



QUARTER IN REVIEW

Yet another quarter has gone by during which, were it not for the actions—or, rather more appropriately, expectations of forthcoming actions—by the Federal Reserve, equity markets otherwise might have turned in a rather more sober tally. With earnings growth waning against a backdrop of elevated valuations, perhaps too much hope rests on a nearer-term future over which the Fed may be able to exert only modest influence. As we wonder which wags which, tail or dog, we remain focused on providing broad means for investors to work with advisors to address any shift in tolerance for the elevated risk and uncertainty of it all.

Stocks Reach a New Peak

Strongly negative—down nearly 7% at one point from the quarter's peak in May—on assumed fears of greater slowing in global growth from rising trade-, geopolitical- and domestic policy-related concerns, in turn surging upward after various Fed officials began to sing more accommodative tunes, U.S. stocks had set new records by quarter end. This would be surprising in most other environments, as concerns about slowing growth might normally be cause to selling stocks, not buying them. But such has been life during the era of the Federal Reserve's serving as *deus ex machina* for investor craving of near-term returns exceptional of the broader macroeconomic environment.

Bonds Had Equity-Like Run

Meantime, as traders began to price in a reversal of Federal Reserve policy from what had been expressed as a pause in incremental upticks in target short-term rates to a potentially dramatic cut, bond prices surged. In fixed income, too, some shifts seemed notably oppositional to the greater story to be read. One likely should not have expected spreads on corporate bonds to narrow so decisively given contemporary concerns that growth was weakening. That is, unless of course, one also finds global investors scraping for any additional yield they can find. With yields on risk-free U.S. Treasuries furthering a downtrend begun in November of last year, U.S. corporate debt seemingly continued to be seen as the next-best thing for a given yield target, tradeoff in credit quality be damned.

Powell Takes on Critics

Meantime, the Fed is hard pressed to demonstrate that its actions have been driven by data, not criticism. Indeed, Powell's greatest challenge, perhaps is not in modulating inflation and employment in the U.S., but tempering the attitudes of investors in U.S. capital markets. With stocks at record highs and bonds expressing near surety that much more accommodative policy is on the front burner, he will have to balance the threat of over-juicing an economy presently on reasonably sound footing—if also one that is showing some signs of stress against a backdrop of, in our view, still measurably supportive monetary policy—with more strongly and persistent negative sentiment among investors.

Figure 1: Quarter Summary

Overall Take			
↑	↑	Equity: Global stocks gained, sank, and gained anew as investor digested global macro trends and policy shifts in response	
	↑	Fixed Income: Bonds acknowledged an obvious shift in monetary policy sentiment amidst generally slowing growth, with yields falling and prices correspondingly rising through the quarter	
Equity			
↑	Domestic Furthering a Q1 rally before stalling, then sinking, then rising to fresh records as investors pondered policy shifts amidst macro uncertainty		↑
		International Reasonably positive, non-U.S. stocks still trailed domestic equities, with a bit of a currency respite near quarter end	

Directions and colors of arrows are indicative of the Investment Team’s subjective interpretation of the quarter’s market events and performance; green upward (red downward) and orange angled-upward (downward) arrows indicate relatively favorable (unfavorable) reviews in the aggregate. They are not indicative of any specific underlying data. SOURCE: SRCM

Equity Market Review

During the beginning of the second quarter, the U.S. stock market furthered gains from the first quarter, despite growing recognition of waning global growth, and deteriorating creditworthiness and growingly riotous politics. As tension turned to action mid-quarter, however, with the U.S. Executive Branch hardening its stance on trade with China, investors began to fear the likely repercussions from an earnings standpoint of such daringly protectionist policies. With little to warm the heart coming out of Europe or emerging markets, investors perhaps saw fit to take some profit.

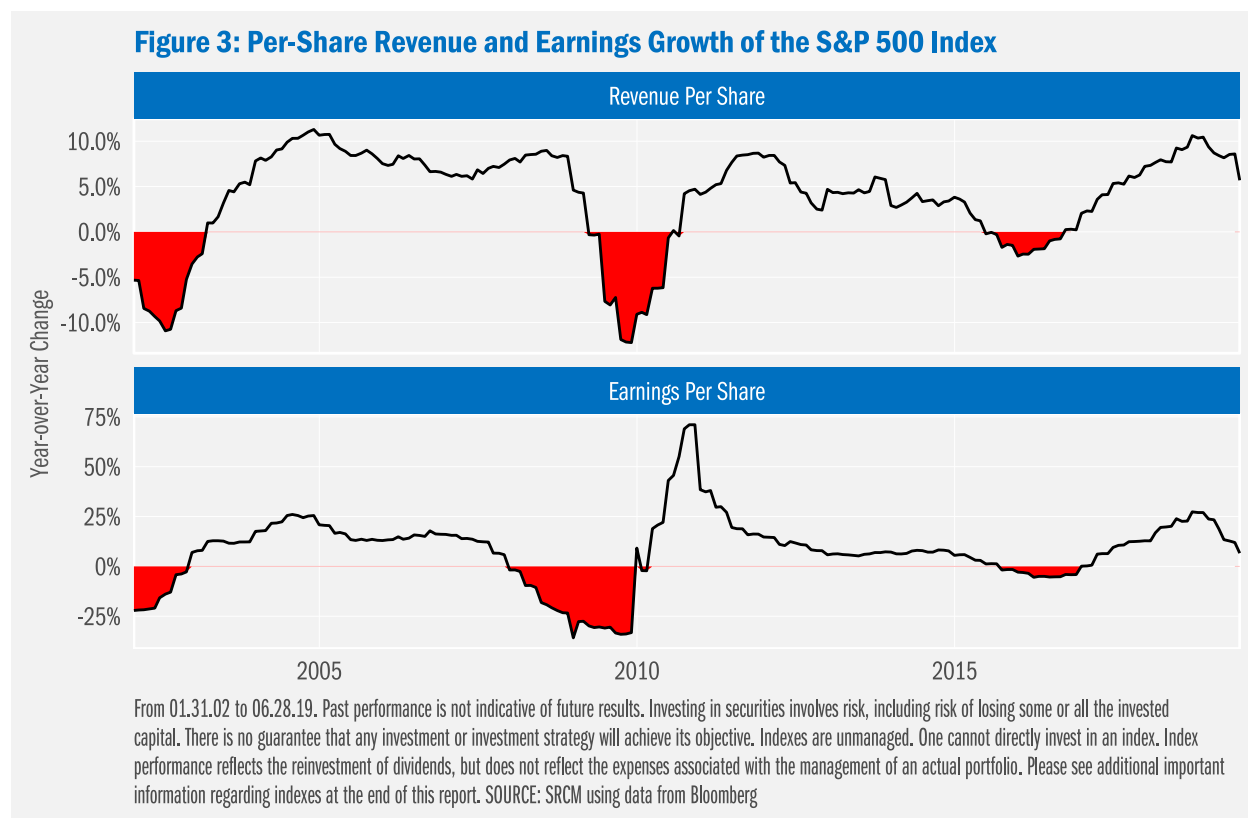
Figure 2: Trailing Broad Equity-Market Performance

Best-performing index for each period is shaded in blue; worst-performing in grey. See index details at the end of this report

	3 Month	1 Year	3 Year	5 Year	10 Year
Global	3.37	4.56	11.42	6.03	10.32
World ex. U.S.	2.74	0.26	9.17	2.25	6.78
World ex. U.S. Large-Cap	3.00	2.10	9.61	2.01	6.33
World ex. U.S. Mid-Cap	2.89	-2.01	8.47	2.83	7.51
World ex. U.S. Small-Cap	1.21	-5.94	7.76	2.77	8.48
U.S.	4.04	8.92	14.02	10.25	14.47
U.S. Large-Cap	4.27	10.72	14.55	10.87	14.29
U.S. Mid-Cap	4.17	7.77	12.97	9.46	15.59
U.S. Small-Cap	1.98	-1.84	11.67	7.25	14.33
Developed Markets	3.40	-0.04	9.10	2.53	7.24
Emerging Markets	0.43	0.47	10.01	2.25	5.83

From 06.30.09 to 06.30.19. Total return data are annualized for periods greater than 1 year. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

As have been the trends of the past few years, however, fears of growth compression saw heads turning to global central banks and calling for greater support. Central banks obliged. We thus were left with a quarter's-worth of returns that perhaps should not have been, were the future to hold what many fear it does: slowing macroeconomic and corporate earnings growth. Figure 2 shows that the slowdown in revenue and earnings growth already is well underway, with the stimulant effects wrought from the shift in tax policy wearing off and the reality of growing trade and political tensions setting in.



Against this reversal, however, one story stayed the same: investors were predisposed to seek “growth” where it might be expected, while also shunning the potential extra risk of owning smaller company stocks and maintaining a bias for home-team shares. Growth stocks, defined by their more expensive valuations, outpaced value stocks yet again in the second quarter, while small-cap stocks failed to see the gains that large- and mid-cap stocks did. The same was seen among stocks traded outside the U.S., which furthered their underperformance relative to U.S. stocks (though there was a bit of a respite near quarter end).

Figure 4: Trailing Equity-Market Performance

The tables below display the relative performance of different indexes representing U.S. and international stock markets. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperform (underperform) the broader market are shaded in blue (grey) in depth according to their respective relative performance.

U.S. Stocks	3-Month Period ended 06.30.19				1-Year Period ended 06.30.19			
			Value	Growth			Value	Growth
	All Stocks	4.0%	2.9%	5.2%	8.9%	7.2%	10.6%	
Large	4.3%	3.2%	5.4%	10.7%	9.9%	11.6%		
Mid	4.2%	2.7%	5.6%	7.8%	3.2%	12.3%		
Small	2.0%	0.9%	3.1%	-1.8%	-4.7%	1.1%		

International Stocks	3-Month Period ended 06.30.19				1-Year Period ended 06.30.19			
			Value	Growth			Value	Growth
	All Stocks	2.7%	1.4%	4.0%	0.3%	-0.8%	1.4%	
Large	3.0%	1.8%	4.3%	2.1%	0.3%	4.1%		
Mid	2.9%	0.1%	4.6%	-2.0%	-2.1%	-1.8%		
Small	1.2%	0.6%	1.8%	-5.9%	-5.5%	-6.4%		

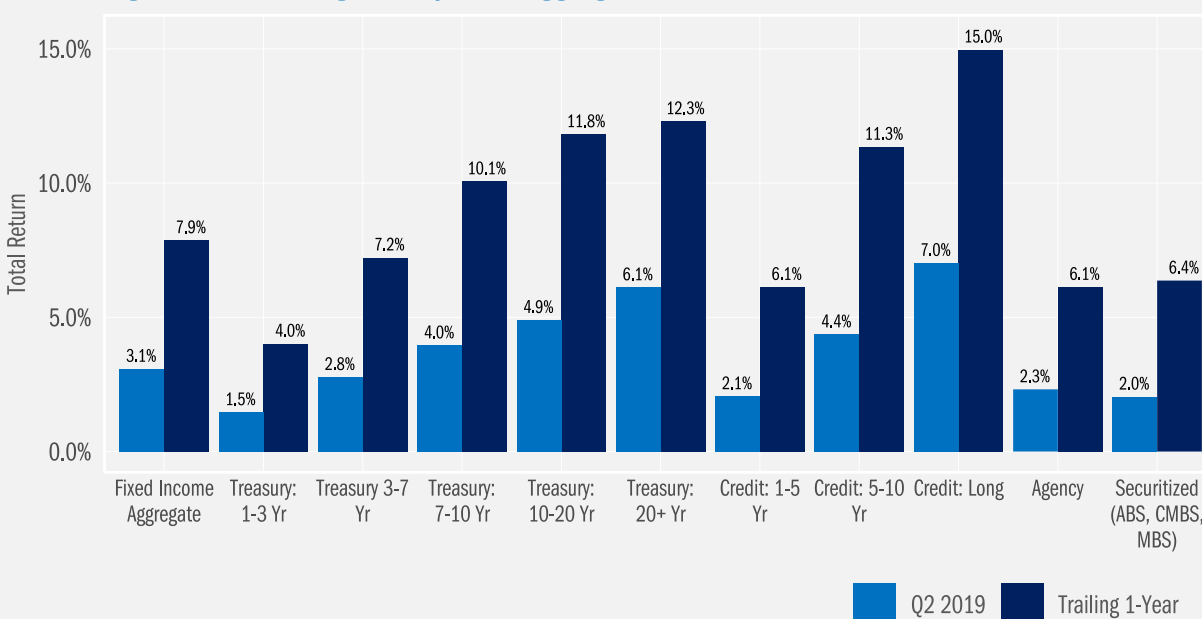
From 06.30.18 to 06.30.19. Data are total returns for the period shown. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Fixed Income Market Review

Even as stocks were whipsawed, but higher on the quarter, bonds rose rather steady through Q2 as investors became more convinced the Federal Reserve would respond to evolving data by shifting to a more accommodative policy stance. That response saw bond prices rise as yields fell, with the quarter’s gains rising along with duration of the respective exposure, for Treasuries, corporate bonds and otherwise.

Though rising somewhat through the quarter before narrowing anew in June, credit spreads, which reflect the additional yield generally offered by corporate bonds in order to compensate investors for the potential of default, remained relatively narrow by historical standards and lower than they were at the beginning of the year. The impact on spread movement was flat to modestly negative in the second quarter.

Figure 5: Bloomberg Barclays U.S. Aggregate Bond Index and Sub-Index Performance



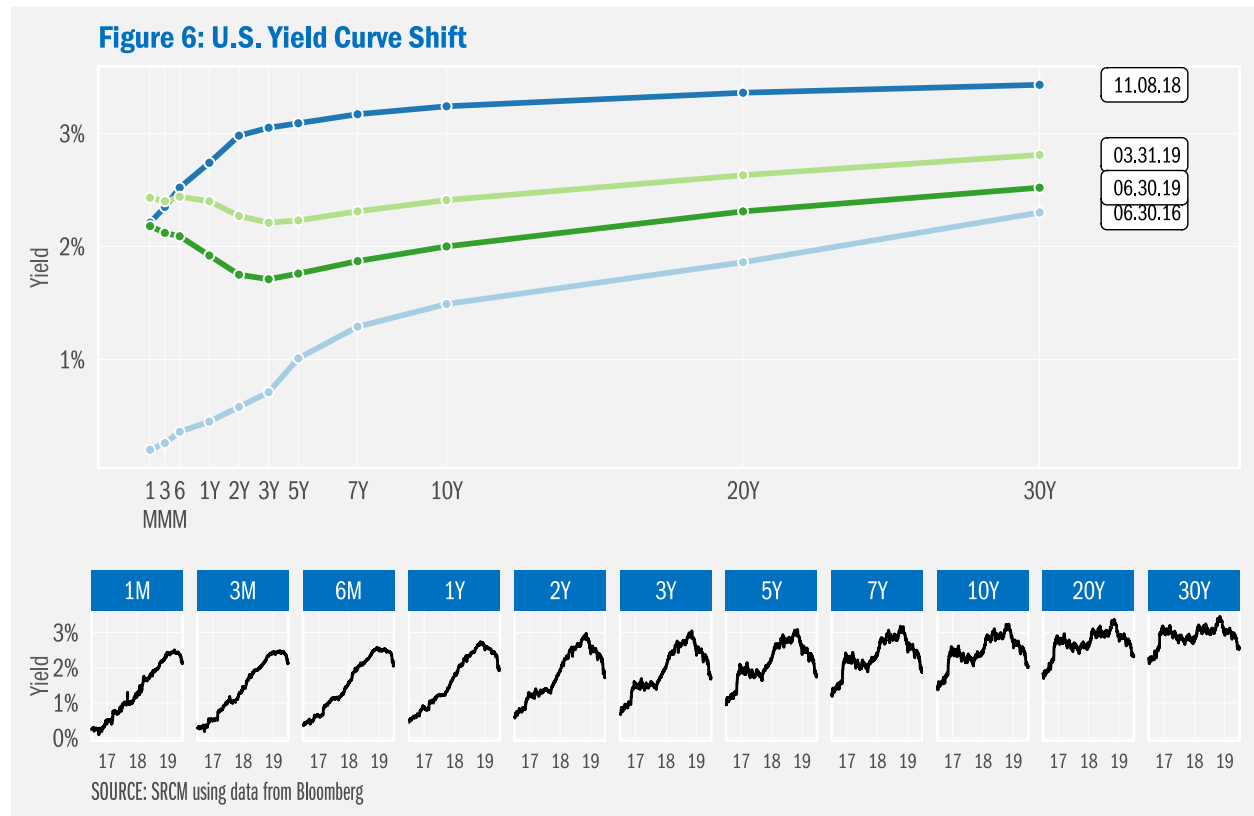
From 06.30.18 to 06.30.19. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Seems we have addressed changes in interest rates on these pages quite often over the past few years, and the past several quarters leaves little room to ignore the impact on the evolution of interest rates has had on fixed income returns. In Figure 6 we show the transition in the U.S. Treasury yield curve from levels at the end of the second quarter of 2016 through its recent peak in November 2018 and at the end of the prior two quarters. Recalling that the yield curve shows contemporaneous yields on bonds at various points along the duration spectrum (time to maturity) such that we gain a sense of the additional yield investors may be requiring to assume the interest rate risk that comes along with the purchase of bonds that have a longer time horizon before they mature.

That backdrop in place, one can see the substantial shift upward across the yield curve from June 2016 to November 2018. This shift took place predominantly as a result of growing confidence in macroeconomic growth and the reaction of the Federal Reserve to that sentiment and to the data that supported it. Easy to understand, then, the shift in perspective might be behind the decline across the longer-term end of the yield curve since last November: declining confidence in macroeconomic growth.

The one subtlety in that observation, however, is that the front end of the curve was rather sticky through the end of the first quarter 2019. That stickiness left a kink in the curve through the intermediate-term years and that can be seen to have arisen as a result of the Federal Reserve’s policy actions having trailed bond market investors in the latter’s determination of growth expectations and even nearer-term Fed policy changes. Note, however, that the front end also shifted lower last quarter as members of the Federal Reserve Open Market Committee (the folks who implement monetary policy decisions) began expressing more “dovish” tendencies, even as the Fed has yet to actually implement any specific shift in policy.

Complicating matters are that more dramatic declines in growth have yet to turn up in the data, while more recent data remain mixed in regard to the indications that any change in policy is actually required. Such is the challenge facing the Fed: ensuring that policy actions acknowledge the evolution of relevant data, stay ahead of any more detrimental swings, and in their own right do not do any harm. Meantime, the Committee remains under historically intense and public political pressure that may be seen as affecting the desired impacts of Fed policy shifts, both actual and telegraphed. Fun times for sure for Chairman Powell and team.



SRCM Portfolio Context

While positive across the board, with the exception of the most-aggressive portfolios where the gap to the benchmark return was moderate, underperformance broadly speaking was relatively modest during the quarter. As noted earlier, trends pressuring the equity side of portfolio-relative returns continued in the second quarter, with value, small and international stocks turning in relatively weak performance. Thus, as we move up the risk spectrum across our portfolios, those with stronger tilts to those factors saw relatively weaker performance when compared to the benchmark. Conversely, credit exposures performed relatively well during the quarter such that relative return on the fixed income side of the ledge increasingly offset benchmark-relative weakness among equity exposures as we moved up the risk spectrum across the portfolios.

Past performance is not indicative of future results. Individual client portfolios may maintain exposures different from, sometimes materially so, the models for which performance is discussed above. Actual portfolio performance thus may differ from that discussion.

Odd Times, Indeed.

Still scratching our heads over the past several months of market movements. There's little counterintuitive about U.S. stocks soaring while corporate bonds being bought up more quickly than safer Treasuries—until, that is, one considers the most oft-cited reason: the Federal Reserve is likely to be cutting rates over the near- and even medium-term because it believes growth may be slowing. Slowing growth, among other potential repercussions, might well lead to slowing corporate earnings growth (indeed, we presently are seeing just such a trend), in which case stock valuations might become further stretched, in turn weakening the case for optimism. At the same time, however, lower yields may offset the intensity of the impact of expectations for slowing growth on the relevance of any expansion in equity valuations.

Topsy-turvy as this world is, now, though, we could follow the line that the Fed's continuing to depress yields will force investors to seek return elsewhere, driving interest in higher-yielding corporate bonds and equities. But, if growth truly is slowing, then investors are likely to pay a higher cost for such choices in terms of higher potential levels of defaults on corporate debt, while effectively pulling in future stock returns forward to the present and perhaps depressing future potential return. Must be, then, that investors are eyeing with aggression the Fed's potential shift in policy, while at the same time eyeing with skepticism that any potentially more substantial slowing in growth won't end up being all that substantial.

Readers should please note that we tend to focus most on trends and changes in trend. And that's because, in our view, such shifts are likely to prove far more impactful to investment returns in the nearer term. Such is and always has been the interplay of expectations for and, over time, actual observations of risk, return, growth, fundamentals and otherwise. The complications that result from the interactions of those trends are many, diverse, multifaceted and variously relevant. Their impacts, therefore, are impossible to know in advance, even as we might be able to evaluate a range of potential future scenarios.

Even so, investing is not a game of chess. Metaphorically speaking, that game would have to have innumerable pieces, each with a range of potential types of moves. And any interaction among pieces always would involve more than two and would never see any one piece removed from the board. To wit: macroeconomic growth depends on growth in corporate fundamentals. But, the reverse, too, is true. Meantime, investors will react to changes in both. And those reactions likely will impact both types of growth in circular and perpetual manners. And on and on and on.

Fun to ponder, for sure. But regarding any potential shifts among portfolio exposures, divining how we just arrived here and where we'll go in the near-term with any confidence is all just too much gamesmanship for us. Rather more pressing is to be sure that we express the idea that such environments leave us feeling a bit more anxious regarding the near term, even as we want to fly above the noise and see the present as just another chapter in the long tome of market history. The characters and settings may be different, but the manner in which we should interpret and respond to them has not.

Perhaps more acutely: the world of investing always has been and likely always will be one open only to qualifications of observations, with little defensible room to suggest surety of cause and consequence. Nonetheless, market history still reminds us of a near certain truth that with any expectation for incremental return, we must accept incremental risk. We welcome conversations about how our strategies can accommodate a range of interpretations with regard to the mental weights an individual investor applies to either side of that scale.

Important Information

Investing involves risks including the possible loss of principal. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

Domestic (U.S.) fixed income (Fixed Income Aggregate): The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

Global equity (stocks): The MSCI ACWI Investable Market Index (IMI) captures large-, mid- and small-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index is comprehensive, covering approximately 99% of the global equity investment opportunity set. May be referred to as “global”, “global equity” and/or “global stocks”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

International equity (stocks): The MSCI ACWI ex USA Investable Market Index (IMI) captures large-, mid- and small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 99% of the global equity opportunity set outside the U.S. May be referred to as “World ex. U.S.”, “international equity”, “international stocks” and/or “All Stocks” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

International large-cap equity (stocks): The MSCI ACWI ex USA Large Cap Index captures large-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 70% of the free float-adjusted market capitalization in each country. May be referred to as international large-cap stocks, “World ex. U.S. Large-Cap”, and/or “Large” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

International mid-cap equity (stocks): The MSCI ACWI ex USA Mid Cap Index captures mid-cap representation across 22 of 23 Developed Markets (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 15% of the free float-adjusted market capitalization in each country. May be referred to as international mid-cap stocks, “World ex. U.S. Mid-Cap”, and/or “Mid” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

International small-cap equity (stocks): The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S. May be referred to as international small-cap stocks, “World ex. U.S. Small-Cap”, and/or “Small” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

Developed markets equity (stocks): The MSCI EAFE Investable Market Index (IMI), is an equity index which captures large-, mid- and small-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Developed Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

Emerging markets (EM) equity (stocks): The MSCI Emerging Markets Investable Market Index captures large, mid and small cap representation across 24 Emerging Markets countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Emerging Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

Domestic (U.S.) equity: The MSCI US Investable Market 2500 Index is designed to measure the performance of the large-, mid- and small-cap segment of the U.S. equity market. The index represents approximately 99% of the free float-adjusted market capitalization in the U.S. equity market. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below. May be referred to as “All Stocks” in a section specifically describing only U.S. stocks.

Domestic (U.S.) large-cap equity: The MSCI US Large Cap 300 Index is designed to measure the performance of the large-cap segment of the U.S. equity market. The index represents approximately 71% of the free float-adjusted market capitalization in the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Large" in a section specifically describing only U.S. stocks.

Domestic (U.S.) mid-cap equity: The MSCI US Mid Cap 450 Index is comprised of the next largest 450 companies in terms of market capitalization of the U.S. equity market and designed to measure the performance of the mid-cap segment. The index represents approximately 16% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Mid" in a section specifically describing only U.S. stocks.

Domestic (U.S.) small-cap equity: The MSCI US Small Cap 1750 Index is comprised of the remaining smallest 1,750 companies in the U.S. Investable Market 2500 Index of the U.S. equity market and designed to measure the performance of the small-cap segment. The index represents approximately 11.5% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Small" in a section specifically describing only U.S. stocks.

MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Signature Resources Capital Management, LLC (SRCM) is a Registered Investment Advisor. Registration of an investment adviser does not imply any specific level of skill or training. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or to participate in any trading strategy. Any decision to utilize the services described herein should be made after reviewing such definitive investment management agreement and SRCM's Form ADV Part 2A and 2Bs and conducting such due diligence as the client deems necessary and consulting the client's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of SRCM services. Any portfolio with SRCM involves significant risk, including a complete loss of capital. The applicable definitive investment management agreement and Form ADV Part 2 contains a more thorough discussion of risk and conflict, which should be carefully reviewed prior to making any investment decision. Please contact your investment adviser representative to obtain a copy of Form ADV Part 2. All data presented herein is unaudited, subject to revision by SRCM, and is provided solely as a guide to current expectations.

The opinions expressed herein are those of SRCM as of the date of writing and are subject to change. The material is based on SRCM proprietary research and analysis of global markets and investing. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable, however SRCM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated thereby. Any market exposures referenced may or may not be represented in portfolios of clients of SRCM or its affiliates, and do not represent all securities purchased, sold or recommended for client accounts. The reader should not assume that any investments in market exposures identified or described were or will be profitable. Investing entails risks, including possible

loss of principal. The information in this material may contain projections or other forward-looking statements regarding future events, targets or expectations and are current as of the date indicated. There is no assurance that such events or targets will be achieved. Thus, potential outcomes may be significantly different.

Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance.

This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an advisor to determine the appropriate investment vehicle.

SRCM advisory fees are described in Form ADV Part 2A, which may be found at www.srcmadvisors.com.

Publication: 07.19.19

2019-SRCM-83