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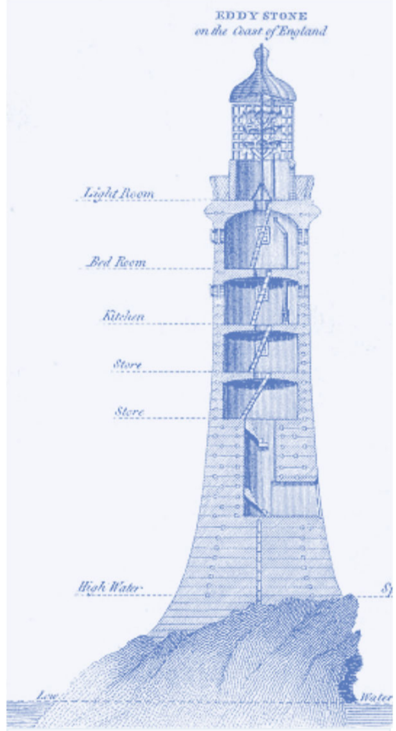

The Waypoint

Volume 2, Issue 3

May 2019 Market Update

Asset Class Total Returns (as of May 31, 2019)		1m	3m	12m	YTD
World Equities	***MSCI AC World***	**-5.93%**	**-1.53%**	**-1.29%**	**9.08%**
U.S. Equities	***Russell 3000***	**-6.47%**	**-1.32%**	**2.50%**	**10.92%**
Large Cap	*Russell 1000*	-6.37%	-0.90%	3.47%	11.05%
Large Cap	*S&P 500*	-6.35%	-0.67%	3.78%	10.73%
Large Cap	*Dow Jones Industrial*	-6.32%	-3.66%	4.05%	7.54%
Small Cap	*Russell 2000*	-7.78%	-6.64%	-9.04%	9.26%
International Equities	***MSCI AC World Ex U.S.***	**-5.26%**	**-2.02%**	**-5.79%**	**7.47%**
Developed Market Equities	*MSCI EAFE*	-4.66%	-1.16%	-5.26%	8.05%
Emerging Market Equities	*MSCI EM Free*	-7.22%	-4.44%	-8.34%	4.18%
Fixed Income	***Barclays U.S. Universal***	**1.53%**	**3.51%**	**6.41%**	**5.05%**
U.S. Core Fixed Income	*Barclays U.S. Aggregate*	1.78%	3.76%	6.40%	4.80%
High Yield	*ML High Yield Master II*	-1.27%	1.09%	5.37%	7.52%
Alternatives	***Bloomberg Commodities TI***	**-3.56%**	**-4.53%**	**-14.34%**	**1.29%**
Commodities	*Bloomberg Commodities TR*	-3.56%	-4.53%	-14.34%	1.29%
MLP's	*Alerian MLP*	-2.40%	-1.10%	-8.68%	9.46%
Gold	*GSCI Gold Spot TR*	1.71%	-0.73%	-0.09%	1.85%
Cash	***ML 90 Day T Bill Index***	**0.23%**	**0.64%**	**2.26%**	**1.02%**
Hedge Funds	*HFRX Global Hedge Fund*	-0.68%	-0.20%	-3.69%	2.57%
Real Estate	*Dow Jones Real Estate*	-0.01%	4.16%	15.25%	17.03%

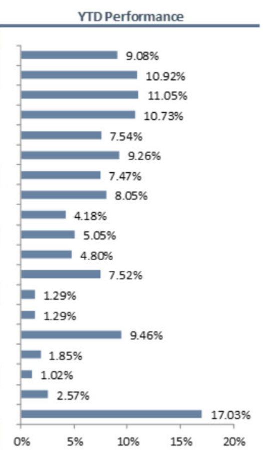

Figure 1: Market Performance as of May 31, 2019
Source: Bloomberg

Inside this issue

About "The Waypoint"

This edition of The Waypoint includes data from Oxford Economics, provided by Gina Sanchez, an independent investment consultant who has partnered with Lumina Wealth Management. She is an economist, former portfolio manager and regular contributor on CNBC, as well as a member of the Oxford Global Centre for Economics in London.

Introduction

◊ **2019 is a Millennial's dream. Everyone is a winner:** But, reality will set in and US large cap equities may be more vulnerable in this market dream.

◊ **The downsides continue to outweigh the upsides:** there is still much more to go in the downside trade war scenario whereas the upside is already priced in.

◊ **Emerging Markets remains the ugly duckling:** though one could argue the attractiveness of EM equity multiples, rarely has EM outperformed when risk is generally off.

Market Review: Trade War

US equites rallied at the beginning of the month after a release of data showing the US added more jobs than expected (265,000) in April, lowering the unemployment rate to a half-century record low of 3.6%. However, the gains were short-lived as President Trump threatened to raise tariffs on $200 billion of Chinese goods from 10% to 25%, later followed by action, triggered a sharp sell-off. China retaliated a few days later by increasing tariffs on $60 billion of US goods to 25%, in turn, steepening the stock market slide. Stocks rebounded on the 13th as a series of tweets from President Trump suggested America will be making a deal with China soon, alleviating investors' nerves over the dispute. The saga continued and stock prices began to slide on the 16th as news surfaced that the next round of US-China trade talks were in limbo.

US treasury yields followed an almost identical pattern to US equities, driven by the same sequence of trade news. As stock prices fell, US treasury yields fell (prices rose) reflecting investors' risk-off attitude and vice-versa when the stocks rebounded in the hopes of a resolution. Investment grade bonds followed similarly. In accord with the risk-off/risk-on mindset investors teetered between throughout the month, US junk bond yields moved in almost exact opposite price trends to their safer investment grade and 10-year treasury counterparts.

The trade dialogue was not contained between just the US and China, as it was the key driver of price fluctuations in international equity markets as well. Equity prices in the EAFE index followed the same trend as those in the S&P 500 index driven by the same key events. The FTSE 100 and Eurostoxx 50 saw the additional downward catalyst of Theresa May's resignation announcement on May 24. Though the markets were on the same trade rollercoaster ride, the slide at the end of the month was further supported by the threat of a "No-Deal" BREXIT.

German 10-year government bond yields fell at the beginning of the month following news that the European Commission revised growth forecasts downwards across Europe. The commission dropped its original forecast of Eurozone growth of 1.3% to 1.2% for the year. Yields rebounded slightly in the middle of the month as bonds across the Euro Zone saw their prices decline on news of the collapse of the Austrian coalition, raising chances of a snap election. However, the rebound was short-lived as yields ticked back down to two year lows on a disappointing economic news release that fell short of expectations by 0.1. This amplified concerns about potential negative impacts of trade wars. 10-year government bond yields in the UK followed a similar path impacted by the same drivers.

The escalation of trade war tensions caused equity prices across emerging markets to steadily fall as investors adopted a risk-off attitude. Slight rebounds in prices came throughout the month on slight glimmers of hope in the trade war, but overall, prices fell throughout the month.

US crude oil prices fell at the beginning of the month after the release of a government report that showed a nearly 10 million-barrel increase in domestic crude supplies. However, prices rebounded and rose steadily for the remainder of the month as heightening tensions in the Middle East have ignited fears about a global supply compression.

Copper prices fell steadily throughout the month over trade war concerns as a trade war could erode demand for the industrial metal.

Gold prices moved opposite equity markets throughout the month by moving down to start the month, rebounding in the middle of the month, then falling steadily before rebounding to end the month. Demand for the asset increased to offset risk in times of heightened trade war concerns and decreased in times of alleviated concerns throughout the month.

Going Forward: To Risk or Not To Risk...

This year has so far been the kind of year that makes every investor feel smart. Everything has outperformed cash, even Treasuries. However, very recently Treasuries have left equities in the dust as investors continue to digest continued negative news out of China. And, more improbably, gold has staged a solid comeback after lagging all year. Which all begs the question: to risk or not to risk? Equities have largely been climbing the wall of worry and still have a few quarters of lackluster growth ahead. Meanwhile, EM Equities arguably still has tremendous unlocked value in those attractive multiples. EM Debt, which has rallied dramatically all year with high yield is now surpassing it. Meanwhile, energy and oil, which started the year strong are now lagging behind. Where is an investor to allocate?

Trade

The trade picture continues to look very negative and, in many ways, the worst is yet to come. While this story has directly impacted EM multiples, we would argue that US multiples continue to remain at risk to this story getting worse. More importantly, the impacts directly to the economy could result in a much weaker job picture along with falling revenues from the very highly geographically diversified S&P 500. Moreover, this ups the ante for China to continue to build manufacturing capacity to disintermediate the US using our own intellectual property. This will add to an already slow wage growth picture that will result in a continual slowing aggregate growth picture. Uncertainty is starting to result in delayed hiring, and this will inevitably feed back into a weaker economy. Though large cap stocks are exposed to this scenario, we would argue that mid and small cap stocks will be equally vulnerable along with corporate debt, though to a lesser extent.

The Fed

The sharp change in Fed stance is enough to give an observer whiplash. At the start of the year, we anticipated one more rate hike according to the Fed dot plot and nothing according to Fed Funds futures pricing. Now, the Fed is starting to debate a rate cut and the Fed Funds futures is strongly pricing in a rate cut by July. While some market participants welcome the accommodation, we worry that this signals a very negative long term liquidity trap. Rate normalization could not get above 2.5% at the short end and topped out at 3.2% at the ten year, only to fall below the 3 month rate in a worrying inversion. This lays out a very disturbing picture for equities in the long term as well as in the near term. However, this could spell an even more worrying picture for corporate debt.

Brexit

Though often forgotten in the US, the specter of Brexit hangs heavily over the European continent like the cold, wet fog that hangs over the UK. With the resignation of Theresa May and a battle for her replacement as Prime Minister, most bets are squarely on a "no-deal" Brexit which could be challenging for all involved. This unresolved issue has driven money solidly out of European equities and into Japanese equities. We don't currently see a political solution that avoids Brexit, therefore international equity could remain volatile until this uncertainty is lifted. Though it has been a surprisingly strong performer so far this year, we think the hope that drove markets up may be dissipating quickly.

Net View

We remain neutral in equities across geographies and size, however, we remain overweight value equity. We are also neutral overall in fixed income.

Thank you for reading The Waypoint from Lumina Wealth Management. If any specific financial topics pique your interest, or you want to hear our thoughts on a global or domestic event, please contact us.

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