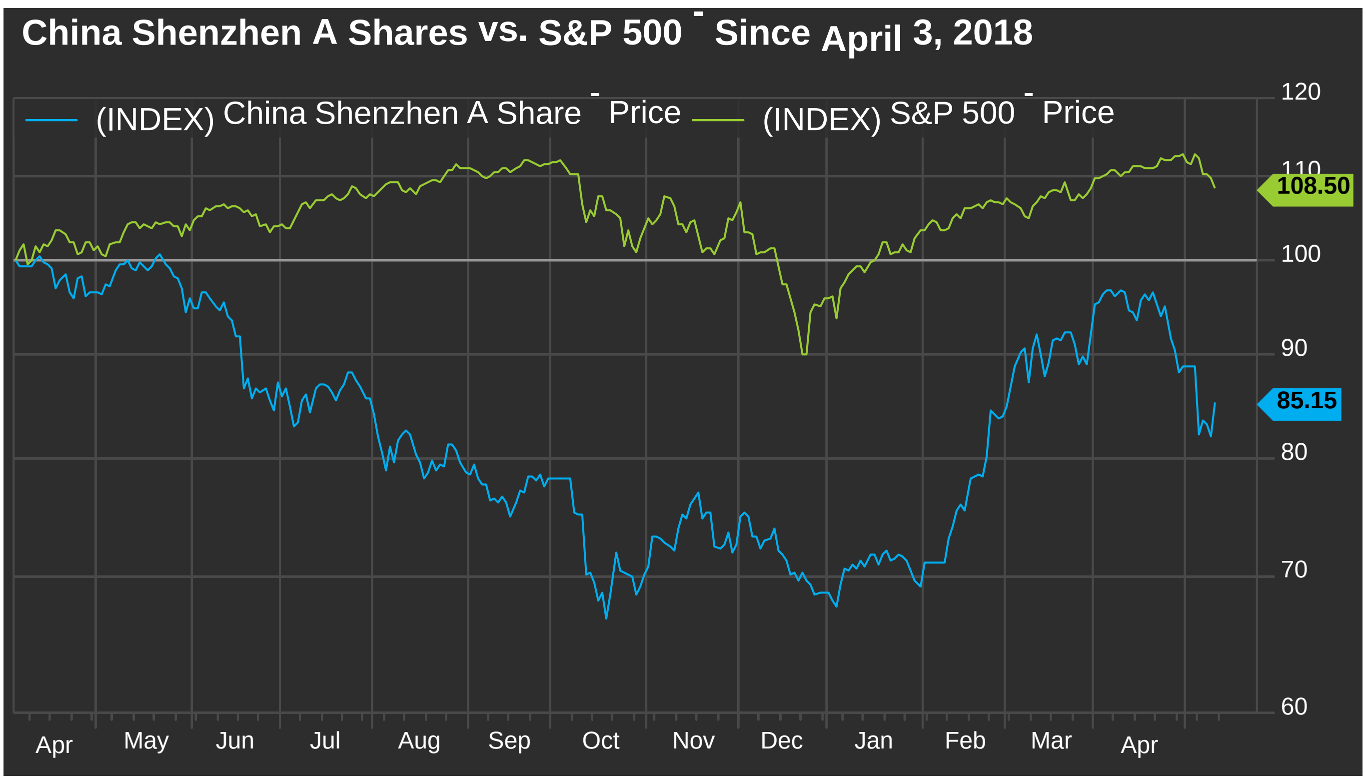
INVESTMENT COMMENTARY
MAY 2019

Here We Go Again! Trade War Escalation Threatens to Derail the Bull Market.

By: Gary Quinzel, Vice President, Chief Investment Officer

- **Despite reports of progress of US-China trade talks, President Trump initiates a new round of Chinese tariffs. Will this derail the negotiation process?**
- **S&P 500 and Nasdaq both reach new all-time high levels in April in market's best start to a year since 1987.**
- **After setting the bar lower, first quarter earnings season in the U.S. largely surpassed expectations.**
- **First quarter GDP surprises to the upside as the U.S. economy grows by 3.2% in Q1.**
- **Fed holds rates steady as expected, but squashes hopes for a rate cut in 2019.**

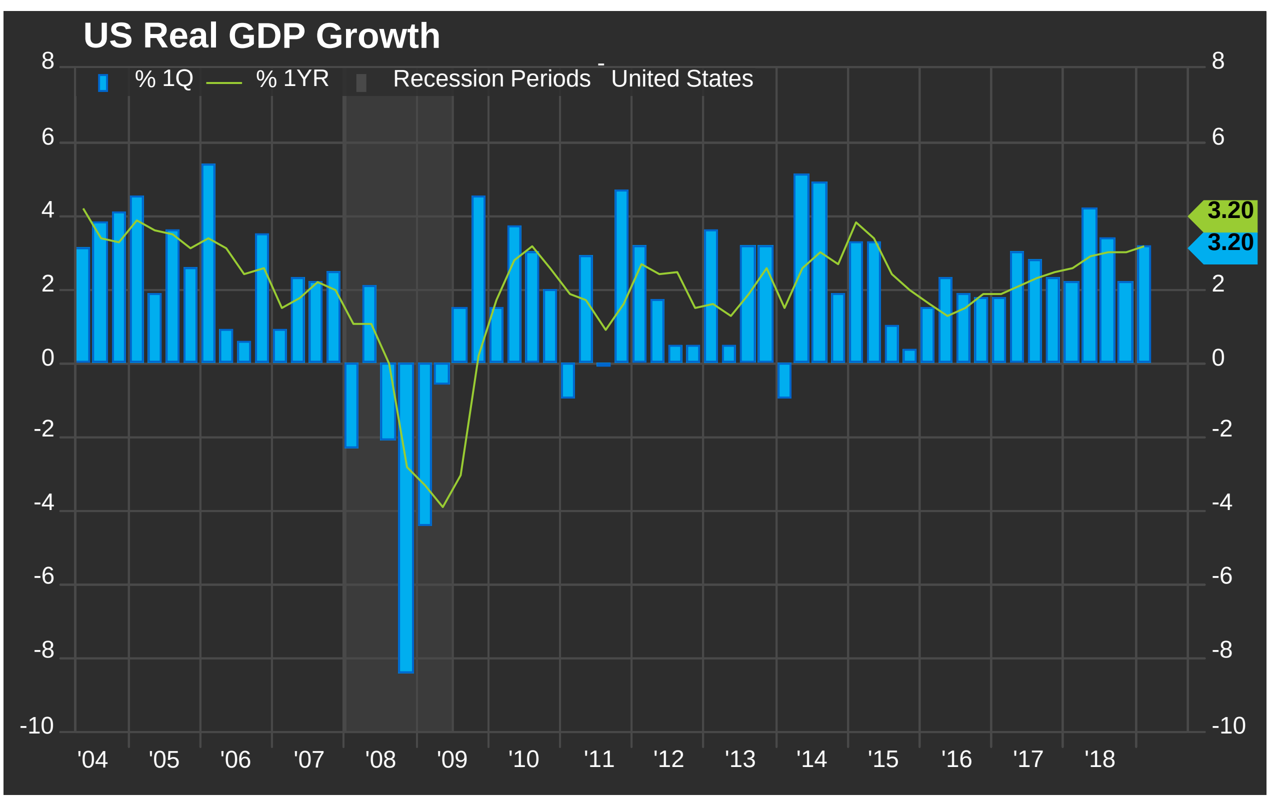


What Piqued Our Interest

The markets experienced a one-two punch from both Fed chief Jerome Powell as well as President Trump in the early days of May. It began during the Fed's post meeting conference on May 1st when Powell squashed hopes of a rate cut later this year when he expressed his opinion that today's low inflation was due to transitory factors. The probability of a rate cut, according to the futures market, promptly dropped from about 62% to less than 50%, and the chances of two rate cuts dropped to just 10%. After Powell's comments at past meetings that the Fed would take a more patient approach, it seems clear now that the market had been pricing in one, if not two, cuts by the end of the year. Interestingly, Jerome Powell has now had nine post-meeting conferences, and the market has dropped on eight of those days.

The market somewhat stabilized after the Fed announcement, only to be rocked by the President's tweets regarding further China tariffs and a potential breakdown in the trade talks. While negotiations with China are ongoing, President Trump held firm to his threat and on Friday May 10 increased tariffs from 10% to 25% on $200 billion worth of Chinese imports. There still seems to be some optimism that a deal can be made, as the markets have only declined about 3% from their all-time high level reached just a week ago. Given that the market was up close to 18% year to date before this began, we could still pull back quite a bit and still be in a good place overall. Compared to the Chinese stock market, this recent volatility is miniscule, as the Shenzhen A-Share index has fallen by 12% since its high in April. ***Looking back to April 3, 2018 when the first new round of Chinese tariffs was implemented, the U.S. stock market has gained 8.5% in price terms, versus a 15% loss for China's index.***

Outside the recently escalated trade war, economic events had been mostly positive through April. First quarter GDP in the U.S. surprised to the upside, coming in at 3.2% annual growth compared to 2.5% average estimates. This marked the best first quarter growth since 2015 and shocked many who felt the January government shutdown would have a more pronounced effect. The April jobs report was also positive, as the U.S. added 263,000 more jobs which marked the 103rd consecutive month of job gains. February and March revisions added an additional 16,000 jobs, while the unemployment rate dropped to 3.6%, which is the lowest rate since December 1969. Turning towards corporate earnings, with 78% of companies in the S&P 500 having reported their 1st quarter earnings, 76% of those companies beat their earnings estimates, while 60% beat sales estimates. Both of these results are above their respective 5-year averages, according to FactSet research. It should be noted however that guidance had been materially lowered in Q4 '18 due to expectations of slowing growth, and an above-average number of companies are issuing negative guidance for the second quarter. Regardless, on average most analysts are expecting single digit growth for the rest of 2019, which may be a regression from the tax-cut-fueled growth of 2018 but is still heading in the right direction and may be enough to buoy this market for months to come, assuming the trade war doesn't derail the expansion.



Market Review

While April was particularly strong across most asset classes, the same certainly cannot be said for the first two weeks of May. The S&P 500 had climbed over 18% by April 30 and reached its all-time high on May 1 before pulling back roughly 3.5% through May 10. Small caps fared slightly worse in April but have declined less in May and are still up by 17%, slightly ahead of large caps. In terms of style, Growth stocks are still up more than Value stocks, but that spread has narrowed over the past 10 days, a trend we expect to continue. Tech stocks have experienced some of the largest declines in May, as the sector fell by 3.3% after posting impressive gains in April. In general, cyclical sectors have been the hardest hit in May, while defensive sectors have experienced only modest losses thus far. The best performing sectors in May include Healthcare, Staples, and Utilities, all of which have lagged for most of 2019. It should be noted that Technology, Discretionary, and Industrials are all up 23.4%, 19.55, and 19.1% respectively, and therefore could have further to fall if the volatility continues. International stocks, both developed and emerging, continue to trail the U.S. by a considerable margin year to date.

Index Name	April	YTD	1 Year
S&P 500	4.01	15.52	7.33
Russell 2000 (Small Cap)	3.38	17.01	(0.96)
Russell 3000 (All Cap)	3.96	16.02	6.61
MSCI AC World ex USA	2.64	9.81	(6.31)
MSCI EAFE (Developed Intl)	2.81	10.02	(6.06)
MSCI EM (Emerging Markets)	2.11	7.54	(8.44)
Bloomberg Barclays US Aggregate Bond	0.03	3.22	5.71
Bloomberg Barclays US High Yield - Corporate	1.42	8.25	6.06
Bloomberg Barclays Municipal Bond	0.38	3.92	6.13
Bloomberg Barclays US Short Treasury	0.20	0.93	2.31
Bloomberg Commodity Index	(0.42)	3.43	(1.76)
MSCI US REIT INDEX	(0.30)	16.14	11.25

YTD and 1-Year Total Return Performance through May 10, 2019. Source: FactSet

Investment-grade U.S. bonds were basically flat in April but have seen gains recently as investors have shed risky assets in May. The Bloomberg Barclays Aggregate bond index was up 3.22% through May 10, while the municipal index had climbed by 3.92%. The yield on the 10-year U.S. treasury is near its low on the year, currently around 2.4%, down from about 2.7% to start the year. The high-yield sector has continued to perform well this year (up over 8%) and has only experienced modest declines during the recent volatility, as the high yield index has declined by about 0.8%. In alternative asset classes, publicly traded REITs have held up well, and are up over 16% on the year. Meanwhile, commodities once again have lost their luster, even as WTI crude oil is up by 35% on the year, having been up as much as 47% back in April. Gold is essentially flat on the year, as is Copper, while Silver and Aluminum are both down roughly 5%.

AEPG Perspective

In recent commentaries we have expressed our concerns about the longevity of this market expansion, and in particular have noted our reservations about the 2nd half of 2019. After both the S&P 500 and the Nasdaq recorded their strongest start since 1987, we believe the market is even more susceptible to a substantial correction. In many ways, ***the two key drivers of this year's rally are both now under scrutiny.*** In 2019 the market has been propelled by the expectations of easier Fed policy, along with the hope and expectations that we were nearing a trade deal with China. ***As both now seem to be in question, we believe that now may be a prime opportunity to trim some gains and realign one's portfolio with their long-term risk objective.*** To be clear, we are not recommending a full risk-off trade or advocating for market timing strategies. But rather, we feel that given the market's overall strength this year, and the fact that this trade standoff may last until the next G20 meeting later in

June, this may be as good a time as any to mitigate undue risk.

In spite of the recent uptick in volatility and uncertainties, we also believe there is a good chance that a trade deal will ultimately be reached with China. There is no question that a deal is in the best interest of both countries, and with the 2020 elections rapidly approaching, the President will likely want to buoy his reelection campaign with a strong market and strong economy. On the other hand, President Trump has held firm to most (if not all) of his campaign promises, so it will be interesting to see how much he sticks to his guns and stays tough with China if the market falls in the months leading up to next November. Regardless of what happens, we believe that our model portfolios are positioned to withstand any uncertainties, while delivering optimal performance given one's risk profile. Our more conservative models have rotated towards value and quality over the past year, while our market-risk models still maintain a modest growth bias. All of our global models are tilted towards the U.S, and all contain a mix of traditional ETFs, single and multi-factor ETFs, along with select mutual funds which are actively managed to outperform in up and down markets. In addition, our proprietary structured note strategy continues to deliver market like returns, but with below market risk, which complements our core/satellite models. In sum, these investment strategies along with prudent financial planning will help our clients endure these periods of uncertainty, and ultimately help them achieve their long-term financial goals.

AEPG WEALTH STRATEGIES

Gary Quinzel, CFA, MBA
Vice President,
Chief Investment Officer

E-mail: GQuinzel@aepg.com
Phone: 908-821-9765

Important Disclosure: *Please remember that different types of investments involve varying degrees of risk, including the loss of money invested. This material may contain certain forward-looking statements. These forward-looking statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, including the investments or investment strategies recommended or undertaken by American Economic Planning Group, Inc. ("AEPG") will be profitable. Definitions of any indices listed herein are available upon request. Please remember to contact AEPG if there are any changes in your personal or financial situation or investment objectives so that we can review our previous recommendations and services, or if you wish to impose, add or modify any reasonable restrictions to our investment management services. This article is not a substitute for personalized advice from AEPG and nothing contained in this presentation is intended to constitute legal, tax, accounting, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Investment decisions should always be made based on the investor's specific financial needs, objectives, goals, time horizon and risk tolerance. This information is current only as of the date on which it was sent. The statements and opinions expressed are, however, subject to change without notice based on market and other conditions and may differ from opinions expressed in other businesses and activities of AEPG. Descriptions of AEPG's process and strategies are based on general practice and we may make exceptions in specific cases. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request.*