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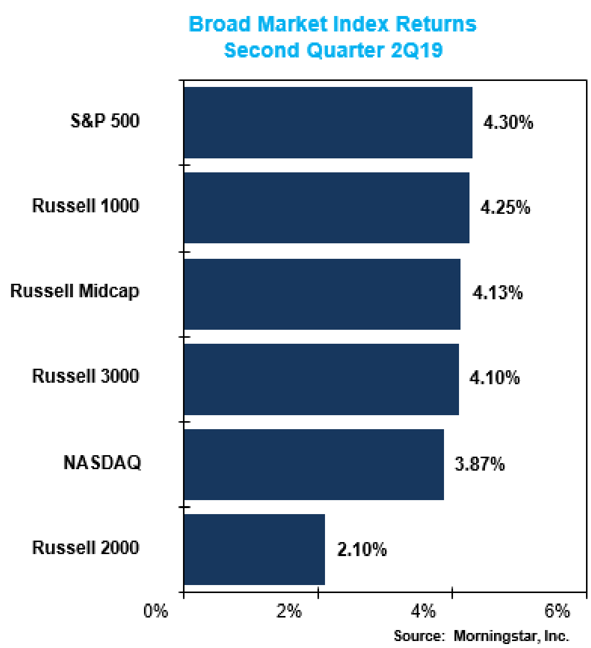
All in all, the markets experienced a good quarter as most indices were up, however the ride was anything but smooth! In April we saw a continuation of the market upswing experienced in the first quarter, only to see a sharp reversal in May due largely to tariff threats and collapsing trade talks with China. In response to the Fed, the markets then rallied in June to finish the quarter solidly higher. We've been warning clients about likely continued volatility and we certainly saw it this past quarter.

The Economy

The US economy's growth accelerated again in the second quarter. The Bureau of Economic Analysis reported its third estimate of first quarter 2019 gross domestic product (GDP) of 3.1%, in line with the prior estimate, and higher than the fourth quarter of 2018's 2.2% reading. The employment situation slowed substantially in the latest month, but continued to deliver gains, with an average of approximately 151,000 jobs added each month of the quarter. The unemployment rate held steady at 3.6%. The Federal Open Market Committee (FOMC) maintained its existing interest rate policy by keeping the federal funds rate target at a range of 2.25% to 2.50%. However, economists expect the FOMC to lower the fed funds rate as soon as July due to perceived slowing growth.

The global economic environment has continued to soften, as economists point to protectionist trade policies and uncertainties about the outcome and impact of Brexit. European economies have experienced a climate of slowing business investment, as firms delay investing in new projects until there is more clarity on the path of the region's economy. China's growth has also slowed, but the many policy initiatives it has taken over the past few quarters have enabled it to hold up relatively well. More action may be needed if the trade spat with the US continues much longer.



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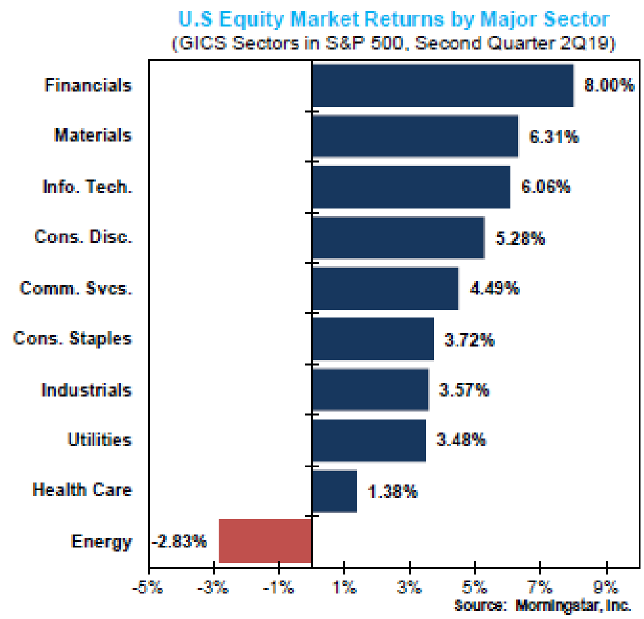
Highlights

GDP



The Bureau of Economic Analysis released the third estimate of the first quarter 2019 real GDP, a seasonally adjusted annualized rate of 3.1%, higher than the fourth quarter's 2.2% annualized growth, and in line with the prior estimate. The economy accelerated once again from the drop-off in the fourth quarter. Trade was the primary contributor to growth during the quarter, followed by consumer spending. Corporate profits fell by 2.6% (not annualized) during the quarter, while real disposable income rose by 2.0%. While economists were encouraged by the rebound in the first quarter, as well as the fact that the current expansion is now set to become the longest in history in July, concern has grown that the economy is showing signs of slowing. The deceleration was not unexpected, as last year's growth was driven in part by deficit-financed tax cuts, the effect of which is now fading. Analysts believe the continuing trade battles with China, Mexico and others is having a chilling effect on businesses, which is contributing to the slowdown. One implication is that the FOMC is now expected to make at least one reduction in the fed funds rate this year, after economists had previously expected additional rate hikes.

HOUSING

The housing segment gained ground after sluggish performance in the prior two months. The key driver of the solid results was a decline in mortgage rates. Existing-home sales for May (the latest monthly data available) grew at an annualized rate of 5.3 million units, 2.5% higher than the results from April, but down about 11% from year-ago levels. The inventory of existing homes was at about four months of supply, in line with levels of the prior year. Existing-home prices in May increased 4.8% from May 2018. In the new-home segment, the National Association of Home Builders (NAHB) Housing Market Index (HMI), a measure of homebuilding activity, ended the quarter at 64, slightly lower than both the prior month's and year-ago

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levels. The consensus among analysts is that the outlook for housing remains positive, particularly in the short term.

EMPLOYMENT

The employment situation slowed dramatically in May, surprising economists, who had expected much more significant gains. Employers added only 75,000 jobs during the month, well below the consensus expectations of 182,000 new jobs, and far below the prior month's gain of 224,000.

Analysts point to cuts in the retail and financial services segments as being key reasons for the slowdown in payroll growth. The three-month moving average actually rose modestly despite the small gains in May, coming in at 151,000. The unemployment rate in May remained at 3.6%, and economists are generally of the opinion that it will trend somewhat lower for the remainder of the year. Average hourly earnings increased by a 3.1% from the year-ago level.

FED POLICY

The FOMC ended its recent June meeting by announcing that there would be no change in the federal funds rate target range to 2.25% to 2.50%. The decision to stand pat was widely expected, and was accompanied by changes to its accompanying statement indicating that the committee would be more open to a rate cut. Many economists believe that the FOMC will soon enact a rate cut as insurance against a recession, and that such a reduction may occur as soon as July. The timing, and magnitude, of the committee's decision importantly will be informed by the expected outcome of trade discussions with China.

Interest Rates

Fixed income securities' prices and yields continued to be impacted by concerns about slowing global economic growth during the quarter, as well as the potential effects of ongoing trade battles. The FOMC had earlier in the year suspended increases in the fed funds rates, but has now taken a more dovish stance, with analysts expecting a rate cut in the near future. Slowing growth has resulted in a continuation in the rally in bond prices, and a drop in yields. Economists expect this trend to continue, as seven FOMC committee members anticipate cutting the fed funds rate by 0.50% this year. The fed funds rate is now expected to end 2020 at 2.1%, as opposed to an expectation of 2.6% three months ago.

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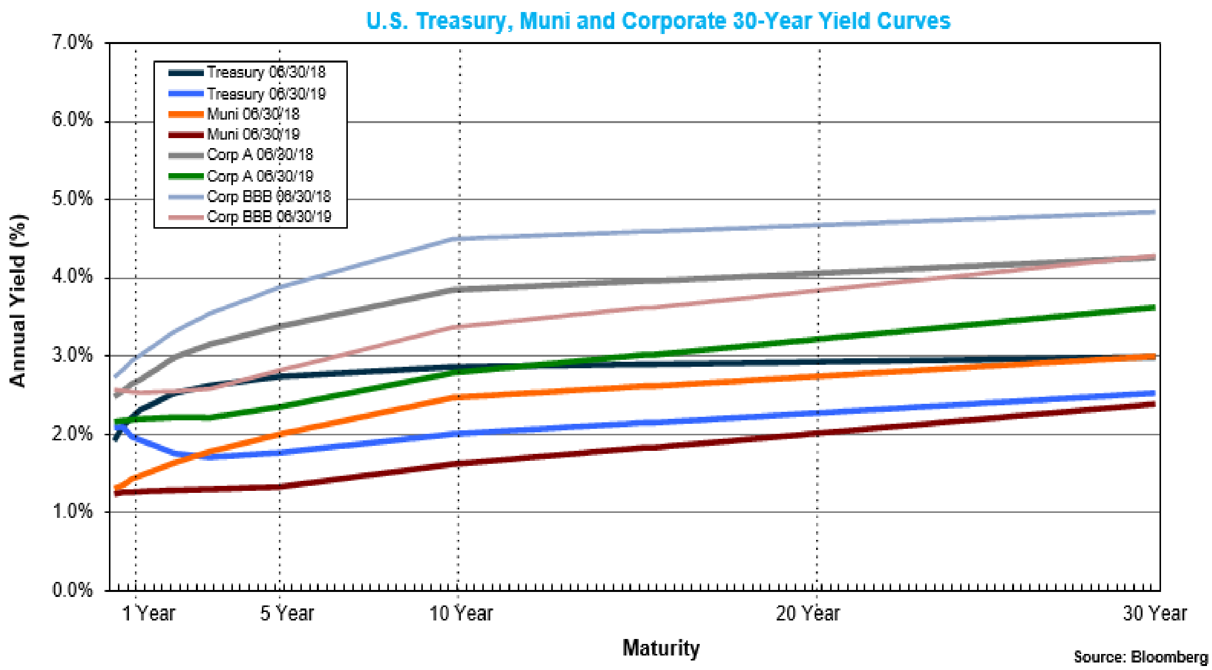

As mentioned above, interest rates started the quarter meandering slightly higher, but embarked on a steady decline after the China trade discussions fell apart in April. In addition, investors were also attempting to understand the implications of the failure of U.K. Prime Minister Theresa May to secure a Brexit deal, which resulted in her resignation. Markets also had to grapple with the Trump administration's threat to impose tariffs on Mexico unless they assisted in helping solve the migrant flow at the border.

Total returns on fixed income securities were positive across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index rose by +3.2% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index rallied +4.5% during the three months. High yield securities, which often follow the performance of equities, climbed, delivering a positive return of +2.5%. Municipals continued to perform well, as the Bloomberg Barclays Municipal Bond Index gained +2.1% during the quarter. Prices of non-US fixed income securities were also higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced +3.4%. Emerging markets bonds continued their trend higher, with the JPM EMBI Global Index gaining +3.8%.

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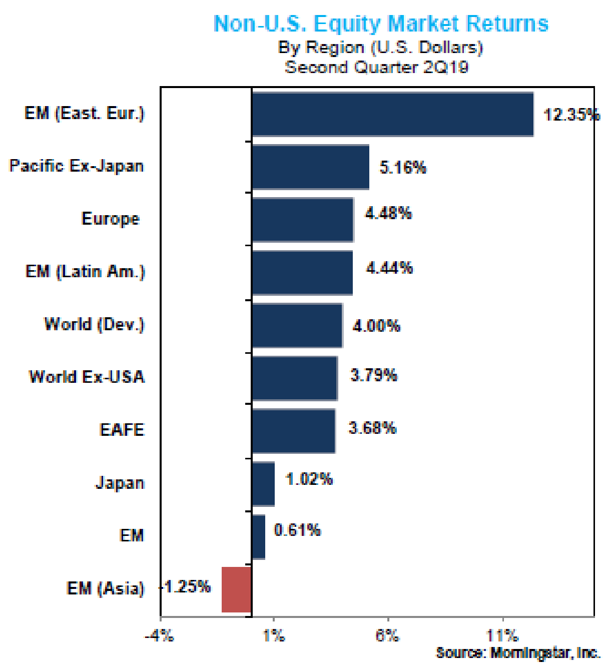
Equity Markets

Equity markets experienced a roller coaster ride during the quarter, with stocks posting strong gains in April before reversing course in May following the collapse of trade discussions with China, as well as the threats of tariffs on Mexico if the country did not assist with the migrant flow at the border. However, indexes rallied again in June as it became apparent that the FOMC was taking a more dovish approach to interest rates, and would likely lower the fed funds rate in response to slowing growth. In addition, trade tensions seemed to ease with both China and Mexico, renewing investor confidence. Within this landscape, the S&P 500 Index finished the quarter with a gain of +4.3%.

With the exception of the energy sector, each of the eleven primary economic sectors produced performance results that were positive during the quarter. Financial Services, Materials and Information Technology were the strongest performers on a relative basis, generating returns of +8.0%, +6.3%, and +6.1%, respectively. The Energy, Health Care, and Real Estate sectors were the poorest relative performers, posting returns of -2.8%, +1.4%, and +2.5%, respectively.



The Russell 1000 Index of large capitalization stocks generated a +4.3% total return. Within the large cap segment, growth stocks sharply outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly underperformed large caps, and finished the quarter with a total return of +2.1%. Small cap value underperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of +3.9%. The Dow Jones Industrial Average of 30 large industrial companies advanced +3.2%.

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Looking Forward

While the US expansion will become the longest on record in July, recession fears have recently begun to emerge. Economic growth has slowed this quarter from the rebound in the first quarter, in large part due to what economists view as the Trump administration's capricious approach to trade. The threat of tariffs has dampened business investment and confidence. The bond market is also exhibiting concerns about a recession, as yields have dropped significantly in the past quarter due to a flight to quality and low inflation expectations. The yield curve is inverted (i.e., yields on three-month bills are higher than on 10-year notes), which usually presages a recession a year later. However, recession worries are not currently being reflected in stock prices, with certain broad-based indexes recently establishing record highs. Stock prices historically have anticipated a recession about six months in advance. A steep decline in stock prices and significant drop in consumer spending will likely be the signs that the economy will be decelerating and enter into a recession, but the consensus among economists is that such an occurrence likely won't occur until later in 2020.

While we are very happy for the market run up and recovery from the drop at the end of 2018, we also want to continue to urge all clients to be prepared for continued volality. We are certainly seeing a lot of gyrations in the markets and it is likely that those will continue. That being said, volatility is normal for the market and the market also goes through market cycles. Eventually we will come to the end up of this economic expansion and the bull market, but no one knows exactly when that will occur. This is why we continue to recommend diversified portfolios. Additionally, if you have any upcoming cash needs that we are not aware of please contact us so we can discuss strategies for meeting those needs.

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Please advise Ramsey & Associates in writing if: there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, revising our previous recommendations and/or services; or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless and until we hear from you to the contrary, in writing, we will continue to manage your accounts consistent with the existing investment objective.