WINTHROP
WEALTH MANAGEMENT

SECOND QUARTER 2019

MARKET REVIEW & OUTLOOK

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OVERVIEW - SECOND QUARTER 2019

The move higher in most financial asset classes continued in the second quarter of 2019. This year has been almost a complete reversal of 2018 where the majority of asset classes ended the year in negative territory. In fact, 2019 is the first year since 1985 that the US stock market (S&P 500), developed international equities (MSCI EAFE), and the US bond market (Bloomberg Barclays US Agg) all returned over +5% halfway through the calendar year. Going forward, we don't expect that all asset classes will continue to rise simultaneously. Rather, we are reminding our clients to be prepared for a potential increase in volatility.

In our writings and conversations with clients we always stress the power of combining a comprehensive financial plan with a structured, consistent, and repeatable investment process. We continue to believe this is the best approach for helping our clients navigate through financial markets and ultimately reach their goals and objectives.

At Winthrop Wealth Management, we feel privileged to work with you and your families. We want to extend our best wishes for a wonderful, safe, and happy summer. We look forward to speaking with you in the near future.

- **US Equity Markets:** The S&P 500 returned +4.3% in Q2 2019 and is now up +18.5% in 2019 – the best start to a calendar year since 1997 and the 10th best overall since 1928. The market reached a new all-time high on June 21st. *Page: 2*
- **US Fixed Income Markets:** The Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +3.1% - the best quarterly return since Q3 2011. *Page: 3*
- **Interest Rates:** Treasury interest rates declined throughout the quarter due to low global interest rates and expectations of lower inflation and economic growth in the United States. *Page: 3*
- **Yield Curve Inversion:** Part of the Treasury curve inverted again as the yield on the 3-Month (2.09%) ended the quarter higher than the 10-Year (2.01%). *Page: 3*
- **US – China Trade War Update:** The US and China reached a temporary ceasefire in the ongoing trade war as the two sides agreed to resume trade negotiations and hold off on any new incremental tariffs for now. *Page: 4*
- **The Fed:** At their June meeting, the Federal Open Market Committee (FOMC) left the federal funds rate range unchanged, but they signaled a strong willingness to lower rates in the future. *Page: 5*
- **US Economy:** Economic data showed signs of deceleration from 2018 levels. According to the latest Bloomberg survey, GDP is expected to increase by +2.5% year-over-year (Y/Y) in 2019, down from 2018's +2.9% level. *Page: 6*
- **Developed International:** The MSCI EAFE index increased by +3.7% in the quarter and is now up +14.0% for the year. The European Central Bank (ECB) signaled that additional monetary stimulus may be required. *Page: 7*
- **Emerging Markets:** The MSCI Emerging Markets index increased by +0.6% and has returned +10.6% in 2019. The main story in Emerging Markets was the stock market decline and economic slowdown in China. *Page: 7*
- **Key Risks:** A few things we are discussing internally as we balance short-term developments with our long-term viewpoint. *Page: 8*
- **Client Question(s) of the Month:** Tariffs have been front-page news over the last year and we have received a few clarification questions on the logistics and implications. *Pages: 9-10*
- **US Equity Market Outlook:** As we move into the second half of 2019 and beyond, we continue to have a balanced outlook for the US equity markets as we do not believe this is the time for excessive risk taking or extreme caution. *Page: 12*

US Equity Markets									
Index	**Q2 2019**	**YTD 2019**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**
S&P 500	4.30%	18.54%	10.41%	14.10%	10.55%	-4.39%	21.82%	11.95%	1.37%
Russell 3000	4.09%	18.71%	8.98%	13.92%	10.02%	-5.25%	21.12%	12.72%	0.47%
Dow Jones Industrial Average	3.21%	15.40%	12.20%	16.73%	12.10%	-3.48%	28.11%	16.43%	0.21%
Nasdaq	3.88%	21.34%	7.81%	19.45%	13.79%	-2.81%	29.73%	8.97%	7.11%
S&P 400	3.03%	17.96%	1.35%	10.80%	7.82%	-11.10%	16.23%	20.73%	-2.18%
Russell 2000	2.09%	16.97%	-3.34%	12.12%	6.81%	-11.03%	14.63%	21.28%	-4.41%
International Equity Markets									
MSCI Index	**Q2 2019**	**YTD 2019**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**
EAFE	3.68%	14.03%	1.08%	8.83%	2.10%	-13.79%	25.03%	1.00%	-0.81%
Europe	5.48%	15.97%	-0.48%	10.08%	1.33%	-16.90%	28.06%	1.34%	-1.42%
Japan	1.02%	7.75%	-4.19%	7.86%	4.28%	-12.88%	23.99%	2.38%	9.57%
China	-4.17%	13.70%	-6.48%	13.42%	6.80%	-19.77%	54.68%	-0.32%	-8.99%
Emerging Markets	0.61%	10.58%	1.21%	10.43%	2.47%	-14.57%	37.28%	11.19%	-14.92%
ACWI ex US	2.98%	13.60%	1.29%	9.12%	2.06%	-14.20%	27.19%	4.50%	-5.66%
Fixed Income Markets									
Bloomberg Barclays US Bond Index	**Q2 2019**	**YTD 2019**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**
Agg	3.08%	6.11%	7.87%	2.24%	2.99%	0.01%	3.54%	2.65%	0.55%
Corporates	4.48%	9.85%	10.72%	3.81%	4.14%	-2.51%	6.42%	6.11%	-0.68%
High Yield	2.50%	9.94%	7.48%	7.38%	4.69%	-2.08%	7.50%	17.13%	-4.47%
Munis	2.14%	5.09%	6.71%	2.52%	3.66%	1.28%	5.45%	0.25%	3.30%

US EQUITY MARKETS

The S&P 500 returned +4.3% in Q2 2019 and is now up +18.5% in 2019 – the best start to a calendar year since 1997 and the 10th best overall since 1928. The market reached a new all-time high on June 21st when the S&P 500 hit 2,964. Across market caps, Large (S&P 500: +4.3%) outperformed Mid (S&P 400: +3.0%) and Small (Russell 2000: +2.1%). Across styles, Growth (Russell 1000 Growth: +4.6%) outperformed Value (Russell 1000 Value: +3.8%). Ten out of eleven sectors were positive in the quarter, with Financials (+8.0%) and Materials (+6.3%) as the best performers and Health Care (+1.4%) and Energy (-2.8%) as the laggards.

The market is back to all-time highs despite the volatility at the end of 2018 that included a near bear market (peak-to-trough decline of -19.8%), the first calendar year loss since 2008, and the worst December monthly return since 1931. The market declined at the end of last year on fears that slowing growth overseas, restrictive Fed policy (rate hikes and balance sheet runoff plan), and the US/China trade war could lead to a recession in the United States in early 2019. Throughout the year, slowing growth overseas has materialized and the US and China are still battling over trade as both sides implemented new tariffs. So why is the market back to an all-time high? The biggest change from the end of last year is the shift in Fed policy toward a more accommodative stance and a strong willingness to cut rates in the near future. The current S&P 500 price reflects the optimistic view that the Fed will lower rates and the US and China will eventually work out a trade deal that will provide a boost to economic and corporate earnings growth. *See below for our thoughts on the US/China trade war, the Fed, and our market outlook.*

S&P 500 (YTD 2019)

(Source: Bloomberg)

We will also point out that hitting an all-time high is not an ominous sign. Given that the market generally goes up over time, a new all-time high is quite common. The following data displays monthly closing levels of the S&P 500 Index from 1926 to 2018. Of the 1,116 months observed, almost one-third represented new all-time highs. The data shows that looking ahead on a one-, three-, and five-year basis, the performance of the S&P 500 after a new market high was about the same as any other time period. This study demonstrates that a new market high does not forecast an inevitable market decline. In other words, a new market high tells us nothing about future returns.

S&P 500 Monthly Returns (1926 - 2018)

Look-Ahead Period	Percent of Cases Where Index is Higher (after new high)	Average Return (after new high)	Percent of Cases Where Index is Higher (after any previous level)	Average Return (after any previous level)
1-Year	81.3%	14.1%	75.2%	12.3%
3-Year	84.3%	10.4%	83.7%	10.6%
5-Year	84.8%	9.9%	87.7%	10.1%

(Source: Dimensional Fund Advisors)

US FIXED INCOME MARKETS

Bonds produced strong results for the quarter as the decrease in interest rates was positive for fixed income returns (interest rates move inversely to bond prices). The Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +3.1% - the best quarterly return since Q3 2011. The Agg has returned 6.1% in 2019. Other sectors of the fixed income market, including Credit (Barclays Corporates: +4.5%), Munis (Barclays Municipal Bond: +2.1%), and High Yield (Barclays High Yield: +2.5%) also posted strong results in the quarter.

INTEREST RATES

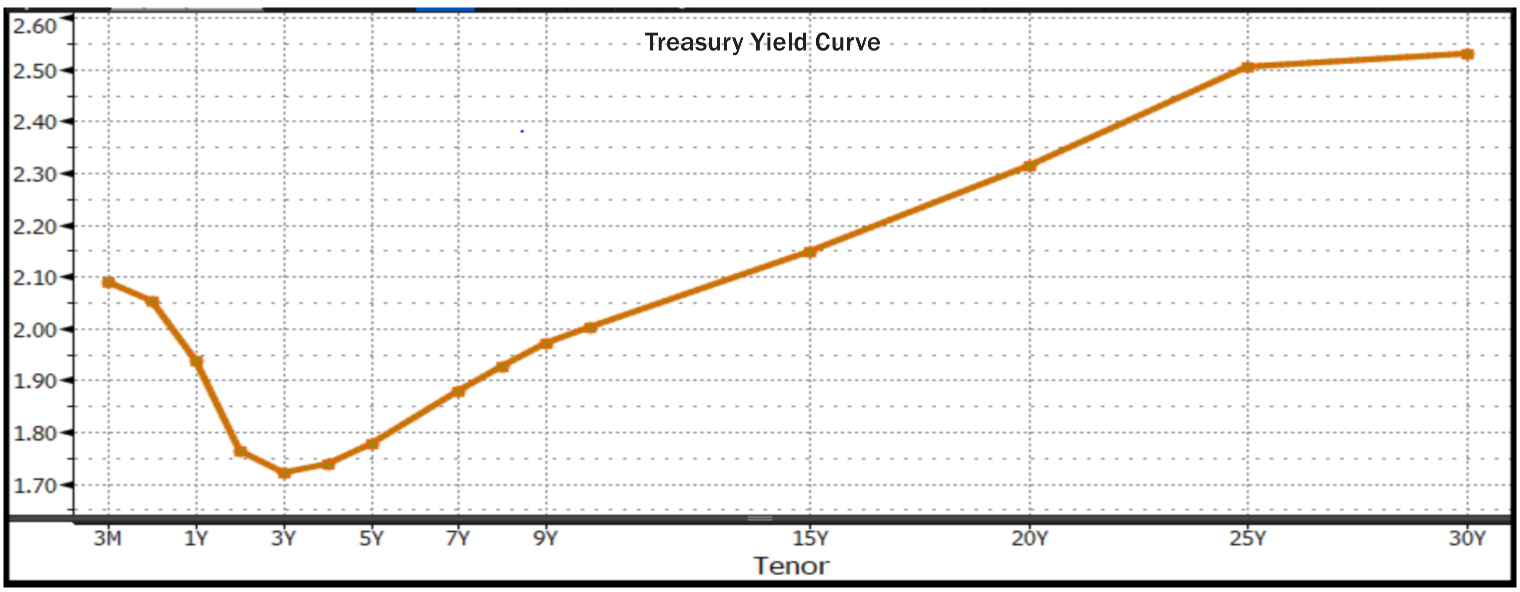
Treasury interest rates declined throughout the quarter due to low global interest rates and expectations of lower inflation and economic growth in the United States. The 2-Year Treasury declined from 2.26% to 1.75% while the 10-Year Treasury decreased from 2.41% to 2.01%.

- Low global interest rates: while the 10-Year Treasury yield of 2.01% is low relative to its own history, the current yield is still higher than many global rates. Due to weak inflation and economic growth forecasts, and their own versions of quantitative easing, 10-Year yields in Japan and Europe are currently negative. The Japanese and German 10-Year yields ended the quarter at -0.16% and -0.33% respectively. Due to the ongoing Brexit saga, the 10-Year yield in the UK is 0.83%. Currently, there is an estimated $13 trillion in global debt with negative yields. Therefore, US yields are still comparatively attractive for global investors.

- Expectations of future inflation and economic growth: Treasury securities are considered close to "risk free" because the principal and interest payments are backed by the US government. In general, when expectations for inflation and economic growth are poor investors will buy Treasuries because of their perceived safety in a weak investment environment. This "flight to safety" pushes Treasury prices up and yields down. Recent inflation readings have been weak as Core PCE Inflation came in at 1.6% Y/Y in May, well below the Fed's 2% symmetric target. Core PCE inflation has averaged about +1.6% over the last 10-years, which has helped to keep rates low. Economic growth has slowed as according to the latest Bloomberg survey, GDP is expected to increase by +2.5 Y/Y in 2019 compared to +2.9% in 2018.

YIELD CURVE INVERSION

The yield curve is a graph of a Treasury bond's maturity and its rate of return for various time periods. The typical maturities referenced generally range from 3-Months to 30-Years. A yield curve inversion occurs when short-term maturities have higher yields than longer-term maturities. An inversion is the market's sign of a pessimistic economic outlook. Historically, an inversion usually means the market is forecasting an economic recession or slowdown. The inversion usually occurs when there is a "flight to safety" and investors buy longer-term Treasuries. In this scenario, investors expect the Fed will likely cut short-term rates, which explains why they would be willing to accept lower yields for longer maturities. An inversion is usually the markets way of telling the Fed that it needs to cut rates. There are two common spreads associated with a yield curve inversion: the 10-Year Treasury minus the 3-Month Treasury Yield (10YR-3M) and the 10-Year Treasury minus the 2-Year Treasury Yield (10YR-2YR). The 10YR-3M spread ended the quarter inverted at -9bps while the 10YR-2YR stayed positive at +25bps. Historically, the average lag time between a yield curve inversion and the start of a recession has been about a year-and-a-half. ***Please see our Q1 2019 Market Recap and Outlook for implications and analysis of a yield curve inversion. yield curve inversion.***



(Source: Bloomberg)

US - CHINA TRADE WAR UPDATE

The US and China reached a temporary ceasefire in the ongoing trade war after President Trump met face-to-face with Chinese President Xi at the G20 Meeting in Japan on June 29th. The two sides agreed to resume negotiations and hold off on any new incremental tariffs for now. This was the first in person meeting between the two presidents since December 2018. In early May it appeared the two countries were on the verge of finalizing an agreement before the US accused China of reneging and attempting to renegotiate key aspects of the deal. As a result, the US raised the tariff rate on $200 billion worth of Chinese goods from 10% to 25%. The US also threatened to implement 25% tariffs on the remaining ~$300 billion worth of Chinese imports. China immediately responded by increasing the tariff rate on $60B worth of US goods starting on June 1st. As of now, the US has implemented 25% tariffs on $250B worth of Chinese goods and China has placed 5-25% tariffs on $110B worth of US goods.

After the meeting in Japan, President Trump also announced that US companies can resume selling technology to Huawei Technologies, China's largest telecom equipment manufacturer. After negotiations broke down in May, the Commerce Department banned US companies from selling to Huawei. The US did not remove all restrictions as President Trump clarified that shipments to Huawei can only be "where there is no great national emergency problem." Trump also stated that he will meet with advisors in early July to decide how to allow companies to sell to Huawei and whether the firm will remain on the restricted list. China has previously stated that it wants Huawei removed from the restricted list immediately and has accused the US of unfairly using state power to harm a private company. The new restrictions came about six months after Huawei's CFO was arrested in Canada at the behest of the US on charges of violating economic sanctions against Iran. While the details around Huawei restrictions are still vague, it appears President Trump lifted the sanctions as an olive branch and will continue to use the company as part of ongoing trade negotiations. Technology is becoming a larger part of the trade war as both countries aim to become the global leader in 5G wireless networks and overall technological innovation.

The trade war is a major issue due to the potential negative impacts on economic and corporate earnings growth. The Federal Reserve Bank of New York estimated that the current tariffs will cost the average US household $831 per year due to higher prices and reduced economic efficiency. The current consensus estimate for 2019 United States GDP growth is +2.5% Y/Y. Bloomberg estimates that the current tariffs will decrease US GDP growth by -0.2% (-0.5% if the US implements 25% tariffs on all Chinese goods). The current consensus estimate for 2019 S&P 500 earnings growth is about +3% Y/Y. Goldman Sachs estimates that current tariffs will decrease S&P earnings growth by -2% (-6.0% if the US implements 25% tariffs on all Chinese goods). Several companies have also stated they will raise prices, accept lower margins, or shift their supply chains out of China in response to the increased tariffs.

While a temporary ceasefire is positive because tensions have cooled and negotiations will resume, the two countries still appear to be a long way away from finalizing an agreement. While Treasury Secretary Mnuchin has claimed that the trade deal is "90% of the way there," the last 10% will likely be the most difficult part. The two sides are currently working on written agreements in six areas: forced technology transfer and cyber theft, intellectual property rights, services, currency, agriculture, and non-tariff barriers to trade. The trade war will remain a stock market risk and a drag on the global economy until an agreement is signed and all tariffs are eliminated. International Monetary Fund (IMF) Managing Director Christine Lagarde stated that, "tariffs already implemented are holding back the global economy, and unresolved issues carry a great deal of uncertainty about the future." Despite the hurdles, we remain optimistic that an agreement will eventually be reached as it would be in the best economic interest of both countries.

US - China Trade War Timeline

5/1/2016	As a presidential candidate, Trump makes cutting the trade deficit with China a campaign priority.	9/17/2018	Trump announces 10% tariffs on $200 billion worth of Chinese goods, with a plan to raise the rate to 25% at the start of 2019. Trump also threatens tariffs on the remaining ~$300 billion worth of imports. China retaliates with tariffs on $60 billion worth of US imports.	4/10/2019	Treasury Secretary Mnuchin says the US and China are making progress on a trade deal, including resolving a key sticking point on enforcement.
1/22/2018	Trump announces tariffs on imported solar panels and certain washing machines. China criticizes the move.	12/1/2018	Trump and Xi have dinner at the G20 meeting in Argentina. Trump agrees to delay the planned tariff hike for 90 days as negotiations resume.	5/5/2019	US accuses China of reneging on key aspects of the trade deal. Trump says he will increase tariff rates on Chinese goods as talks move "too slowly" and China attempts to "renegotiate."
3/8/2018	Trump authorizes tariffs of 25% on steel and 10% on aluminium imports. China retaliates with tariffs on about $3 billion worth of US goods.	12/29/2018	After a call with Xi, Trump says a trade deal is "moving along very well."	5/10/2019	US increases the tariff rate on $200 billion worth of Chinese goods from 10% to 25%. China retaliates with higher tariffs on $60 billion worth of US goods.
6/15/2018	The Trump administration says it will place a 25% tariff on $50 billion in Chinese goods. China retaliates with tariffs on $50 billion worth of US products.	2/24/2019	Trump again delays his plans to increase tariffs on $200 billion of Chinese goods to 25% from 10%, citing "substantial progress" in the most recent round of trade talks.	6/29/2019	Trump and Xi meet at the G20 Meeting in Japan. The two sides agreed to resume negotiations and hold off on any new incremental tariffs for now.

(Source: Bloomberg)

THE FED

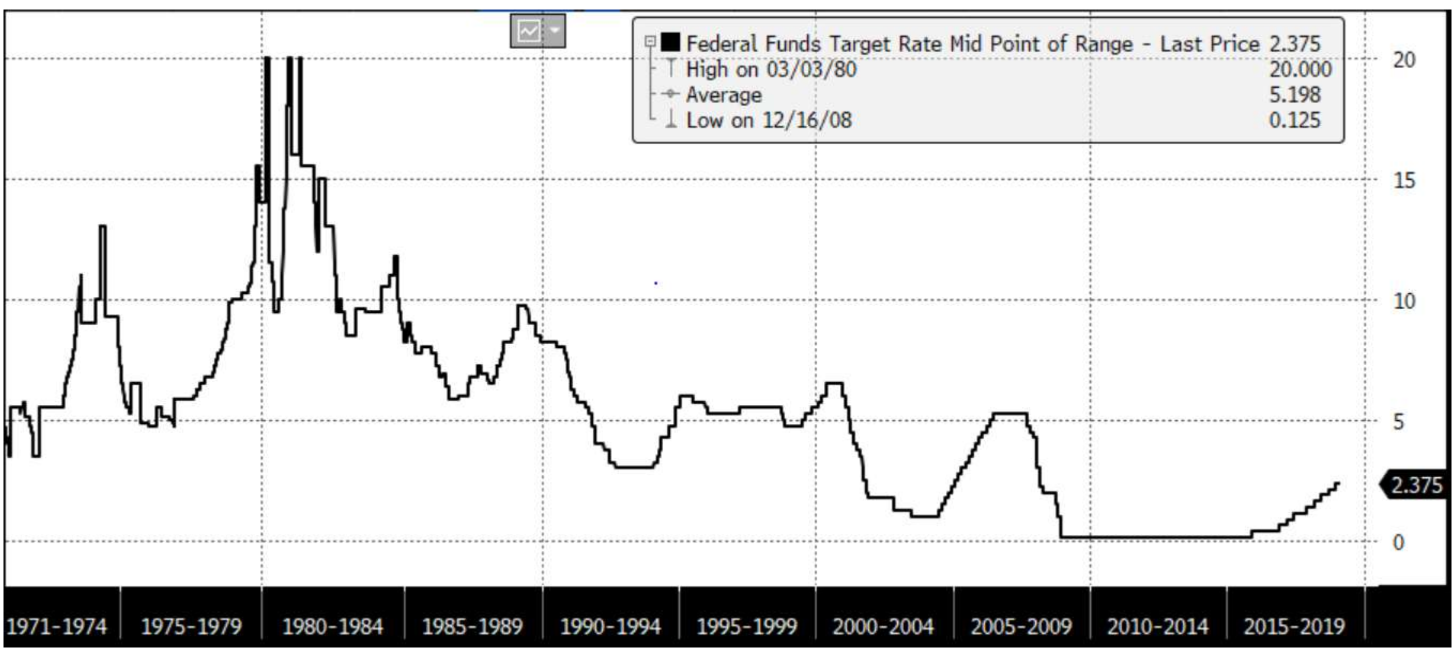
At their June meeting, the Federal Open Market Committee (FOMC) left the federal funds rate range unchanged at 2.25% to 2.50%. However, the FOMC signaled a strong willingness to lower rates in the future. Regarding future rate moves, the FOMC meeting statement changed from "patient" to "the committee will act as appropriate to sustain the expansion." The implication is that the Fed will cut rates soon. While the Fed is forecasting a sustained economic expansion, they acknowledge that uncertainties to their outlook have increased. At the press conference, Chairman Powell stated that "the case for additional accommodation (i.e. rate cuts) has strengthened since our last meeting."

The Fed has become more open to cutting rates for two main reasons: the ongoing trade war between the US and China and persistently low inflation. The Fed cited that the trade war has added to economic uncertainty and has weighed on business confidence. The Fed's view on low inflation appears to have shifted over the past few months. The Fed's preferred measure of inflation, Core PCE Inflation, was 1.6% Y/Y in May, well below the 2% symmetric target. Core PCE has averaged +1.6% Y/Y over the last ten years. At the May FOMC meeting, Chairman Powell described recent low inflation readings as "transitory." By the June meeting, the Fed turned more pessimistic as Chairman Powell forecasted inflation moving back up toward the 2% objective but at a "slower pace than had been expected."

The FOMC also released their Summary of Economic Projections (SEP) where each of the seventeen members individually and anonymously forecast Real GDP, the unemployment rate, inflation, and the federal funds rate. The Fed releases the median economic projection for each data point. The Summary of Economic Projections are not meant to be a policy roadmap, but rather to provide insight into what individuals on the committee are thinking. The SEP's included a downgrade to the 2019 Core PCE inflation forecast from +2.0% to +1.8%. While the median forecast for the 2019 federal funds mid-point rate remained at 2.375% (the present level), seven out of seventeen members projected two 25 basis point rate cuts this year (this would decrease the federal funds rate range to 1.75% to 2.00%). Seven members forecasting two rate cuts was a surprise and strongly suggests a decrease in the near future.

In 2019, the Fed shifted to a far more accommodative monetary policy than estimated at the end of last year. In December 2018, the Fed projected two rate hikes in 2019 and did not even want to discuss the possibility of altering the balance sheet runoff of $50 billion per month. In January of this year, the Fed moved to a "patient" approach with future rate hikes and now "will act as appropriate to sustain the expansion." The current futures market probability of a rate cut at the July 31st meeting is close to 100%. While the Fed still has a positive view of the economy, Chairman Powell stated that it is better to cut rates "preemptively and not let a downturn gather steam." The Fed is concerned about low inflation, global economic weakness, trade wars, and weakening data in the US, and it appears their response will be a rate cut in July.

Federal Funds Rate Mid-Point (1971 – 2019)



(Source: Bloomberg)

US ECONOMY

Economic data showed signs of deceleration from 2018 levels – note that deceleration does NOT mean a decline or recession. According to the latest Bloomberg survey, GDP is expected to increase by +2.5% Y/Y in 2019, down from 2018's +2.9% level. The US consumer is in good shape and is supported by a strong labor market (Consumer Spending accounts for close to 70% of GDP). The housing market is decent and lower mortgage rates should be supportive. The manufacturing sector has weakened as tariffs have forced domestic companies to delay major spending outlays and examine alternative supply chains. Manufacturing data has been steadily decelerating since tariffs went into effect in mid-2018.

Labor Markets

Overall	Trend

Unemployment Rate (May): 3.6%

2019 Average: 3.8% 5YR AVG: 4.7% 15-YR AVG: 6.2%

The Bureau of Labor Statistics Unemployment Rate tracks the number of unemployment persons as a percentage of the labor force. The unemployment rate is calculated from the Current Population Survey (CPS).

Change in Nonfarm Payrolls (May): +75,000

2019 Average: 175K 5YR AVG: 209K 15YR AVG: 108K

The Bureau of Labor Statistics Nonfarm Payrolls measures the monthly change in the number of employees on business payrolls. Approximately 150k businesses and government agencies representing 700k individual worksites are surveyed each month. Data is from the Current Employment Statistics (CES) survey.

Consumer

Overall	Trend

Retail Sales (May): +2.9% Y/Y

2019 Average: 2.7% 5YR AVG: 3.8% 15YR AVG: 3.5%

The US Census Bureau Retail Sales data tracks the resale of new and used goods to the general public for personal or household consumption. Data is adjusted for seasonal variation and holiday and trading-day differences and calculated from a survey of approximately 5,500 retail and food services firms.

University of Michigan Consumer Sentiment (June): 97.9

2019 Average: 96.5 5YR AVG: 94.0 15YR AVG: 83.1

The University of Michigan collects data on consumer attitudes and expectations. The index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices.

Housing

Overall	Trend

Existing Home Sales (May): 5.34 million

2019 Average: 5.20 5YR AVG: 5.33 15YR AVG: 5.19

The National Association of Realtors Existing Home Sales tracks total existing home sales including single family homes, townhomes, condominiums, and co-ops. Data is adjusted for seasonal variation.

Case-Shiller 20-City Home Price Index (May): 2.54% Y/Y

2019 Average: 3.11% 5YR AVG: 5.31% 15YR AVG: 2.81%

The S&P Case-Shiller US National Home Price Index tracks the value of single-family housing within the United States. The index is a value-weighted average of 20 metro areas.

30-Year Fixed Rate Mortgage: 3.80%

2019 Average: 4.21% 5YR AVG: 4.01% 15YR AVG: 4.69%

Bankrate.com calculates the national average 30-year Fixed Rate Mortgage.

Manufacturing

Overall	Trend

ISM Manufacturing Index (May): 52.1

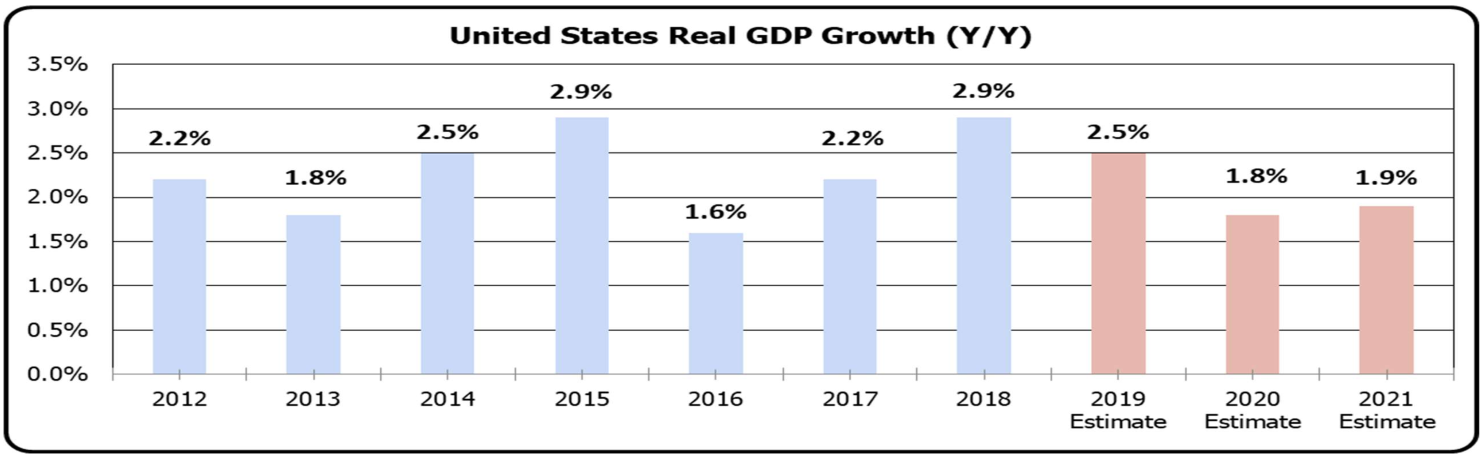
2019 Average: 54.2 5YR AVG: 54.8 15YR AVG: 53.4

The ISM Manufacturing Index is based on a survey of more than 300 manufacturing firms - the index monitors employment, production, inventories, new orders, and supplier deliveries. A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting.

Durable Goods Orders (May): 0.2% Y/Y

2019 Average: 2.0% 5YR AVG: 1.9% 15YR AVG: 2.4%

The US Census Bureau Durable Goods New Orders Ex Transportation survey is a report that tracks the value of new orders received. Durable goods are manufactured products designed to last three years. The survey is based on ~5,000 reporting units representing ~3,100 companies in the Manufacturing Sector.



(Source: Bloomberg)

INTERNATIONAL MARKETS

DEVELOPED INTERNATIONAL

The MSCI EAFE index increased by +3.7% in the quarter and is now up +14.0% for the year. The EAFE index includes a broad range of equities located in several international countries, including Japan, the United Kingdom, France, Germany, Italy, and others. Within International Markets, the MSCI Europe index increased by +5.5% while the MSCI Japan index gained +1.0% and the MSCI United Kingdom index rose by +0.9%.

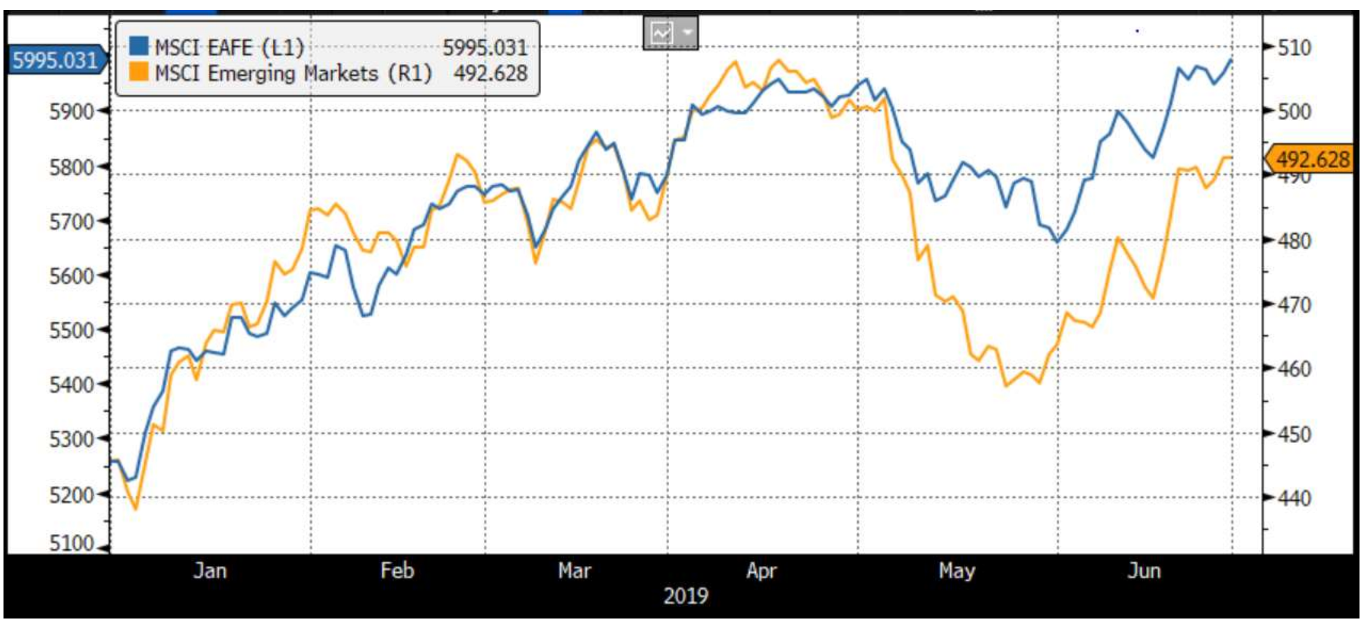
The main story in developed international markets was the European Central Bank (ECB) signaling that additional monetary stimulus may be required if their economic outlook doesn't improve. In June at the ECB Forum on Central Banking in Sintra, Portugal, ECB President Mario Draghi stated that the "risk outlook remains tilted to the downside." Draghi also said further cuts in interest rates and/or the resumption of the central banks' quantitative easing (QE) program might be necessary. The ECB's key interest rate, the deposit rate, is currently at -0.4%. Previously the ECB stated they would keep rates at present levels until at least the first half of 2020. The ECB's balance sheet is at about 4.7 trillion euros – the overall size increased from about 1.5 trillion euros before the financial crisis in 2008. Draghi's term as ECB President ends in October so it is possible that the new stimulus measures will be announced in July or September.

EMERGING MARKETS

The MSCI Emerging Markets index increased by +0.6% and has returned +10.6% in 2019. MSCI classifies countries as Emerging Markets based on a balance between economic development and financial market accessibility. Some countries included in the Emerging Markets index are Brazil, Russia, India, China, and South Korea. The MSCI China index decreased by -4.2% while MSCI India gained +0.5%.

The main story in Emerging Markets was the stock market decline and economic slowdown in China. Earlier this year, China unveiled its 2019 GDP growth target of 6.0% to 6.5% - a deceleration from 6.6% in 2018. China also announced further fiscal and monetary stimulus measures in order to boost the economy, including tax cuts and a decrease in the required reserve ratio for small and medium size banks. Despite the stimulus measures, the ongoing trade war and tariffs have had a negative impact as China's manufacturing gage slipped back into contraction territory in June after spending the previous two months in expansion levels. Reports indicate that China may unveil further stimulus measures as they try to avoid a substantial economic slowdown while simultaneously trying to work out a trade deal with the United States. The trade war will remain a drag on both economies until an agreement is signed.

INTERNATIONAL MARKETS (YTD 2019)



KEY RISKS

This list is not designed to be comprehensive, but rather a few things we are discussing internally as we balance short-term developments with our long-term viewpoint.

US – China Trade War: The US has implemented 25% tariffs on $250B worth of Chinese goods and China has placed 5-25% tariffs on $110B worth of US goods. While a temporary ceasefire and resumption of negotiations are positive, the trade war will remain a stock market risk and a drag on the global economy until an agreement is signed and all tariffs are eliminated.

US Recession: US economic data showed signs of deceleration from 2018 levels. According to the latest Bloomberg survey, GDP is expected to increase by +2.5% Y/Y in 2019, down from 2018's +2.9% level. Although economic data remains at fairly solid levels, we are concerned that the impacts of the US/China trade war, inverted yield curve, and slowing global growth could eventually lead to a recession.

New Tariffs: President Trump has threatened tariffs on countries other than China. In May, President Trump announced that the US would impose tariffs on Mexico that would remain in effect until illegal immigration is curbed. A few days later the two countries were able to reach an agreement to avoid the tariffs. President Trump also delayed 25% tariffs on autos imported from the European Union and Japan. A decision on auto tariffs will likely take place before the end of the year. New tariffs are always one tweet away.

Global Growth Deceleration: Economic growth estimates for 2019 are being cut. The Fed decreased their 2019 GDP forecast from 2.3% to 2.1%. China released a growth target of 6.0% to 6.5% (down from 6.6% in 2018). The European Central Bank cut its 2019 GDP forecast from 1.7% to 1.1%. We remain concerned about economic weakness potentially spilling over into the United States.

Yield Curve Inversion: An inverted yield curve (short-term yields higher than long-term yields) has historically been a strong recession indicator. There are two common spreads associated with a yield curve inversion: the 10-Year Treasury minus the 3-Month Treasury Yield (10YR-3M) and the 10-Year Treasury minus the 2-Year Treasury Yield (10YR-2YR). The 10YR-3M spread ended the quarter inverted at -9bps while the 10YR-2YR stayed positive at +25bps. Historically, the average lag time between a yield curve inversion and the start of a recession has been about a year-and-a-half.

Brexit: The Brexit situation remains messy and fluid. Prime Minister Theresa May announced her resignation in May and a successor has not yet been named. The UK is still working on details on when, how, and if to leave the Eurozone. The worst-case scenario for global markets would be a so-called "Hard Brexit" where the UK would leave the European Union and then have to renegotiate trade deals (this option would cause the greatest amount of short-term economic disruption).

Earnings Disappoint: Earnings growth expectations are for +3% in 2019 and +11% in 2020. Earnings growth could disappoint if economic growth slows, new tariffs get implemented, or companies lower guidance in fear of potential tariffs.

US Debt Ceiling/Budget Debate: The US debt limit came back into effect on March 1st after being suspended by Congress in 2018. After 3/1, the US Treasury will begin using "extraordinary measures" to fund the government and make payments to bondholders, social security beneficiaries, and government employees. The Treasury's "extraordinary measures" will likely last through the fall. The debt ceiling will likely be rolled into the 2020 budget negotiation. If Congress cannot come to an agreement, we could be headed for another government shutdown.

US Debt Levels: Total US national debt is currently over $22.4 trillion. The public debt to GDP ratio has risen to 82.3% and the 2019 budget deficit is projected at -4.3% of GDP. At some point high debt/deficit levels become unsustainable.

CLIENT QUESTION(S) OF THE MONTH

Our Client Question(s) of the Month relates to tariffs. Tariffs have been front-page news over the last year and we have received a few clarification questions on the logistics and implications.

What is a tariff?

A tariff is a tax on imported goods or services. In general, tariffs are implemented to raise revenue for the federal government and/or to protect domestic industries.

What is the history of tariffs in the United States?

The US Constitution gives the federal government power to implement tariffs and to "regulate commerce with foreign nations." After the Revolutionary War, the first US Congress passed the Tariff Act of 1789, which was designed to raise revenue, help pay down accumulated debt, and close the trade imbalance with England. The bill was sponsored by Congressman James Madison and signed into law by President George Washington. According to "Clashing Over Commerce: A History of US Trade Policy" tariffs produced 90% of US federal government revenue from 1790 to 1860. Tariffs remained a major source of government revenue until the permanent income tax was established in 1913.

The Smoot-Hawley law of 1930 currently holds the mantle as the most infamous tariff legislation in United States history. The law was passed shortly after the stock market crashed and the Great Depression started in 1929. The Smoot-Hawley act raised tariffs substantially on about 900 items, including many consumer products. Over the next two years the volume of US imports and exports dropped by about 40% as other countries responded with their own tariffs. The Smoot-Hawley act receives credit for spreading protectionism worldwide and exacerbating the Great Depression.

After World War II, the use of tariffs decreased substantially as the US moved toward free trade policies. The United States is now instrumental in the World Trade Organization (WTO) which aims to reduce tariffs and other trading barriers. In fiscal year 2018, tariffs only represented about 1% of government revenue.

What about Trump's Tariffs?

President Trump has decided to use tariffs as a means to bring manufacturing jobs back to the US, retaliate against nations that place levies on US imports, close the trade deficit, and extract concessions on matters not directly related to trade. The Trump administration placed tariffs on imported washing machines and solar panels in January 2018. A few months later, the White House enacted tariffs on steel and aluminum imports from a variety of countries. Most recently, Trump threatened to implement 5% tariffs on all imports from Mexico effective on June 10th (the rate would have risen 5% every month thereafter until it reached 25%). The US and Mexico were able to reach a deal to address President Trump's concerns and avert the tariffs. President Trump has also threatened 25% tariffs on autos imported from the European Union and Japan (a decision will likely be made before year end).

From an economic and market standpoint, the main concern with tariffs is the ongoing trade war between the US and China. The US began hitting China with tariffs in July 2018 with the goal of forcing an eventual deal that address the trade deficit, intellectual property rights, forced technology transfer, and currency manipulation. As of now, the US has implemented 25% tariffs on $250B worth of Chinese goods and China has placed 5-25% tariffs on $110B worth of US goods. The United States has also threatened to implement 25% tariffs on the remaining ~$300 billion worth of Chinese imports.

CLIENT QUESTION(S) OF THE MONTH

Who pays the tariffs? Who absorbs the cost of the tariffs?

There is a distinction between who pays the tariffs and who absorbs the cost of tariffs. The US importer of record pays the tariff when the product arrives in the United States. Importers usually pay the tariff within ten days of their goods clearing customs. While who pays the tariffs is clear (the importer), who absorbs the cost of the tariffs is an open debate between the Trump administration and many economists. The cost of tariffs can be absorbed in three main ways: 1) the supplier discounts the price of the product, 2) the importer absorbs the cost and accepts lower margins, or 3) the importer passes the cost to the consumer. President Trump argues that scenario 1 is occurring and foreign nations are absorbing the cost of tariffs by discounting prices. Many economists have argued that scenario 3 will ultimately occur with the consumer bearing the cost through higher prices and inflation. Tariffs have not been in place long enough for a definitive answer to the question, but we suspect that the longer the tariffs remain the more likely consumer prices will rise.

Who collects the tariffs?

The US Customs and Border Protection (CBP) agency collects the tariff revenue. The proceeds are then sent directly to the Treasury. According to the Department of Treasury's Receipts and Outlays of the US Government report the total tariff revenue was $44.9 billion in fiscal year 2019 through the end of May. The Treasury expects to collect about $69.5 billion in tariff revenue in the entire current fiscal year.

Why should we care about tariffs?

Tariffs potentially have negative impacts on economic and corporate earnings growth. The Federal Reserve Bank of New York estimated that the current tariffs will cost the average US household $831 per year due to higher prices and reduced economic efficiency. The current consensus estimate for 2019 United States GDP growth is +2.5% Y/Y. Bloomberg estimates that the current tariffs will decrease US GDP growth by -0.2% (-0.5% if the US implements 25% tariffs on all Chinese goods.)   The current consensus estimate for 2019 S&P 500 earnings growth is about +4% Y/Y. Goldman Sachs estimates that current tariffs will decrease S&P earnings growth by -2% (-6.0% if the US implements 25% tariffs on all Chinese goods). Several companies have also stated they will raise prices, accept lower margins, or shift their supply chains out of China in response to the increased tariffs.

EQUITY MARKET OUTLOOK

As we move into the second half of 2019 and beyond, we continue to have a balanced outlook for the US equity markets as we do not believe this is the time for excessive risk taking or extreme caution.

We would move to a more optimistic stance if the US and China agree to a trade deal where all tariffs are rescinded, the Fed remains accommodative, and/or economic and corporate earnings growth start to accelerate. We would turn more cautious if trade talks breakdown and new tariffs are implemented, the Fed returns to restrictive monetary policy, and/or economic and corporate data begin to deteriorate.

Our overall outlook is primarily based on our viewpoints across four different categories:

- **Economic Growth:** Economic data showed signs of deceleration from 2018 levels – note that deceleration does NOT mean a decline or recession. According to the latest Bloomberg survey, GDP is expected to increase by +2.5 Y/Y in 2019 compared to +2.9% in 2018.

- **Central Bank Policy:** In 2019, the Fed shifted to a far more accommodative monetary policy than estimated at the end of last year. Current Fed policy is to "act as appropriate to sustain the expansion." The current futures market probability of a rate cut at the July 31st meeting is close to 100%. While the Fed still has a positive view of the economy, Chairman Powell stated that it is better to cut rates "preemptively and not let a downturn gather steam." The Fed is concerned about low inflation, global economic weakness, trade wars, and weakening data in the US, and it appears their response will be a rate cut in July.

- **Corporate Fundamentals:** S&P 500 earnings are expected to grow at +3% in 2019 and +11% in 2020. Earnings have decelerated from 2018's +20% level due to the diminishing effects of fiscal stimulus, tariffs, and slowing economic growth. Over long time periods, earnings drive stock prices.

- **Market Valuation:** The market valuation ended the quarter slightly higher than its historical average but not excessively so. The S&P 500 Forward P/E is 16.8x, compared to the 25-Year average of 16.1x. The Forward P/E ratio calculated as the current price divided by the estimated earnings-per-share over the next 12-months.

Why aren't we more positive given that the market is at an all-time high? The simple answer is the trade war between the US and China (and the threat of new tariffs) makes it difficult to have a clear market outlook. The trade war will continue to have a negative impact on economic growth, corporate fundamentals, and market valuation, which could force the Fed to cut interest rates multiple times. Under this scenario, it is unclear whether multiple rate cuts will be enough to offset the damage caused by tariffs.

Why aren't we more negative given the market risks, trade war, and threat of new tariffs? Despite the market risks and ongoing trade war, economic growth and corporate fundamentals are still at decent levels and the Fed has shifted to a more accommodative monetary policy. We are fully aware of the risk of the ongoing trade war and potential tariffs. However, we were somewhat encouraged by the latest round of negotiations and continue to believe an agreement will eventually be reached as it would be in the best economic interest of both countries.

In the current environment, tariffs can change on a tweet so maintaining flexibility is critically important. We will continue to incorporate new market developments with long-term asset allocation targets as part of our overall investment process.

At Winthrop Wealth Management, we implement a proactive approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

DISCLOSURES

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Investing involves risk including loss pf principal.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

DISCLOSURES

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. With 78 constituents, the index covers approximately 85% of the Indian equity universe.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI China Index is constructed based on the integrated China equity universe included in the MSCI Emerging Markets Index, providing a standardized definition of the China equity opportunity set. The index aims to represent the performance of large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. China A shares will be partially included in this index, making it the de facto index for all of China. It can be used as a China benchmark for investors who use the MSCI ACWI Index or MSCI EM Index as their policy benchmark.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,206 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 97 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK