THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

WEEKLY HEADINGS

"The Eagle has landed" was the famous message from astronaut Neil Armstrong 50 years ago (July 20) as he and Buzz Aldrin landed the Apollo lunar module on the moon to cement the U.S.' space supremacy. But it was more than a moon landing as this accomplishment has had entrepreneurial, economic, and political repercussions to this day. With the future of technology remaining bright and necessary for the U.S. to remain the dominant global superpower, we continue to view technology as one of our favorite equity sectors.

- **Entrepreneurial Spirit |** As Armstrong became the first person to walk on the moon he proudly exclaimed, "that's one small step for man, one giant leap for mankind." That monumental moment crystalized the American spirit. What once seemed impossible now is possible with the help of technology. Robotics, artificial intelligence, medical discoveries, and other improvements in technology will continue to develop at an ever increasing pace. The good news is that the U.S. is likely to remain at the forefront of innovation. In fact, 12 of the largest 15 technology companies in the world are headquartered in the U.S.*

Key Takeaways

July 20 Marks the Fiftieth Anniversary of Man Walking on the Moon

Tech Remains a Key Growth Driver for the United States Economy

Fundamentals Continue to Support a Move Higher for the Info Tech Sector

- **Economic |** Technology is one of the biggest growth engines for the U.S. economy, both recently and over the last 20 years. Analyzing corporate and government spending, technology-related investment has remained healthy amidst the recent trade tensions and is growing 8.5% year-over-year (YoY), the fastest pace since 2000. This trend has been consistent on a longer-term basis as well with tech-related investment outpacing total GDP growth (ex-tech investment) in the last 20 quarters. Additionally, it has nearly doubled the pace of ex-tech GDP growth over the past 20 years (4.5% vs 2.0% respectively). Consumer purchases have also been strong as tech-related annualized personal consumption growth of 6.8% has strongly outpaced overall annualized personal consumption growth of 4.3% over the last 20 years. This spending does not include how much more efficient, effective, and productive we are on the job (and home) as a result of technological advancements.
- **Political |** Back in the 1960s, the U.S. was embroiled in the Cold War with Russia. Since the Russians were ahead in the Space Race due to the success of the Sputnik satellite program, the U.S. had to reach the moon first to display its technological might. As a result, the U.S. invested a significant amount of money into technology to beat the Russians in the Space Race. Today, technology is once again a driver of a tense political situation, but this time with China. While trade war and tariffs get the headlines, make no mistake we are in a tech war as well. Some of the focal points behind the U.S./China tensions are intellectual property theft (estimated to be up to $600 billion/year), forced technology transfer, cyber attacks, and the development of 5G technology (which has the ability to shape the internet, communications, and military capabilities going forward).

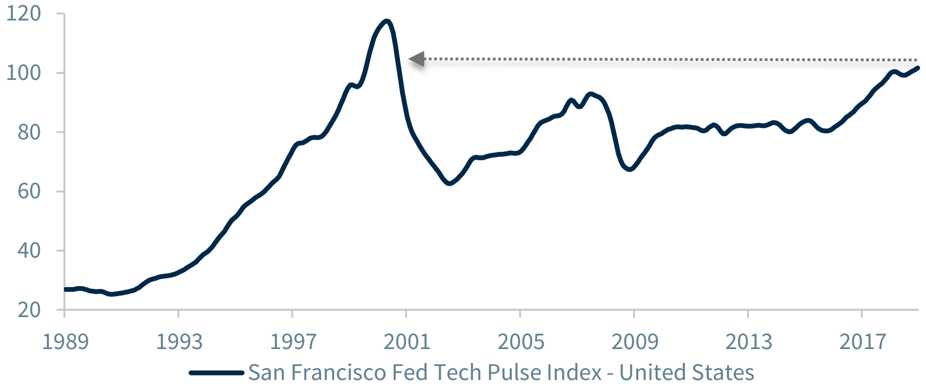
Overall, we continue to favor the Technology sector for several reasons:

- **Fundamentals Remain Solid |** While Tech has faced headwinds as a result of uncertainty surrounding trade (and potential sales to Huawei), fundamentals remain supportive. Tech is expected to experience strong dividend growth and boasts the strongest buyback yield of any S&P 500 sector for 2019. Additionally, while valuations for the Tech sector relative to the S&P 500 are in line with longer-term historical averages, those valuations may prove conservative as this sector historically beats earnings expectations by ~7% (this is a 12 quarter average). Key tech names such as Alphabet, Visa, Paypal, and Intel will release their earnings next week.
- **Long-Term Earnings Trends |** The secular global shift to more technologically-oriented platforms should continue to drive increased investment to the Tech sector and be supportive of earnings growth. In fact, tech earnings have strongly outpaced the S&P 500 over the last 20 years (8.7% vs 6.2% on an annualized basis). Going forward, earnings will likely remain strong as the San Francisco Fed Tech Pulse Index (which measures current activity within the Tech sector, and is positively correlated to tech earnings) continues to move higher and is now at the strongest level since 2001.
- **Congressional Bark Louder Than Bite |** While calls for increased regulatory and anti-trust scrutiny against big tech companies have grown louder, the sector's importance to the U.S. economy (particularly amidst the trade/tech war with China) will likely lead Congress to "bark louder than its bite" in order to allow the U.S. to maintain its leadership on the global stage.

CHART OF THE WEEK

Tech Pulse Index Points to Health in Tech Sector

The San Francisco Tech Pulse Index (an index which tracks the overall health of the Tech sector) continues to move higher and is now at the highest level since 2001.



*See Charts of the week on page 3.

ECONOMY

- Retail sales for June were stronger than expected, consistent with a pickup in consumer spending growth in 2Q19. Industrial production was flat, but manufacturing output increased modestly in June (but remains in an overall downtrend in 2019).
- Leading economic indicators (one of our preferred recessionary indicators) posted the largest month-over-month (MoM) decline in three years. While this does not necessarily indicate that a recession is around the corner and may solely be near-term weakness, it is worth monitoring as this indicator historically peaks ~13 months prior to a recession beginning.*
- The Fed's Beige Book (the anecdotal summary of economic conditions from around the country) noted that "economic activity continued to expand at a modest pace overall from mid-May through early July." Businesses reported pressure from tariffs and rising labor costs, but "firms' ability to pass on cost increases to final prices was restrained by brisk competition." This provides the Fed with cover for the anticipated rate cut. This, in conjunction with dovish commentary from Fed members (John Williams in particular), caused the probability of a 50 bp cut at the July FOMC meeting (66%) to rise above that of a 25 bp cut (34%).*
- **Focus of the Week:** The advance estimate of 2Q19 GDP on Friday will include annual benchmark revisions for the last five years, which may shift some previous growth estimates but not alter the overall picture. For the second quarter, we expect growth to be 2.0% (higher than the Atlanta Fed GDPNow Model estimate of 1.6%), driven by a rebound in consumer spending of 3.4% following the softness in the first quarter.* Fixed investment is expected to slow to 2.4%, due in part to continued uncertainty surrounding trade.

THE WEEK AHEAD: July 22 – July 26

MON	Chicago Fed National Activity Index (June)	WED	New Home Sales (June)	FRI	Real GDP (2Q19)
TUE	Existing Home Sales	THU	Jobless Claims Durable Goods Orders ECB Monetary Policy Decision	FUTURE EVENTS	7/30 – 7/31 FOMC Meeting 8/1 ISM Manufacturing Index (July) 8/2 Employment Report (July)

U.S. EQUITY

- The S&P 500 looks to be consolidating from its sharp 9.8% advance from June 3 to July 12. The Index had reached over 8% above its 200-day moving average, a level that has historically preceded a normal consolidation phase (when the market can digest its gains). This, along with many other factors both fundamental and technical, contribute to our belief that the market is likely in need of some consolidation in the short term.
- Q2 earnings season is now generating the bulk of attention, as 54 S&P 500 companies reported their quarterly results this week, followed by 283 companies over the next two weeks.* So far, S&P 500 companies have averaged a 0.24% price change on the day of their earnings report. 78% of companies have beaten on the bottom line for an aggregate earnings surprise of 4.1%, and 62% of companies have beaten on the top line for an aggregate sales surprise of 0.82%. Estimates for the full quarter have ticked up this week, now reflecting sales growth of 5.4% and earnings decline of 1.0%. The headline earnings number is being dampened by several areas, but it is important to acknowledge that the average company is expecting healthier earnings growth of 3.3% in Q2.
- **Focus of the Week:** Seasonality is a bit of a headwind (Aug-Oct typically slow returns historically), and there has not been any real movement on the structural issues surrounding trade with China. These factors are not overly concerning at this time, but they do contribute to a cautious stance in the short term with the market being slightly extended. Thus, it is important to remain patient and selective with the earnings season commencing, and to use pullbacks as buying opportunities.

FIXED INCOME

- Mixed economic data has provided a push and pull for interest rates recently. However, dovish commentary from Fed speakers (e.g., John Williams) put downward pressure on sovereign rates this week as the market priced in the potential of a larger cut in July.
- The decline in sovereign rates has further exacerbated the global hunt for yield, as yields in credit sectors continue to decline to record lows.* This is notable in Europe, as the yield on the lowest quality of investment grade bonds (BAA) declined to ~0.7%, which is the lowest level on record. This should continue to drive fund flows to the U.S. and keep yields contained.
- **Focus of the Week:** Beyond just rhetoric, the ECB and other global central banks vowed to continue monetary easing, including quantitative easing as a means to combat the lack of economic growth. With muted inflation and few signs of higher global interest rates (global negative-yielding debt remains above $13 trillion), Treasury yields should remain anchored near current levels in the near term. The president of the ECB, Mario Draghi, previously suggested that during the ECB meeting next week (July 25), further stimulus might be discussed to promote growth, including interest rate cuts and the potential addition of corporate bond purchases to their program.

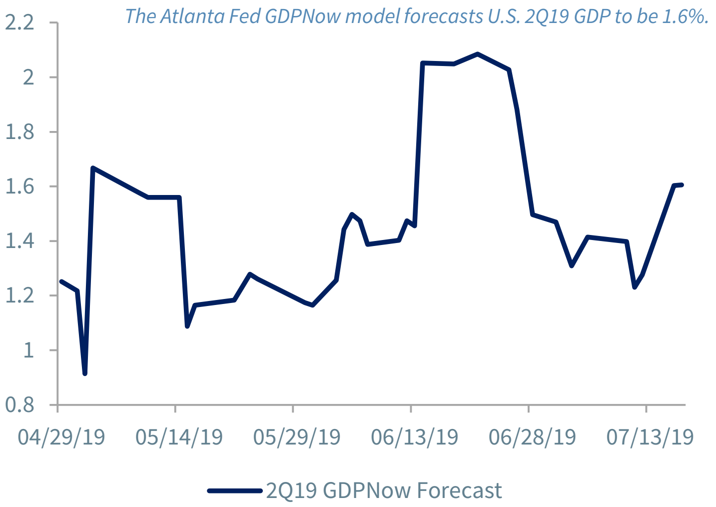
POLITICS & COMMODITIES

- The negative headlines coming from Iran moved short-term oil prices, but from a fundamental standpoint, what really matters for oil markets is that Iranian production has plunged to multi-year lows. Production averaged 2.6 million bpd in the first half of 2019 - a drop of 1.2 million bpd (or one-third) from Q1 2018, the quarter immediately before the revival of U.S. sanctions. With the sanctions in full effect, we expect production to be even lower (2.3 million bpd) in the second half of this year. The Trump administration's stated policy of "eliminating Iranian crude exports altogether" is not quite realistic. There are still consumers (notably China) of Iranian crude, notwithstanding U.S. sanctions. But to achieve a meaningful recovery in production, some kind of U.S.-Iran diplomatic breakthrough would be needed. Secretary of State Pompeo has hinted at the prospect of bilateral talks, but given the total lack of trust between the two sides, we remain skeptical of a deal. As a result, this further supports our $70 oil year-end price target.
- Boris Johnson, the likely future UK prime minister, stated that he would be willing to force the country out of the European Community in a no-deal Brexit scenario on October 31 if a favorable agreement is not reached. This could cause the British economy to contract by 2%, according to the International Monetary Fund. European political risk remains elevated and is one reason we continue to favor the U.S.
- **Focus of the Week**: Special Counsel Robert Mueller will appear in Congress on July 24. The hearing will likely be a rehash of the main points included in his final report, so expect a continuation of pro forma grandstanding along party lines. In addition, on July 17, the House rejected, on a bi-partisan basis, to move forward with an impeachment resolution against President Trump.

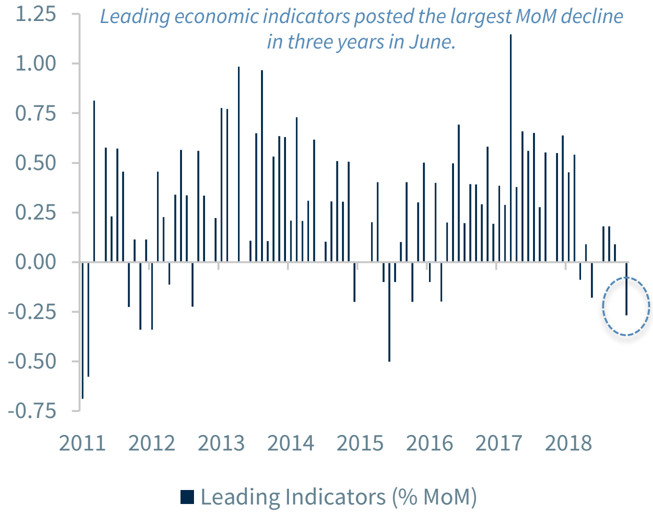
*See Charts of the week on page 3.

Charts of the Week

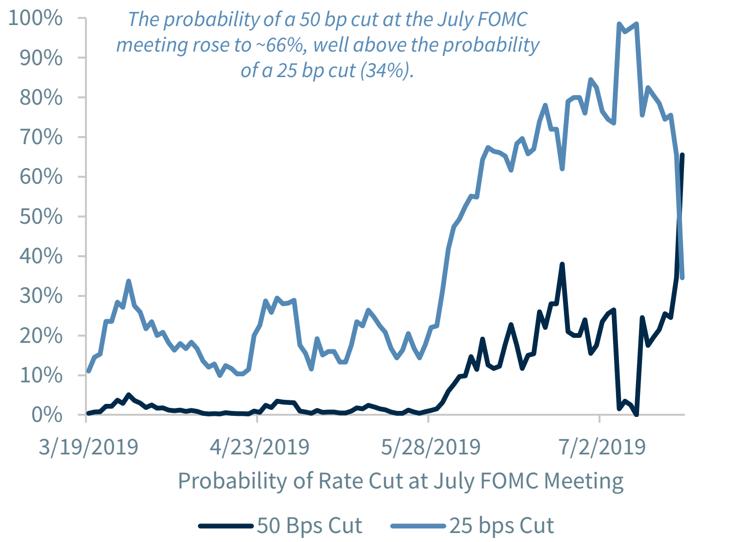
Atlanta Fed 2Q19 GDPNow Model



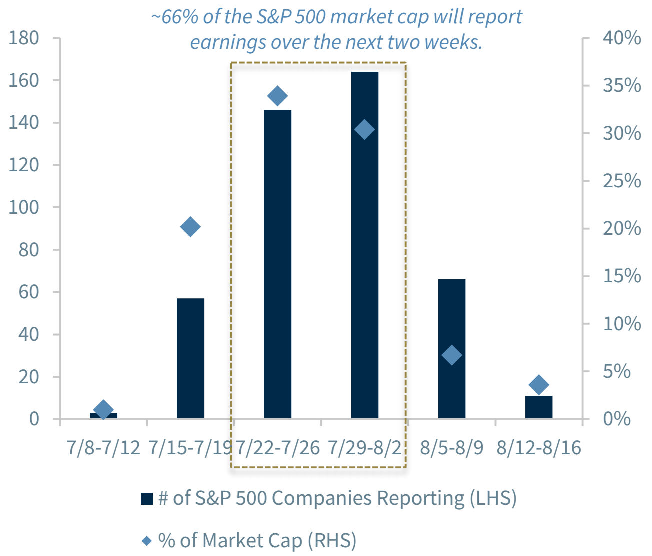
Leading Economic Indicators Post Sharp Decline



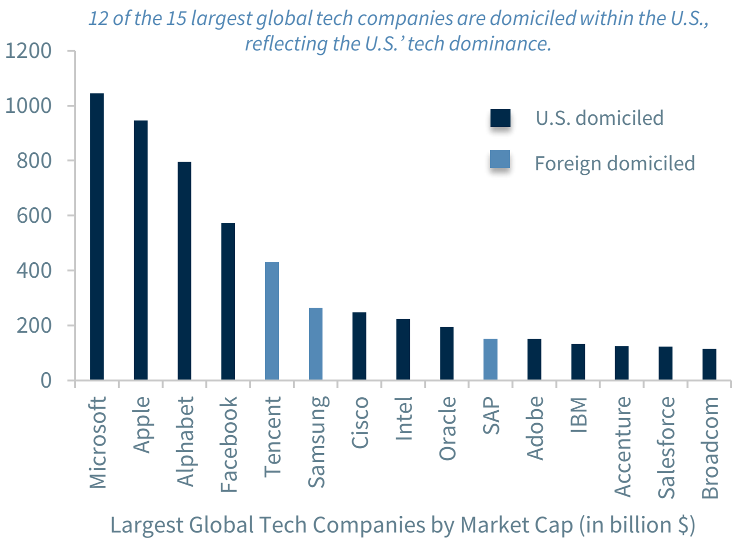
Probability of 50 bp Cut Shoots Higher



Busy Weeks for Earnings to Begin



Largest Tech Companies Domiciled in U.S.



Credit Yields Continue to Move Lower

Asset Class Performance | Distribution by Asset Class and Style (as of July 18)

Weekly Returns (as of July 18)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	-0.7%	-0.6%	-0.6%
Mid Cap	-0.8%	-0.8%	-0.9%
Small Cap	-1.5%	-1.0%	-0.5%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-0.6%	-0.5%	0.1%
Mid Cap	-0.7%	-0.4%	0.2%
Small Cap	-1.3%	-0.8%	-0.4%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.1%	0.4%	0.6%
Invest. Grade	0.2%	0.3%	0.4%
High Yield	0.0%	-0.2%	-0.1%

Year-to-Date Returns (as of July 18)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	18.6%	20.8%	22.8%
Mid Cap	16.1%	17.9%	19.7%
Small Cap	11.8%	12.5%	13.2%

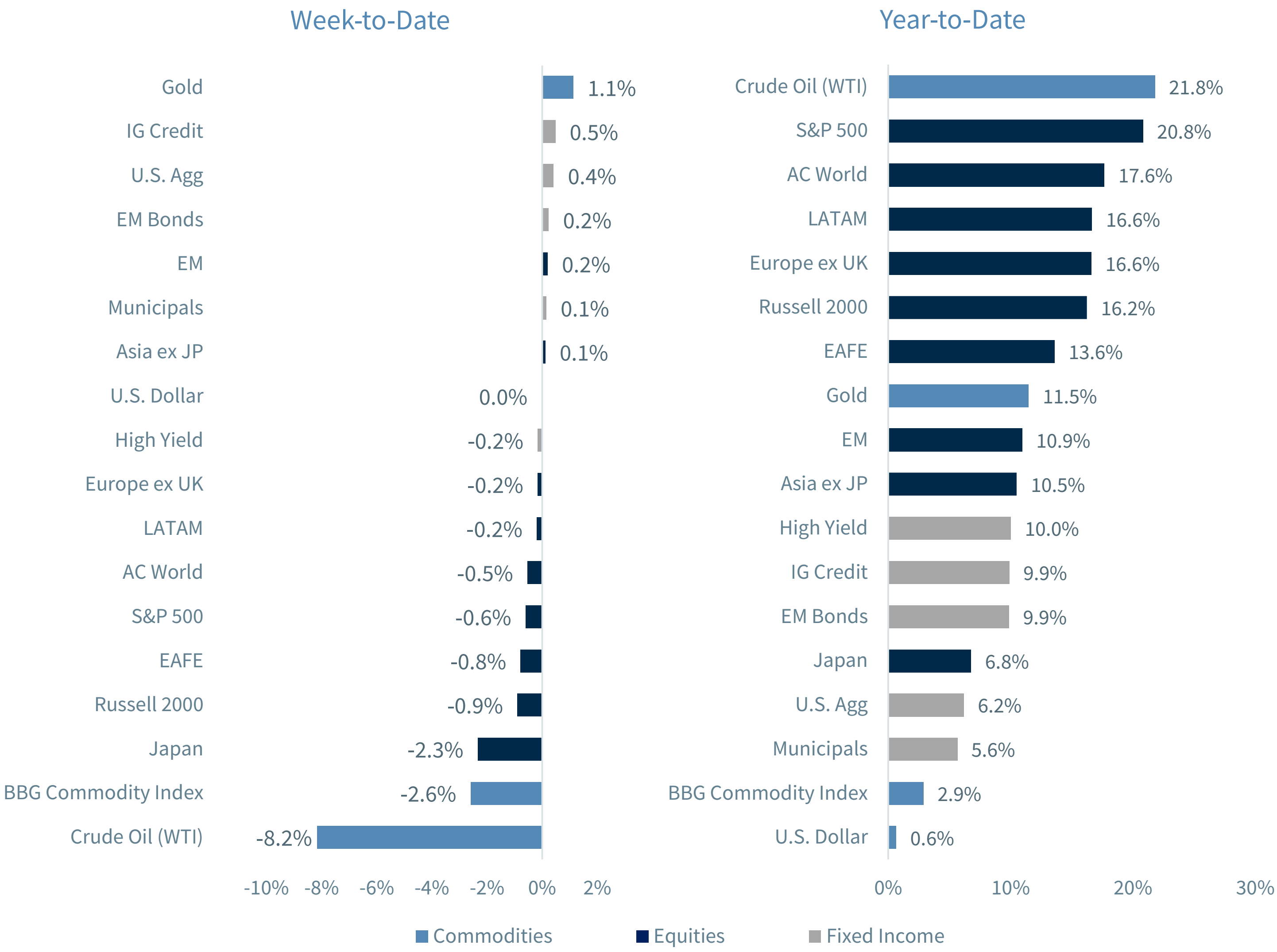
International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	14.5%	17.6%	10.6%
Mid Cap	13.7%	18.1%	8.6%
Small Cap	12.6%	15.3%	7.3%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	1.4%	4.6%	7.2%
Invest. Grade	3.4%	7.2%	9.9%
High Yield	5.3%	9.7%	15.6%

Asset Class Performance | Weekly and Year-to-Date (as of July 18)



Weekly Data

Data as of July 18

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2995.1	(0.6)	1.9	20.8	8.6	13.7	10.8	15.8
DJ Industrial Average	27223.0	(0.4)	2.3	16.7	8.0	19.3	12.6	16.1
NASDAQ Composite Index	8207.2	(0.4)	2.5	23.7	4.5	19.9	13.1	19.0
Russell 1000	3189.9	(0.6)	2.0	21.2	10.0	14.1	10.5	14.8
Russell 2000	3866.1	(0.9)	(0.7)	16.2	(3.3)	12.3	7.1	13.4
Russell Midcap	5815.4	(0.6)	1.4	23.1	7.8	12.2	8.6	15.2

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	365.7	(0.1)	(0.4)	16.8	1.3	8.1	5.2	11.0
Industrials	649.2	(1.7)	(0.3)	21.0	5.7	10.6	9.1	15.3
Comm Services	167.7	(1.8)	2.5	22.0	14.6	1.0	5.0	10.3
Utilities	310.7	1.0	2.6	17.7	21.5	9.3	11.3	12.4
Consumer Discretionary	976.4	(1.0)	3.3	25.8	10.1	16.4	14.5	19.8
Consumer Staples	621.5	1.0	4.2	21.1	18.8	5.9	9.0	12.8
Health Care	1072.4	0.3	0.1	8.2	7.9	9.7	10.4	15.5
Information Technology	1423.0	(0.1)	3.7	31.9	12.9	25.8	18.7	18.3
Energy	461.8	(3.2)	(2.0)	10.9	(14.1)	(0.9)	(5.8)	4.8
Financials	465.9	(0.8)	1.6	19.2	2.8	15.8	10.8	13.1
Real Estate	231.6	(0.6)	1.7	22.4	19.6	6.9	9.6	17.6

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Month Treasury Bill (%)	2.0	0.0	0.1	1.3	2.3	1.4	0.8	0.5
2-Year Treasury (%)	1.8	0.1	0.0	2.4	3.9	1.2	1.1	1.1
10-Year Treasury (%)	2.0	0.6	(0.2)	7.2	10.2	0.7	2.8	4.0
Barclays US Corporate High Yield	6.4	(0.2)	0.0	10.0	6.9	6.5	4.8	9.2
Bloomberg Barclays US Aggregate	2.5	0.4	0.0	6.2	7.7	2.3	3.0	3.9
Bloomberg Barclays Municipals		0.1	0.5	5.6	6.8	2.8	3.7	4.6
Bloomberg Barclays IG Credit	3.2	0.5	0.0	9.9	10.0	3.7	4.0	6.0
Bloomberg Barclays EM Bonds	4.9	0.2	0.4	9.9	10.1	4.7	4.7	7.6

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	55.3	(8.2)	(5.4)	21.8	(19.6)	6.9	(11.7)	(1.4)
Gold ($/Troy Oz)	1428.1	1.1	1.0	11.5	16.3	2.4	1.8	4.3
Dow Jones-UBS Commodity Index	78.9	(2.6)	(0.9)	2.9	(5.1)	(3.0)	(9.4)	(4.1)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	96.8	(0.0)	0.7	0.6	1.8	0.1	3.8	2.0
U.S. Dollar per Euro	1.1	(0.3)	(1.5)	(1.9)	(3.6)	0.5	(3.6)	(2.3)
U.S. Dollar per British Pounds	1.2	(0.6)	(1.9)	(2.0)	(4.3)	(2.0)	(6.1)	(2.6)
Japanese Yen per U.S. Dollar	107.8	(0.2)	0.1	(1.7)	(4.4)	0.6	1.2	1.4

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	527.5	(0.5)	0.9	17.6	4.8	11.3	6.9	10.6
MSCI EAFE	1906.3	(0.8)	(0.8)	13.6	(0.2)	8.3	2.8	7.2
MSCI Europe ex UK	1979.9	(0.2)	(1.0)	16.6	0.7	9.7	3.1	7.4
MSCI Japan	3093.0	(2.3)	(1.1)	6.8	(4.6)	7.0	4.6	6.3
MSCI EM	1051.7	0.2	0.1	10.9	1.3	9.5	2.5	5.9
MSCI Asia ex JP	648.4	0.1	(0.3)	10.5	(0.0)	10.1	4.8	7.7
MSCI LATAM	2934.3	(0.2)	3.3	16.6	16.8	10.5	(0.6)	2.7

Disclosures

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Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy will achieve its goal. Financial advisors do not offer tax or legal advice. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of a portfolio. The Citi Economic Surprise Indices measure data surprises relative to market expectations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segment of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in each country. MSCI Europe ex UK: The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe*. With 343 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK. MSCI Asia ex JP: The MSCI Asia ex Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries* in Asia. With 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. MSCI LATAM: The MSCI EM Latin America ex Brazil Index includes large and mid cap representation across 4 Emerging Markets (EM) countries* in Latin America. With 55 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index. The Dow Jones UBS Commodity Index is a weighted index which tracks a wide range of 22 commodity futures contracts, including metals, agricultural products, energy, and livestock. The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends. Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends. Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends. The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. Dow Jones-UBS Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. Should interest rates remain unchanged, increase, or even decline, a laddered approach to fixed income investing may help reduce risk, improve yields, provide flexibility and provide shorter-term liquidity. Risks include but are not limited to: changes in interest rates, liquidity, credit quality, volatility and duration. S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. An investor could lose all or a substantial amount of their investment. Investors should consider hedge funds as a supplement to an overall investment strategy. Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. No investment strategy can guarantee success. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. 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