significant economic slowdown or recession. During the quarter several broad-based indexes rose more than 15%. Within this landscape, the S&P 500 Index finished the quarter with a robust gain of +13.7%.

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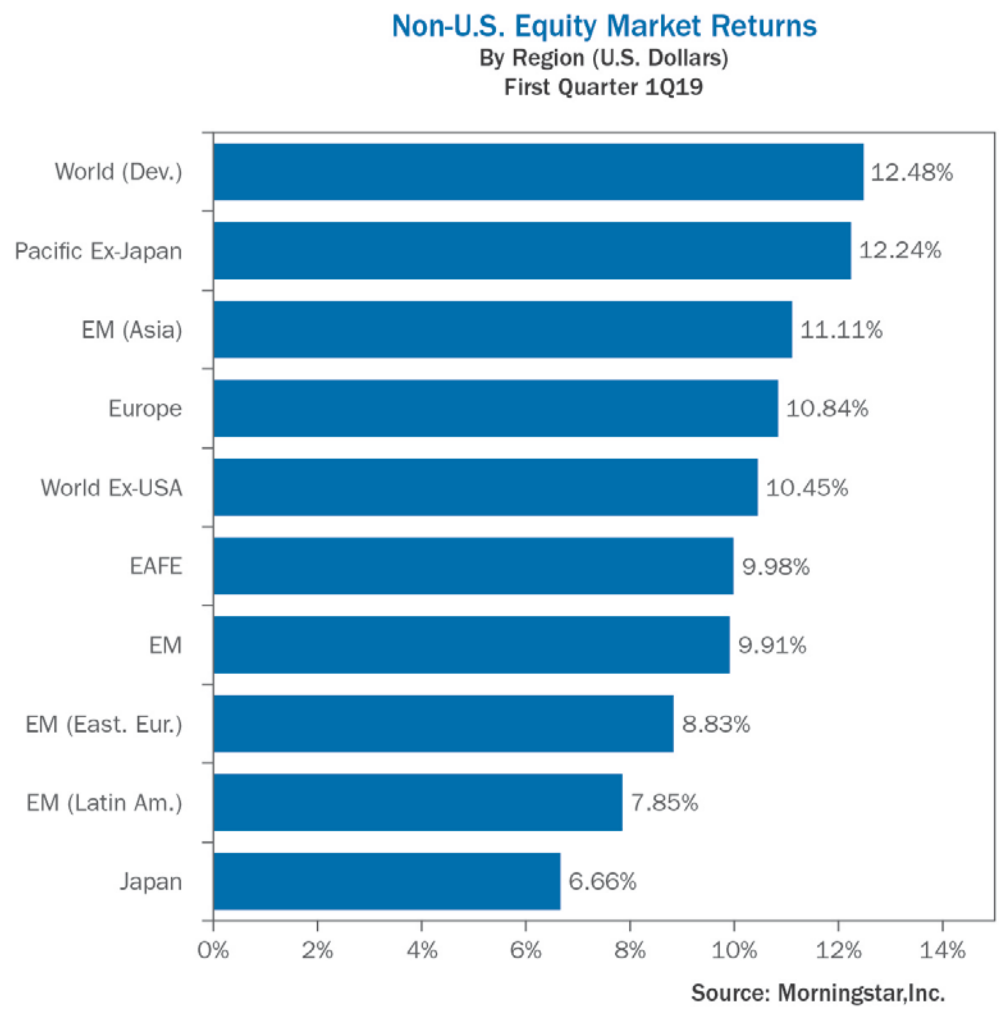
Each of the ten primary economic sectors produced performance results that were strongly positive during the quarter. Information Technology, Industrials and Energy were the strongest performers on a relative basis, generating returns of +19.9%, +17.2%, and +16.4%, respectively. The Health Care, Financials and Materials sectors were the poorest relative performers, posting returns of +6.6%, +8.6%, and +10.3%, respectively. The Russell 1000 Index of large capitalization stocks generated a +14.0% total return. Within the large cap segment, growth stocks sharply outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly outperformed large caps, and finished the quarter with a total return of +14.6%. Small cap value underperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of +16.8%. The Dow Jones Industrial Average of 30 large industrial companies advanced +11.8%.

Real Estate Investment Trusts (REITs) also posted solid gains during the quarter, with the DJ US Select REIT Index surging +15.7%. Commodities were also lower, with the Bloomberg Commodity Index gaining +6.3% for the quarter.



International stocks delivered generally positive results that fell somewhat short of the gains in US equities. Economic growth continues to lag that of the US, and the Eurozone is also trying to determine how the UK's departure from the European Community ("Brexit") will come to pass. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, advanced by +10.3%. The MSCI EAFE Index of developed markets stocks rose by +10.0%. Regional performance was also generally strong for the quarter.

China was the strongest performer on a relative basis, with a return of +17.7%. Latin America was the poorest relative performer, gaining +7.9%. Emerging markets performance was positive, as the MSCI Emerging Markets Index was higher by +9.9%.

Outlook

The US economy's expansion continues on, and will likely become the longest on record this summer. The rate of growth likely won't be able to keep pace with that of the middle quarters of 2018, and the recent deceleration in job growth indicates that future economic gains will be more muted. Importantly, however, the expansion is on track to continue, driven largely by the FOMC's recognition of slowing conditions and resulting decision to curtail its rate-increase program. Mortgage rates have declined, undergirding the housing market, and stock prices have rebounded very sharply. Economists point to government spending also being a positive contributor to growth going forward. Inflation and wage growth have experienced an uptick, and economists believe that further acceleration could mean the expansion is nearing an end as the FOMC will need to act to avoid overheating. Analysts are encouraged that there may be a positive resolution to the trade war with China relatively soon, if for no other reason than President Trump wants to avoid a stock market correction similar to the one that occurred in the fourth quarter when trade talks with China were not going so well. It appears an uncomplicated resolution to Brexit will not occur, and Brexit is now likely to be pushed off for at least several months. Most analysts are of the opinion that whatever the outcome, Brexit does not impose serious problems for the world economy.

Brandon Thomas, *Chief Investment Officer,* Envestnet | PMC

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INDEX OVERVIEW

The **Dow or DJIA** (Dow Jones Industrial Average) is an unmanaged index of 30 common stocks comprising 30 actively traded blue chip stocks, primarily industrials, and assumes reinvestment of dividends. The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **S&P 500 Index** is an unmanaged index comprising 500 widely held securities considered to be representative of the stock market in general. The **DJ U.S. Select REIT Index** is a subset of the Dow Jones Americas Select RESI and includes only REITs and REIT-like securities (The Dow Jones U.S. Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the US). The **Bloomberg Commodity Index** is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity market, and is designed to minimize concentration in any one commodity or sector. The **MSCI EAFE Index** is recognized as the preeminent benchmark in the US to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East. The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. The **MSCI ACWI Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging markets country indices. The **MSCI Emerging Markets (EM) Eastern Europe Index** captures large and mid cap representation across four emerging markets (the Czech Republic, Hungary, Poland, and Russia) countries in Eastern Europe. With 52 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI EM (Emerging Markets) Latin America Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The **MSCI ACWI Ex-U.S. Index** is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies. The **MSCI China Index** captures large and mid cap representation across China H shares, B shares, Red chips, and P chips covering about 85% of this China equity universe. The **Bloomberg Barclays Municipal Bond Index** is an unmanaged index comprising investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The **Bloomberg Barclays Global Aggregate ex-U.S. Index** is a market-capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most US-traded investment- grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The Index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the US. The **Bloomberg Barclays U.S. 5-10 Year Corporate Bond Index** measures the investment return of US dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between 5 and 10 years. Treasury securities, mortgage-backed securities (MBS), foreign bonds, government agency bonds, and corporate bonds are some of the categories included in the Index. The **Bloomberg Barclays Capital US 5-7 Year Treasury Bond Index** is a market-capitalization-weighted index, and includes Treasury bonds issued by the US with a time to maturity of at least 5 years, but no more than 7 years. The **Russell 1000 Index** is a market-capitalization-weighted benchmark index made up of the 1000 largest US companies in the Russell 3000 Index (which comprises the 3000 largest US companies). The **Russell 2000 Index** is an unmanaged index considered representative of small cap stocks. The **Russell 3000 Index** is an unmanaged index considered to be representative of the US stock market, and measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The **Russell Midcap Index** is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The **Housing Market Index** (HMI) is based on a monthly survey of **NAHB** members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months, as well as the traffic of prospective buyers of new homes. The **JPMorgan Emerging Market Bond Index** (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. The **CBOE Volatility Index** (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.

DEFINITIONS

The **Federal Open Market Committee** (FOMC) is the monetary policymaking body of the Federal Reserve System. The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The **European Central Bank** (ECB) is the central bank for Europe's single currency, the euro. The ECB’s main task is to maintain the euro's purchasing power, and thus price stability, in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999. The **Gross Domestic Product** (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The **Bureau of Labor Statistics** (BLS) is a unit of the United States Department of Labor. It is the principal fact-finding agency for the US government in the broad field of labor economics and statistics, and serves as a principal agency of the US Federal Statistical System. The **Bureau of Economic Analysis** (BEA) is an agency in the US Department of Commerce that provides important economic statistics, including the gross domestic product of the US. It is a governmental statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, state and local governments, business, and labor representatives. The **PCE (Personal Consumption Expenditure) Index of Prices** is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data, including US Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures, and is essentially a measure of goods and services targeted towards and consumed by individuals. Sector performance is represented by the **Global Industry Classification Standard (GICS)** sectors, developed by Standard & Poor’s and MSCI Barra.