QUARTERLY MARKET COMMENT
Third Quarter 2019

The calendar says it is fall, but moving into the 4th quarter this is no time to fall asleep at the switch. You could have taken a snooze during the 3rd quarter as the stock markets actually ended up pretty close to where they began. In reality, the stock markets had a pretty volatile quarter while bond markets rallied as major central banks eased monetary policy. Within the U.S. stock market, rate-sensitive sectors, such as real estate, financial services, and utilities, fared the best. Healthcare and energy lost ground during the quarter with energy down 7.2% for the quarter and down 22.5% over the past 12 months. Energy has slumped on signs of the slowing global economy. At the same time, value stocks surged ahead of growth stocks, breaking their most recent spell of underperformance. Foreign markets, especially emerging markets, struggled to make it back into positive territory. Much of this is due to the strengthening of the dollar and trade. Fixed income markets had a very positive quarter. The Federal Reserve cut interest rates by 0.25% to stimulate the economy which has had a positive impact on the total return of bonds across all maturity levels. Weakening economies and worries about growing geopolitical risks has made the U.S. fixed income market a haven for international investors. Negative yields in many countries have affected upward of $15 trillion in government debt globally. This means investors are paying a premium to park their money with a sovereign issuer. Although U.S. yields remain positive, the demand for U.S. debt has shifted the yield curve lower. Among commodities, gold has become a safe haven once again. If we step back and look at 2019 year to date (see chart below), all categories are positive. If we look at the markets over a fiscal year (10/1/2018 to 9/30/2019), the markets were basically flat. It is easy to get caught up in the short-term, but it's the long-term view that counts.

The backdrop of the U.S. economy is still positive, but showing signs of weakening. There appears to be great uncertainty among investors - the Trump impeachment hearings, China trade tensions, drone strikes in Saudi Arabia and a messy "Brexit". U.S. economic growth has cooled to a 2% annualized rate, and we are experiencing the first contraction in manufacturing in 3 1/2 years. Exports have also been weak—a casualty of the China trade war. At the same time, we are also experiencing the strongest labor market in several decades - layoffs and the unemployment rate are at a 50-year low. Consumer spending has been extremely strong, rising an estimated 4.6% year over year. Adjusted pretax corporate profits were up 3.8% in 2Q (most recent statistics). Economists are hardly in consensus, but many predict that the economy will continue growing to the end of the year.

Our portfolios are broadly diversified. Research has demonstrated this strategy enhances performance and reduces risk. The future of the markets is uncertain at the moment, with no reason to panic, and no reason to be surprised if a bear market were to start tomorrow. History has shown that bull markets tend to be longer and steeper than bear markets, which means that holding on tight in choppy times tends to be the winning strategy. Please let us know if you have any questions or concerns. We appreciate the opportunity to work with you and we thank you for allowing us to help guide you through your financial life.

Asset Index Category	3Q 2019 %	YTD 2019 %	Calendar 2018 %	10-Year Average %
S&P 500 Index-Large Companies	1.19	18.74	-6.24	10.91
S&P 400 Index-Mid-size Companies	-0.52	16.38	-12.50	10.85
Russell 2000 Index-Sm Companies	-2.76	12.96	-12.18	9.69
Natural Resource Funds	-5.45	6.06	-19.01	2.91
Gold	5.26	16.07	-1.15	4.04
US Real Estate Funds	6.89	26.60	-5.97	12.15
Global Real Estate Funds	3.35	19.10	-7.11	8.02
MSCI EAFE-Developed International	-1.71	9.85	-16.14	1.98
MSCI EM Index-Emerging Markets	-5.11	3.65	-16.63	0.91
Barclays U.S. Aggregate Bond Index	2.27	8.52	0.01	3.75
Long U.S. Government Bond Index	6.08	15.93	-0.74	5.93
Emerging Market Bond Index	-0.65	9.27	-6.85	4.07

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A Fee-Only Financial Planning & Investment Management Company
1621 W. First Ave., Grandview Hts., OH 43212 614-538-1600
www.alexanderfinancialplanning.com