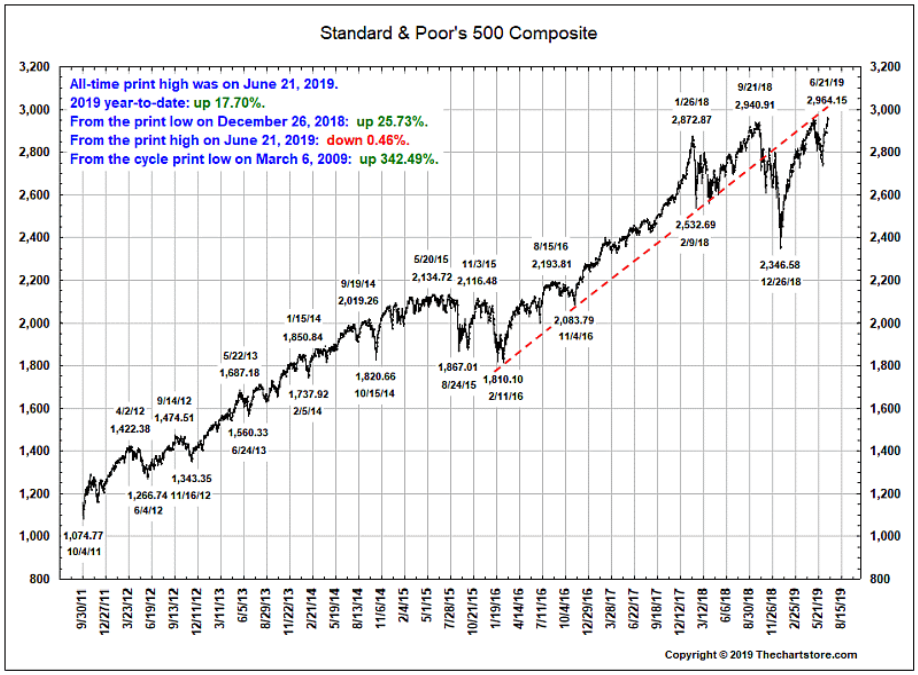
BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

Quarterly
ECONOMIC REVIEW

2ND Quarter 2019

Economic Update

As you can see in this 8-year chart of the S&P 500, between November 2016 (immediately following the election) and late January 2018, U.S. equity indices steadily powered higher with very few bumps along the way. The last 18 or so months, however, have been characterized by bouts of volatility and sharp downward moves that fortunately have been followed by quick and equally powerful recoveries. Also, a favorable trend appears to be developing. Since January 2018, each all-time high point in the S&P 500 has been followed shortly thereafter by a new, slightly higher, all-time mark. This performance pattern is similar to what has occurred during the same time frame in other major U.S. equity indices like the Dow Jones Industrial Average and the NASDAQ.



At the time of this writing (during the last week of June) U.S. equity indices are again flirting with their all-time highs which were reached a little earlier this month. The performance for U.S. equities so far this year is in stark contrast to what occurred last year — particularly during the 4th quarter of 2018. At the moment (6/25/19) and on a year-to-date basis, the S&P 500 is +16.8%, the NASDAQ is +19.4%, and the DJIA is +14%. By comparison, the S&P 500 was down over 6% in 2018 and fell about 14% in the 4th quarter alone. Similarly, the NASDAQ was off 3.9% in 2018 and fell over 17% in the 4th quarter while the DJIA was off 5.6% in 2018 and fell 12% in the 4th quarter.

If you are like most investors, you may be trying to figure out what is happening and why equity markets are behaving so differently now than they were 6-9 months ago. Indeed, in many respects, the concerns that precipitated the dramatic drop in U.S. equities during 4Q18 continue to impact U.S. financial markets.

During the 4th quarter of last year, markets sold off sharply for several key reasons including:

- Mounting concerns about an impending domestic and/or global economic slowdown
- Worries about slowing corporate earnings growth
- The ongoing trade dispute and escalating tariffs

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- Uncertainties associated with future U.S. monetary policy — many were worried the Federal Reserve was being too aggressive with interest rate increases and would eventually stifle economic growth; there were 4 rate increases in 2018 and, in December, the Fed projected several more would likely occur in 2019
- The partial government shutdown

Despite the decidedly negative tone in U.S. and global financial markets as 2018 drew to a close, it did not take long for U.S. equities to stage an impressive recovery in 2019. Indeed, before the end of January the major U.S. equity indices had mostly recovered from their 2018 tailspin. Apart from several blips, including a rough May which was attributable to heightened trade tensions, U.S. equity markets in the first half of 2019 have been quite positive.

As we all know, trade tensions continue to plague global financial markets and global economic growth still appears to be slowing a bit — due at least in part to the impact of higher tariffs and uncertainties associated with the trade dispute. Although the government shutdown is no longer an issue, a majority of the 4th quarter economic and geo-political issues listed above continue to weigh on financial markets.

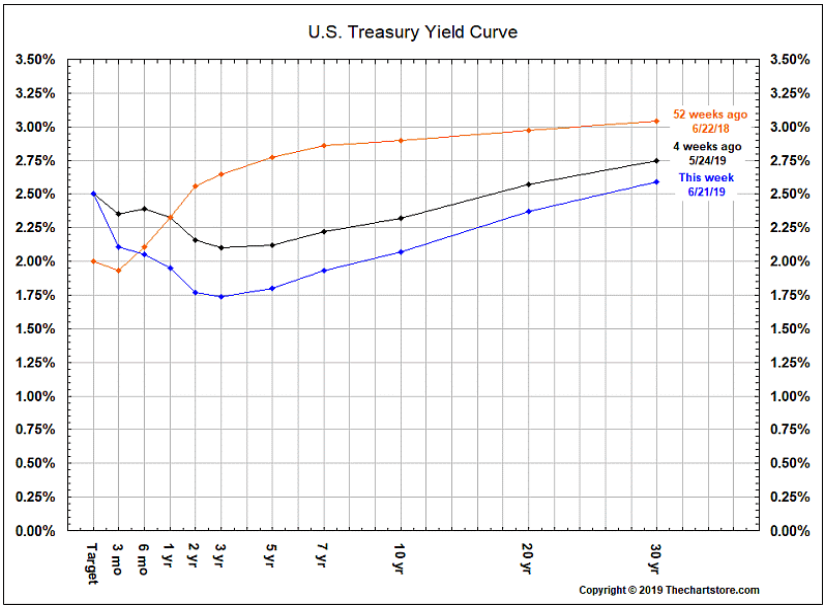
There is one key difference between the last quarter of 2018 and the first half of 2019 — the message from the Federal Reserve. In its December 19, 2018 press release, the Fed announced another 25 basis point increase in the federal funds rate and then stated:

"The Committee judges that some further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term." (https://www.federalreserve.gov/monetarypolicy/files/monetary20181219a1.pdf)

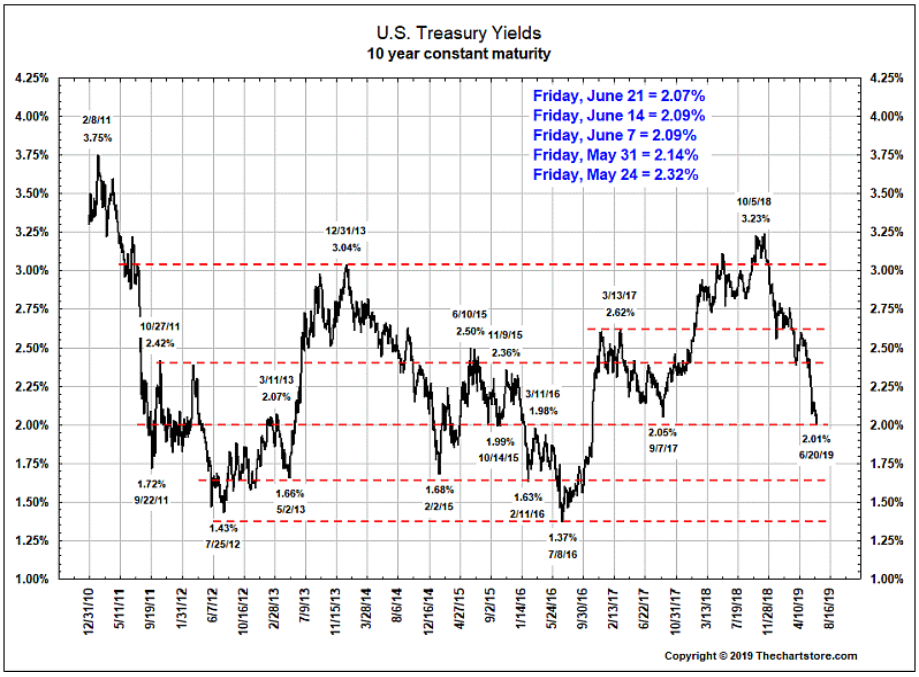
As you would expect, the news that additional rate increases were probably in the offing for 2019 precipitated a further downdraft in U.S. equity markets during the days before Christmas. Six months later however, in its June 19, 2019 press release, the Federal Reserve announced that it would hold the federal funds rate unchanged at 2.5% and then stated:

"The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes, but uncertainties about this outlook have increased. In light of these uncertainties and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective."

Fed watchers quickly focused on the "will act as appropriate to sustain the expansion" language. The expectation now is that the Federal Reserve will do what it has to do to keep the economy powering forward and that this will likely be good for corporate earnings and thus for stock prices as well. The sentiment now is that the Fed might begin lowering interest rates in 2019 — possibly as early as their next meeting in late July — and that lower rates will probably continue into 2020.



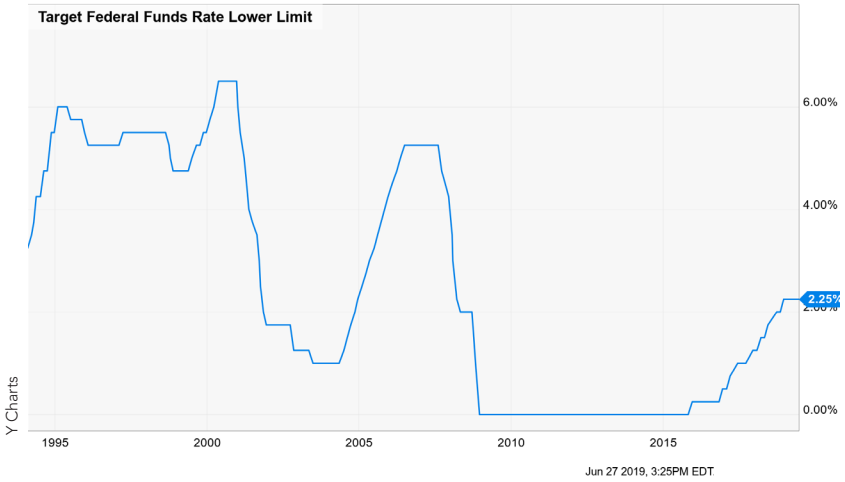
The U.S. bond market reacted swiftly to this news and yields plummeted. These U.S. Treasury Yield Curve and U.S. 10-Year Treasury graphs illustrate just how dramatically interest rates fell in anticipation of future fed funds rate reductions. The inversion in the Treasury yield curve — where some of the longer term bonds yield less than the shorter term bonds — is an indicator that bond traders and investors anticipate rate reductions are coming.



As we look ahead to the rest of 2019, we believe the focus will continue to be on U.S. monetary policy, monetary policies in other major economies (EU, Japan, China), and the trade situation. Expectations are high that good trade news will come out of the G-20 meeting on June 28-29. If it does then global equity markets will probably rally. Similarly, the many uncertainties associated with the trade dispute will lift. It appears that of late, many companies, here and overseas, have been hesitant to expand because they are unsure where the trade dispute is heading, opting to take a conservative wait-and-see approach. It seems they are also beginning to feel the financial pinch of higher tariffs and reduced trade which could ultimately result in reduced earnings.

We continue to believe the trade dispute will eventually resolve as it is in the best interest of both China and the U.S. to do so and reaching an agreement on intellectual property will be key to solving the trade issues. However, the process of getting to this resolution will probably be erratic, unpredictable, and take a while. As the process lurches along we would expect U.S. and global equity markets to move up and down in accordance with any "good" or "bad" trade news.

Apart from the trade issues, we believe the Federal Reserve will continue to be attentive to and supportive of the U.S. economy and, indirectly, of financial markets. We have some concerns because the Fed was never able to fully normalize the fed funds rate (back to 4 - 5%) before potentially embarking on another round of rate cuts. The fed funds rate is only at 2.5% right now (up from zero) and is still well below its longer term average. As you can see in this Fed Funds rate graph which begins in early 1994, in periods of economic duress, the Fed tends to drop the fed funds rate to around 4% or 5% over time in order to stimulate the U.S. economy. Now, however, the fed funds rate is only at 2.5%. It appears the Fed has less firepower now should it need to stimulate the U.S. economy. While the fed funds rate is not the only tool the Fed has, it tends to be one of its most powerful and reliable tools.



The months ahead will likely feature periods of enhanced volatility both to the up and down side as news on U.S. monetary policy and/or the trade dispute is released. In general, we believe the U.S. economic data remains fairly strong — unemployment is at historically low levels, inflation is hovering near the Fed's 2% target, consumer sentiment is strong, and wages are rising. Barring any unforeseen events, we expect the U.S. economy will maintain steady, if not spectacular, growth for the remainder of the year and that corporate earnings may not match last year's but that is because the one-time boost from the corporate tax cut is over. If you would like to discuss our outlook on financial markets and/or the U.S. economy, please do not hesitate to contact your financial advisor here at BLBB.

BLBB CHARITABLE
THE GIVING ARM OF BLB&B ADVISORS

Get Moving...

...with Girls on the Run!

At BLBB Charitable and BLB&B Advisors, we pride ourselves on giving back to our community. Through our private foundation grants, BLBB Charitable supports numerous worthy nonprofit organizations delivering quality educational and leadership opportunities. One of our 2019 grant recipients, Girls on the Run of Montgomery and Delaware Counties, works with girls in middle school to inspire them to be joyful, healthy, and confident using a fun, experienced-based curriculum which focuses on character development and creatively integrates running. BLBB Charitable is proud to help make Girls on the Run accessible to more young people by subsidizing annual participation costs for low-income girls attending schools near our new Montgomeryville location, and by expanding GOTR's high-quality programming to under-served girls in Norristown.

On May 18th, 2019, a team from BLBB Charitable participated in the organization's Annual 5K event at Montgomery County Community College in Blue Bell, PA, helping raise awareness and funds for this great cause. If you would like to get involved with Girls on the Run, visit *https://www.gotrpa.org/*, and to learn more about BLBB Charitable and our community support, check us out at *www.blbb.com/charitable*.

Thank You!

We would like to thank all of our clients for their patience and willingness to tackle account paperwork this spring and summer as we transition away from the broker/dealer business and become an independent, fee-only financial advisor. We recognize that change is often difficult and know this has been a confusing process that may have caused you some frustration. Our goal, all along, has been to build a better firm for our clients and to serve you better. Our hope is that you will soon begin to see the many benefits of this transition. As always, if you have any questions or concerns about the transition, please contact your BLBB financial advisor.

L to R: Doug Huntley, Clif Haugen, John Lawton, Laura Brewer, Dean Karrash

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