

Quarterly Market Review

Second Quarter 2019

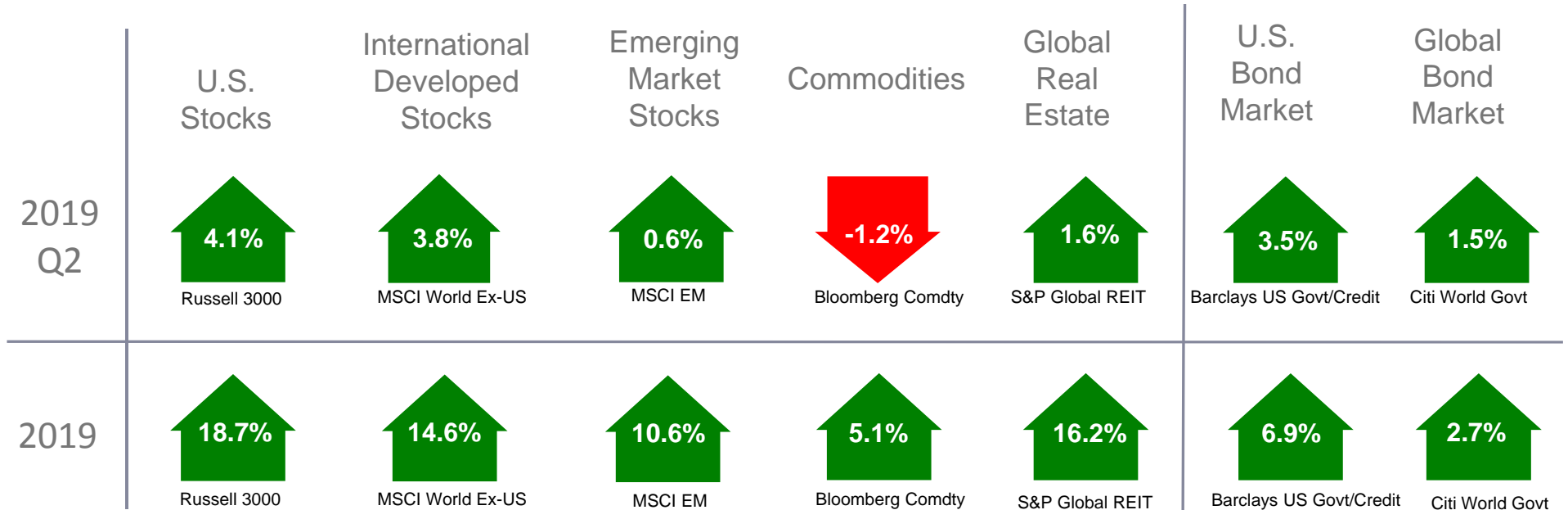
Q2



Most major asset classes advanced in the 2nd quarter

Second Quarter Results 2019

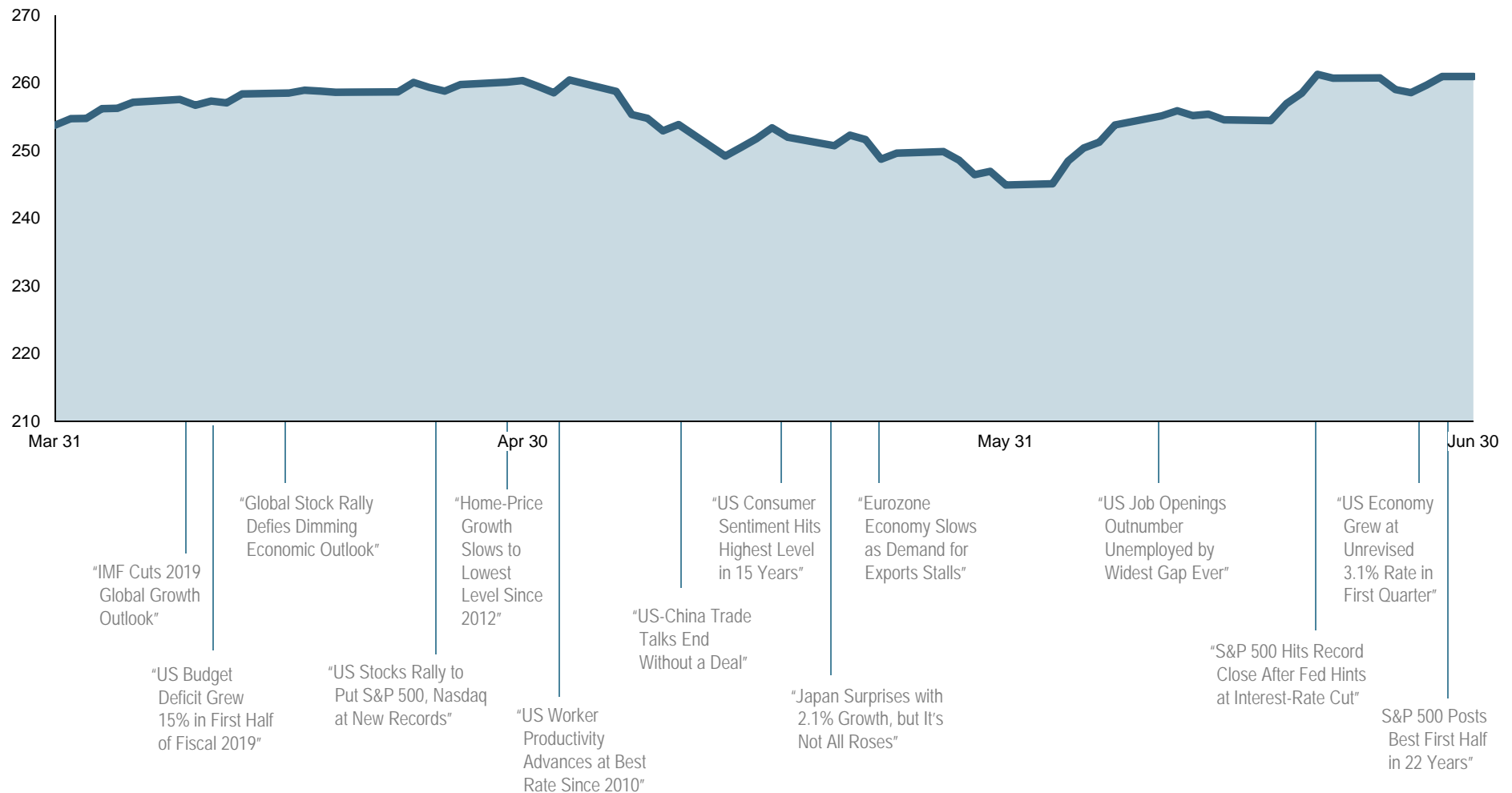
After a robust first quarter, most major asset classes gained additional ground by the end of June. Lingering apprehensiveness over the tariff situation, soft global growth, Brexit, geopolitical unrest, and the possibility of future interest rate cuts failed to significantly hinder the financial markets. 2nd quarter index performance is detailed below:



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

Global stocks reclaimed ground after a mid-quarter slump

MSCI All Country World Index with selected headlines from Q2 2019



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved.

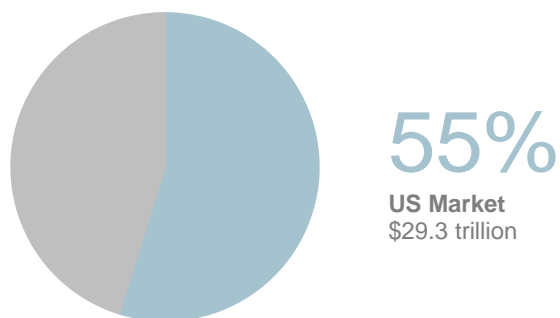
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

U.S. stocks continued their upward trajectory

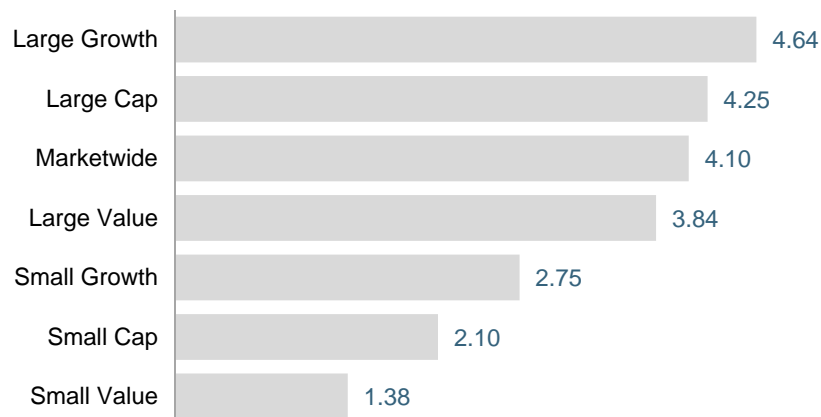
Second Quarter 2019 Index Returns

Positive momentum from the first quarter carried into the second as stocks rose to record highs in April, powered by the pause in interest rate hikes and optimism surrounding U.S.-China trade discussions. Initially, market volatility remained muted with first quarter GDP registering stronger growth than expected, notwithstanding the government shutdown, waning effects of tax cuts and expectations for slower economic growth worldwide. In May, volatility returned as trade talks unexpectedly soured and tariffs increased from 10% to 25% on \$200 billion of Chinese imports. China responded by increasing tariffs on \$60 billion of U.S. imports. In June, the administration threatened escalating tariffs on \$350 billion of Mexican imports in an effort to curb illegal immigration from Central America before a deal was reached to limit the migrant flow across the U.S.-Mexico border. Stocks closed the quarter just shy of June's new all-time highs, and President Trump and Chinese President Xi Jinping agreed to an indefinite suspension of additional tariffs at the G20 summit in Osaka, Japan.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	21.49	11.56	18.07	13.39	16.28
Small Growth	20.36	-0.49	14.69	8.63	14.41
Large Cap	18.84	10.02	14.15	10.45	14.77
Marketwide	18.71	8.98	14.02	10.19	14.67
Small Cap	16.98	-3.31	12.30	7.06	13.45
Large Value	16.24	8.46	10.19	7.46	13.19
Small Value	13.47	-6.24	9.81	5.39	12.40

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International developed stocks also advanced

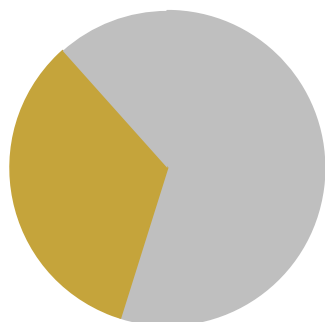
Second Quarter 2019 Index Returns

Developed international stocks also rose despite uncertainty surrounding Brexit, Italy's diminishing fiscal health, weak growth in Germany, soft demand in Japan, and persistent international trade tensions. The U.K.'s scheduled exit from the European Union was delayed until October 31, and Theresa May announced her resignation in the wake of Parliament's third vote rejecting the prime minister's Brexit plan.

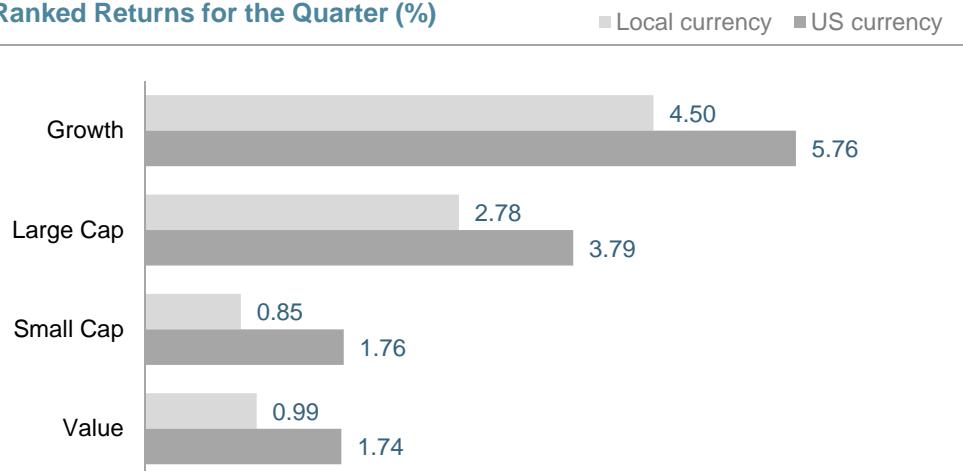
World Market Capitalization—International Developed

34%

International
Developed Market
\$17.9 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Growth	18.89	4.36	9.42	4.02	7.81
Large Cap	14.64	1.29	9.01	2.04	6.75
Small Cap	12.88	-6.17	8.38	3.39	9.19
Value	10.38	-1.80	8.54	0.01	5.62

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Emerging markets stocks gained marginally

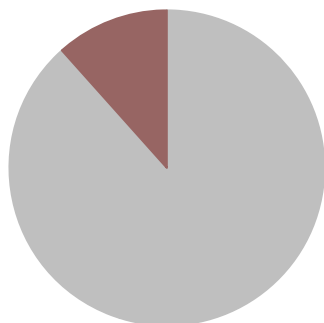
Second Quarter 2019 Index Returns

Emerging markets sputtered as economic data suggested that China's growth continued to moderate as debt and excess capacity increased and the weight of trade angst reverberated throughout the developing world. In Hong Kong, 240,000 demonstrators took to the streets to protest a proposed law that would allow Beijing to extradite residents to mainland China, and Iran opposed economic sanctions with alleged attacks on oil tankers and the downing of a U.S. drone. President Trump and Kim Jong Un of North Korea agreed to reopen nuclear negotiations during a historic meeting in the demilitarized zone, marking the first time a sitting American president set foot on North Korean soil.

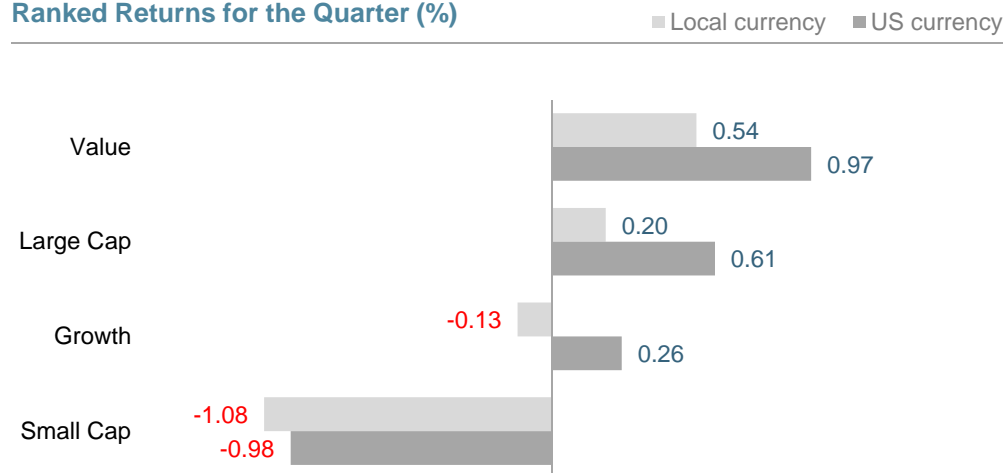
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.2 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	12.33	-2.44	11.22	3.85	6.94
Large Cap	10.58	1.21	10.66	2.49	5.81
Value	8.87	5.04	10.02	1.03	4.60
Small Cap	6.70	-5.12	5.46	0.53	5.86

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Commodity prices declined modestly

Second Quarter 2019 Index Returns

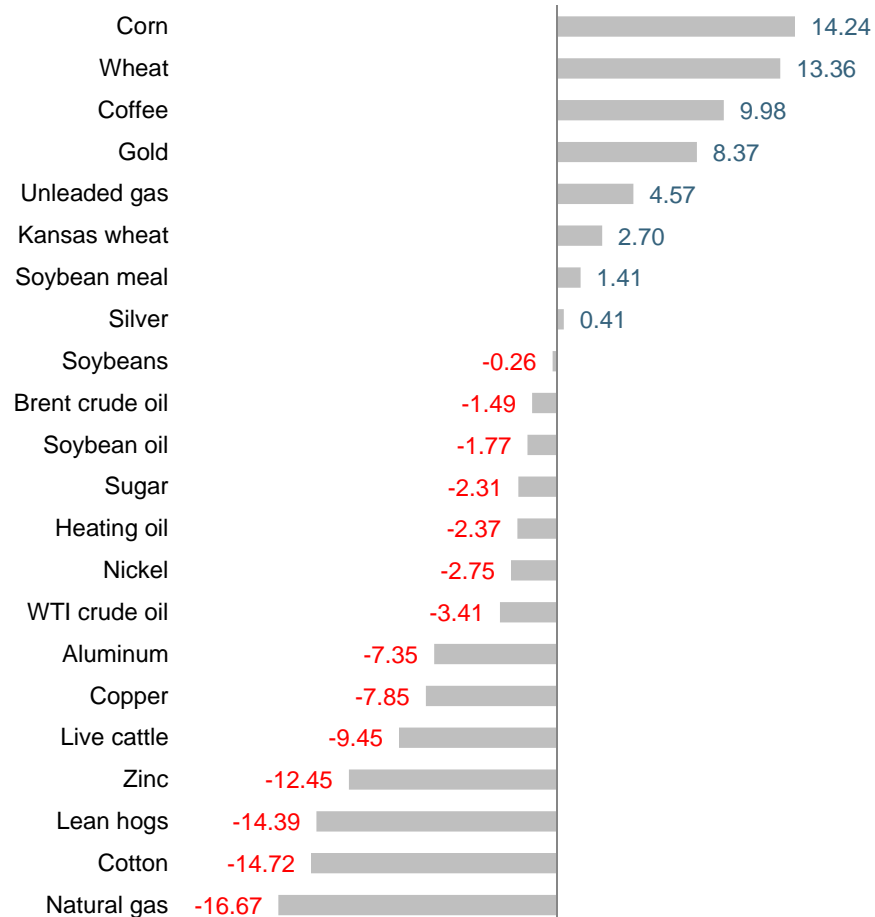
Agricultural commodities such as corn, wheat, and coffee notched double digit quarterly returns, while oil, natural gas, and copper fell due to forecasts of slowing global growth.

Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.19	5.06	-6.75	-2.18	-9.15	-3.74

Ranked Returns for Individual Commodities (%)



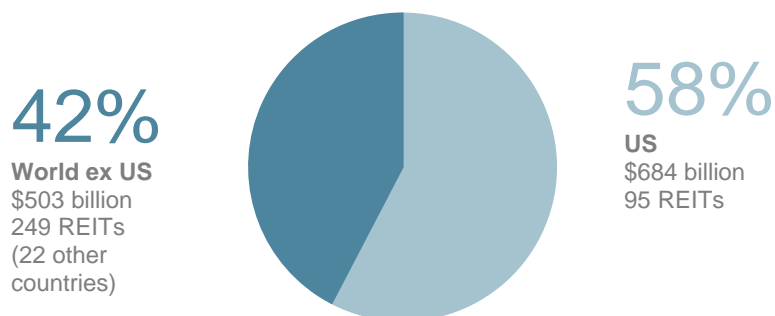
Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Real Estate prices generally climbed higher

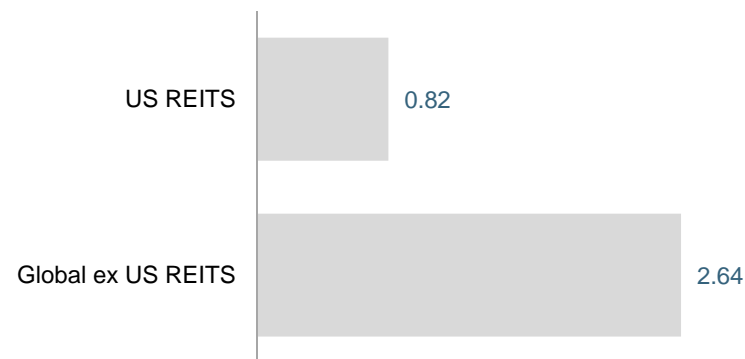
Second Quarter 2019 Index Returns

Global real estate advanced with the possibility of interest rate cuts on the horizon. Data centers, single-family homes, industrial, and self-storage posted strong single digit returns, while regional malls, shopping centers, office, and lodging/resorts were among the worst performers for the quarter.

Total Value of REIT Stocks



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
US REITS	16.67	9.75	3.73	7.61	15.40
Global ex US REITS	14.68	7.78	4.79	3.62	9.84

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

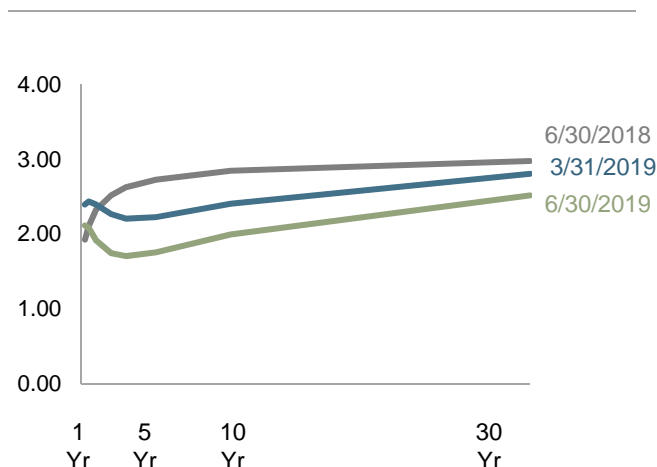
U.S. & global bonds notched solid gains

Second Quarter 2019 Index Returns

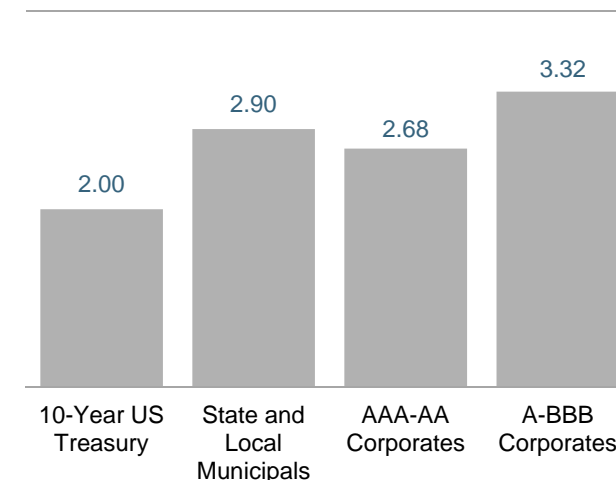
At their May policy meeting, the Fed left interest rates unchanged and continued with an indefinite hold on rate hikes as evidence of slowing global growth and low inflation mounted. Later in May, the 10-year Treasury bond yield fell below that of the 3-month Treasury bill, inverting the yield curve for the second time in a dozen years on the heels of March's brief inversion. Yield curve inversions can suggest a faltering economy, so investors weighed the simulative effects of future interest rate cuts against the underlying trepidation that would spur the Fed to take such actions. At a crossroads, the Fed faced the first interest rate cut since 2008, and the end of the current rate tightening cycle. At the conclusion of their June policy meeting, the Fed held rates steady and telegraphed the possibility of future rate cuts if the economic outlook fails to improve.

The quarter ended with a record \$13 trillion of global government bonds trading at negative yields, as investors paid governments to safeguard funds amid stumbling global growth, muffled inflation and rejuvenated stimulus measures on the part of global central banks. With the European Central Bank's key interest rate at -0.4%, Mario Draghi contemplated future interest-rate cuts and/or a reboot of the bank's bond-buying mechanism even as his 8-year term as ECB president nears its end. The Bank of Japan reiterated its accommodative stance by asserting it will keep rates exceedingly low into the spring of 2020.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	6.00	10.92	12.28	1.42	5.68	6.54
Bloomberg Barclays US Aggregate Bond Index	3.08	6.11	7.87	2.31	2.95	3.90
Bloomberg Barclays US TIPS Index	2.86	6.15	4.84	2.08	1.76	3.64
Bloomberg Barclays US High Yield Corporate Bond Index	2.50	9.94	7.48	7.52	4.70	9.24
Bloomberg Barclays Municipal Bond Index	2.14	5.09	6.71	2.55	3.64	4.72
FTSE World Government Bond Index 1-5 Years	1.92	2.27	2.57	0.67	-0.76	0.53
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.51	2.69	4.44	1.85	1.84	1.86
ICE BofAML 1-Year US Treasury Note Index	0.94	1.76	2.98	1.43	1.02	0.76
ICE BofAML US 3-Month Treasury Bill Index	0.64	1.24	2.31	1.38	0.87	0.49

One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2019 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2019 ICE Data Indices, LLC. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Additional factors we are monitoring closely

2019 Outlook

Decelerating global growth

Mixed economic data, low inflation, geopolitical anxiety, trade insecurity, and vigilance from the Federal Reserve and other central banks have us on high alert for increased volatility, although global markets have proven remarkably resilient year-to-date.

Rising U.S. corporate debt

While household debt as a percentage of GDP has declined since 2008, corporate debt is approaching its former highs. While not an immediate threat to the economy or the capital markets, such debt levels have the potential to stress the global financial system.

U.S. Federal debt

Federal debt to GDP rose to 78% by the end of 2018, the highest ratio since the aftermath of WWII. Climbing Federal debt should increase borrowing costs for the government, businesses and individuals, but this has not happened so far this economic cycle. As long as economic growth continues, the government should be able to cover its borrowing costs.

Some good news for California residents – Senate Bill 378 that would have revived a state gift and estate tax did not make it out of committee, and thus will not appear on the November 2020 ballot.

Continue the conversation with us.....

HARRIS FINANCIAL ADVISORS, INC.

25500 Hawthorne Blvd., Suite 1030

Torrance, CA 90505

(310) 791-3229

Mary Harris, CFP®

mary@harrisfinancial.net

Clay Zachry, CFP®

clay@harrisfinancial.net

Stewart Darrell, CFA

stewart@harrisfinancial.net

Kristen Perez, CFP®

kristenk@harrisfinancial.net

Matthew Kuhn, CFA, AIF®

matt@harrisfinancial.net

Cristin Rigg, CFP®, CDFATM

cristin@harrisfinancial.net

Jon Bacon, CFP®

jon@harrisfinancial.net

