

Economic & Market Review
~ FIRST QUARTER 2019 NEWSLETTER ~

EXECUTIVE SUMMARY

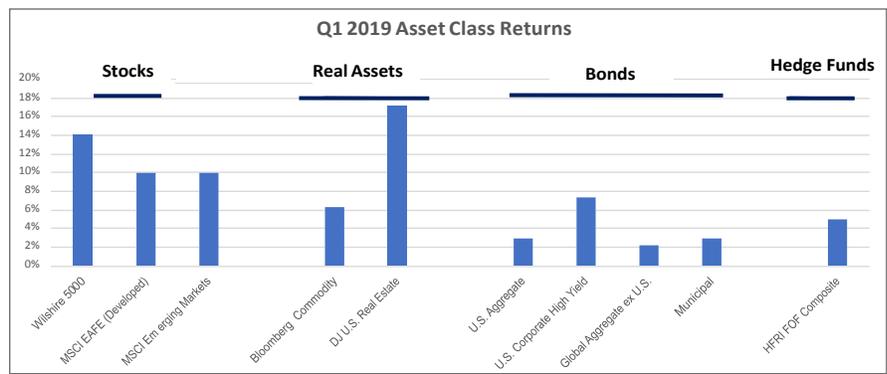
The global capital markets snapped back in the new year as fickle investors returned to risk-oriented investments. Virtually all asset classes generated strong returns, with many investments earning double digits. As sentiment suddenly switched course, volatility subsided and even asset classes that sustained sharp drawdowns at the end of 2018 rallied. Currencies also became less volatile, and a stable U.S. dollar was a tailwind for international and commodity investments.

Equity market performance was broad based with healthy gains across all sectors and regions. The U.S. continued to outpace international stock markets. Growth stocks sharply outperformed value stocks, a trend that has now persisted for over ten years.

Most growth indicators suggest that the economy is slowing in most parts of the world. Inflation has been subdued, even declining in some countries, despite the recent run up in energy prices. Low interest rates and rising debt levels, by both governments and companies, has been a key ingredient to the economic recovery since the financial crisis. Central banks that have started to scale back stimulus programs, including the Federal Reserve, the Bank of China and the European Central Bank, have been forced to rethink their plans.

The latest economic data, particularly in the U.S., has been more positive. There has been a pick up in housing activity and the labor market remains healthy with steady jobs gains and an

favorable environment. Lower interest rates, and in some cases negative interest rates, make some bond markets unattractive. Investments with significant credit risk such as lower



Morningstar and Hedge Fund Research (HFR). Bond indices from Bloomberg Barclays

uptick in wages. Overall, the service sector such as retail, media and finance, is holding up better in most countries than manufacturing. The trade dispute between the U.S. and China has disrupted supply chains globally. The Brexit quagmire and political turmoil in other countries has been a drag on economic growth. A resolution to any of these uncertainties would be positive for both the economy and the capital markets.

Slowing global growth and a return to a more typical risk environment has implications for asset allocation and investment strategies. Asset classes such as commodities face a less

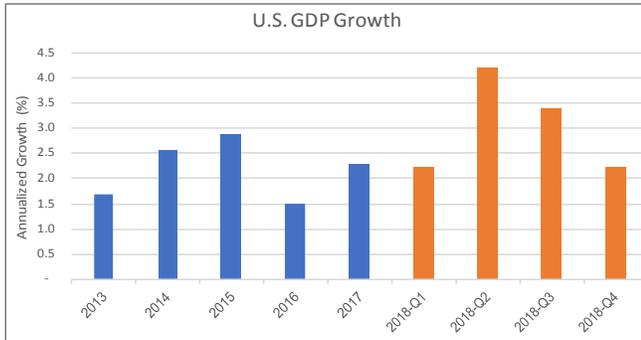
quality bonds could see large drawdowns if investor risk appetite once again sputters. Trading strategies such as CTAs, have been buffeted by sudden price reversals.

Politics and investor sentiment, two factors that are very difficult to forecast, are driving capital market performance. Asset class diversification, including allocations to defensive and tax-efficient investments, is the most powerful tool to protect investment portfolios from volatility and the erosion of purchasing power over time.

ECONOMIC GROWTH

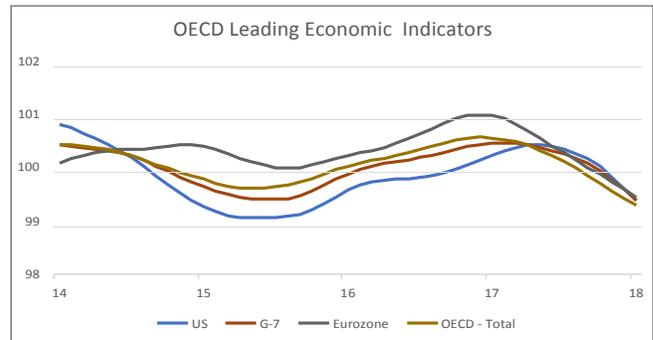
Economic growth continued into the new year, albeit at a slower pace. The reduction in the rate of growth domestically is at least partially attributable to fading effects of the large changes in fiscal policy in 2018 stemming from recent tax-cuts. While the overall domestic economy appears to be on solid footing, much of the data suggests that slower growth lies ahead. Despite the decline in the

growth rate, this marks the tenth year of the current U.S. economic expansion, making it the second longest ever. The story is largely the same globally as many European nations suffer from political turmoil and China's economy also continues to slow. Recent economic data supports this notion although moves by central banks to be more accommodative could boost the global economy.



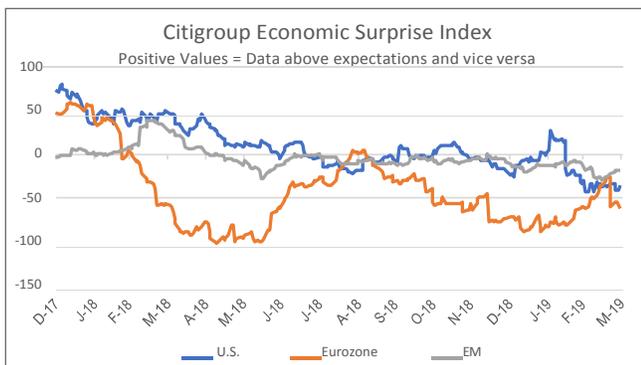
U.S. Department of Commerce

Slower growth overhangs carried forward into 2019 with the Atlanta Fed's latest "GDPNow" estimate for first quarter growth at 2.3%, close to in-line with the 2.2% figure from Q4 of last year.



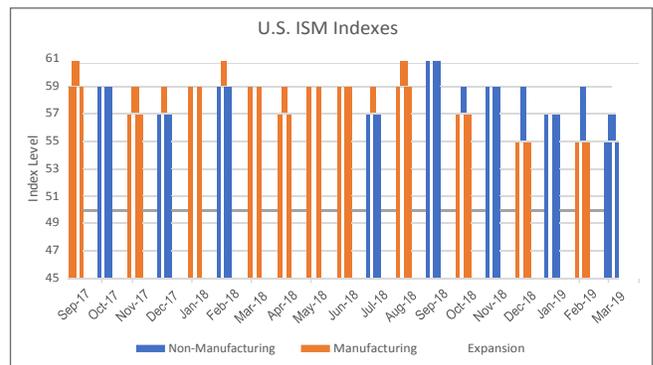
Organization for Economic Cooperation and Development as of March 2019

Leading economic indicators (LEI) designed to identify inflection points in economic growth, declined for most countries in recent months. This suggests easing growth for most major economies.



Citigroup, as of March 2019

Economic data relative to expectations was disappointing in the U.S. and developed countries overall, while the emerging markets demonstrated a bit more strength.

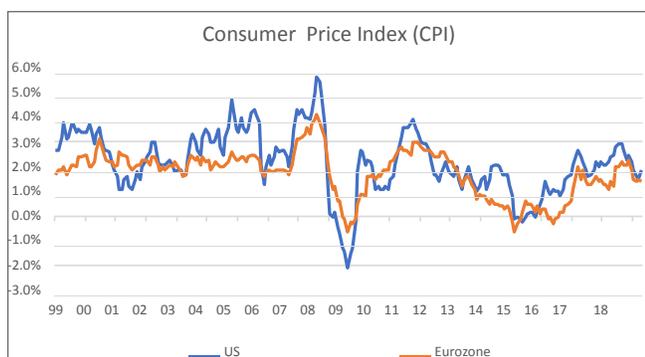


Institute for Supply Management

Both the U.S. service and manufacturing sectors continued to expand in 2019 based on the ISM indexes which use industry surveys to evaluate economic activity. Notably, growth has slowed relative to considerable strength seen earlier in 2018.

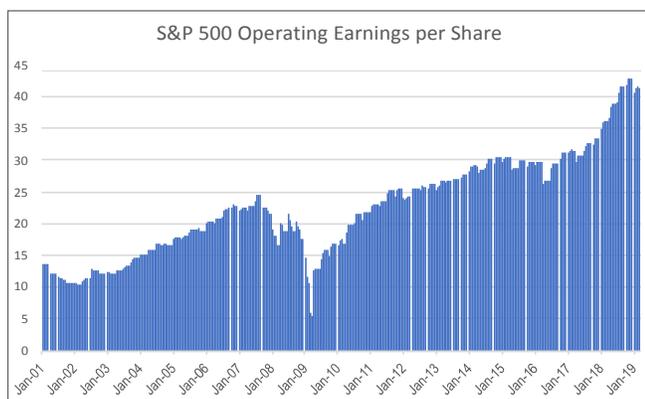
ECONOMIC GROWTH

Perhaps a victim of its own success, the U.S. Federal Reserve (the 'Fed') and other central banks globally now find themselves walking along a tightrope. Keep rates too low and risk excess inflation and potential asset bubbles. On the other hand, raise rates too quickly and risk reducing an already slow pace of growth and pushing the economy into recession. 2019 has been an illustration of the Fed attempting to walk this fine line interpreting historically low unemployment levels paired with benign inflation pressures. While investors entered 2019 with the expectation of several rate hikes, the Fed now appears to be on pause. This is largely in response to low and stable levels of inflation. The European Central Bank also reversed course earlier this year with new monetary stimulus measures and most central banks globally follow a similar stance.



U.S. Bureau of Labor Statistics

Despite a robust labor market, particularly within the U.S., inflation pressures remain modest and have even drifted down slightly in early 2019.



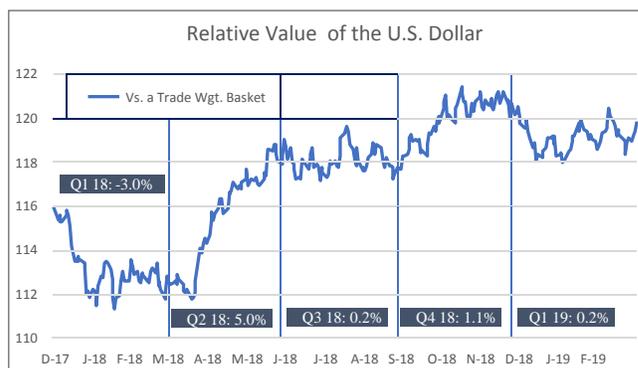
Bloomberg as of March 2019

Domestic earnings remain robust but have retracted marginally from highs reached last year.

Global Growth Rates (%)					
	2016	2017	2018	2019	2020
Advanced	1.7%	2.4%	2.2%	1.8%	1.7%
Euro	2.0%	2.4%	1.8%	1.3%	1.5%
U.S.	1.6%	2.2%	2.9%	2.3%	1.9%
Japan	0.6%	1.9%	0.8%	1.0%	0.5%
U.K.	1.8%	1.8%	1.4%	1.2%	1.4%
Canada	1.1%	3.0%	1.8%	1.5%	1.9%
Emerging	4.6%	4.8%	4.5%	4.4%	4.8%
China	6.7%	6.8%	6.6%	6.3%	6.1%
India	8.2%	7.2%	7.1%	7.3%	7.5%
Russia	0.3%	1.6%	2.3%	1.6%	1.7%
Brazil	-3.3%	1.1%	1.1%	2.1%	2.5%
World	3.4%	3.8%	3.6%	3.3%	3.6%

International Monetary Fund; 2019 and 2020 are estimates

Global growth forecasts for most developed countries have moderated following disappointing results in Europe and Japan. Continued trade tensions between the U.S. and China provide an additional overhang.



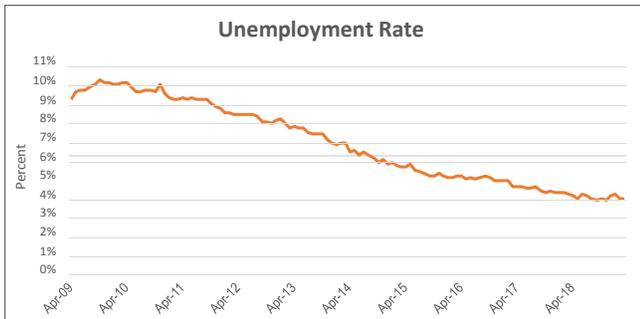
U.S. Federal Reserve and Bloomberg

After a surge last year, the U.S. Dollar remained relatively stable so far in 2019. While the adjustment to the Fed's stance should have negatively impacted the Dollar, its role as a global reserve currency and the relative strength of the U.S. economic outlook have supported current levels.

EMPLOYMENT AND CONSUMER

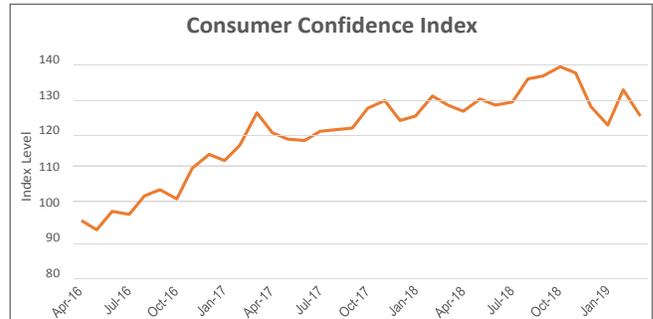
The U.S. labor market remained steady, unwavering amidst the surrounding stories and angst. Reported from the U.S. Bureau of Labor Statistics, the total net number of jobs created in 2019 over the first three months is 541,000, equating to approximately 180,000 per month. These statistics are still subject to a possible revision, but they do justify the stability of the domestic economy. Additionally, the national unemployment rate has also remained relatively stagnant for the past 12 months reaching the “natural” unemployment threshold. It slightly increased in January to 4.0%, but then quickly reverted back down to 3.8% in February and through March. This stagnant rate ties

in very well as a primary focus of the Federal Reserve upon their continuous review of prevailing interest rates. Average hourly earnings for all U.S. private nonfarm payroll employees continued to grow, increasing by 0.1% to \$27.70 in March as compared to February but fell short of the 0.3% expected increase. The year over year annual increase in wages through March tallied in at 3.2%. The consumer confidence index, tracked by The Conference Board, provides a barometer of sentiment among U.S. households and consumers. For the past 3 years it has risen, before declining materially in December & January. It remains to be seen how this index will play out going forward.



U.S. Bureau of Labor Statistics

After reaching a 10-year peak near 10% in 2009, the unemployment rate has trended downwards. It has fallen below 4% since mid-2018.



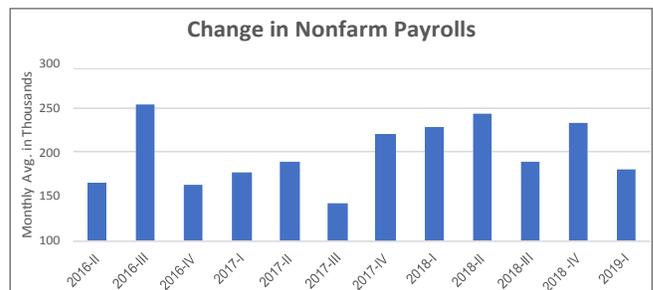
Conference Board

Steadily rising for about a decade, the consumer confidence index had a hiccup in Q4 2018. An increase in February and decline in March signals an uncertain outlook for 2019.



U.S. Bureau of Labor Statistics

Average wages have also trended upwards and YoY growth is now expected to stay above 3% for several months.



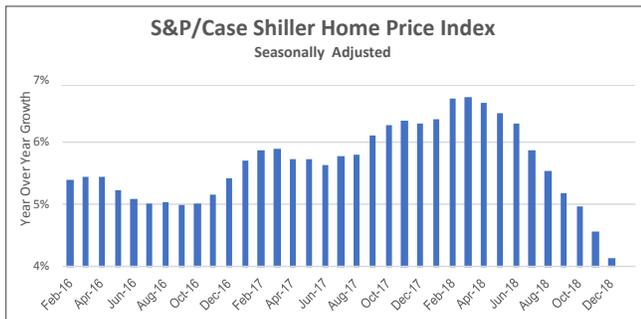
U.S. Bureau of Labor Statistics

The reported change in nonfarm payrolls has wavered quite a bit in the recent past, although always producing a net increase in total employees.

HOUSING AND COMMERCIAL REAL ESTATE

Residential home prices have come down over the past 12 months as displayed by the steady decline of the S&P Case-Shiller Price Index. This index measures residential real estate values in twenty of the largest U.S. metropolitan cities. It indicates that although prices are still rising, higher mortgage rates (in relation to historical rates) are taking their toll on home values, and has caused year over year prices to fall. Also displayed by the new and existing home sales records, the sale of new homes has remained a larger part of this market dynamic when compared to existing home sales. In line with the Case-Shiller Price Index decline, both sales figures have declined since the end of 2017, but sharply recovered in February 2019. It remains to be seen if a new upward trend will begin. Strengthening the housing

story is the fact that new private housing building permits have seesawed above and below 1.3 million total per month since the start of 2017, indicative of the static housing situation. Interestingly commercial real estate statistics have remained strong for the past 16 years since 2003. All major sectors of this industry have sustained at or above 88% occupancy, with apartments, retail, and industrial locations currently competing for the top occupancy rates near 96% while office locations have remained the lowest, hovering around 92%. Although REIT fundamentals have slightly deteriorated in 2018, they remain an attractive investment opportunity with the potential to outperform stocks and to provide attractive portfolio diversification with other investments.



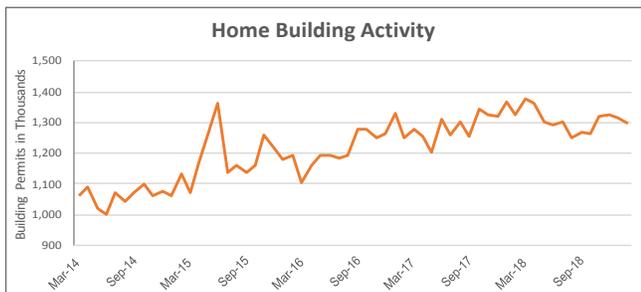
S&P/Case Shiller

The declining growth rate of home prices indicates values are becoming more appealing to buyers.



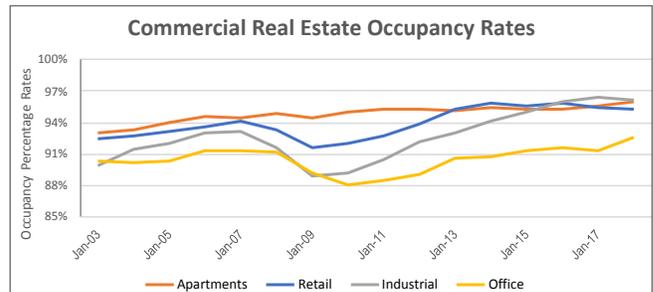
U.S. Bureau of the Census, U.S. Department of Housing and Urban Development and National Association of Realtors

Home sales have picked up in recent months, buoyed by more stable prices.



U.S. Bureau of the Census, U.S. Department of Housing and Urban Development

New private housing building permits have climbed above 1 million per year indicating there is demand for home construction.



Nareit

Commercial real estate occupancy rates suggest a modestly high demand for the creation of additional inventory.

EQUITY MARKETS

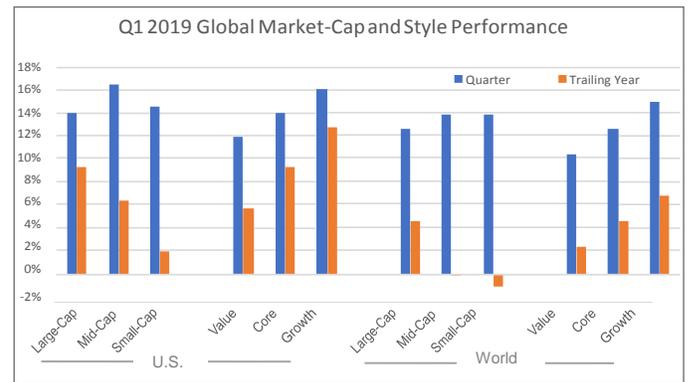
In what turned out to be somewhat of a Goldilocks quarter for investment assets, both global stocks and bonds posted impressively positive results to kick off 2019. This was in stark contrast to the risk-off environment experienced in the fourth quarter of 2018 when most global equity markets posted negative double digit returns. Putting aside the sell-off late last year, the first quarter was largely a continuation of performance trends experienced earlier in 2018. This included the United States' lead over other international

markets – both developed and emerging. Within equity markets, growth continued to outpace value led by sectors like information technology which recovered lost ground from the end of last year. Domestically, the real estate sector also posted strong gains, bolstered by lower interest rates. In contrast, small- and mid-caps outpaced large-cap securities, which was a reversal of last year.



Bloomberg as of March 31, 2019

IT was the top sector coming in 2019, boosting a strong recovery from Q4 2018. Real Estate also performed well benefitting from lower rates.



Bloomberg; U.S. indices from Russell and World indices from MSCI

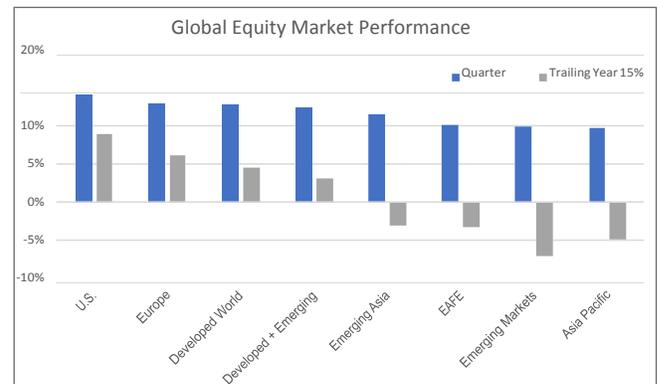
Growth's lead over value carried forward into 2019.

Small-caps also had a strong showing, outperforming large-caps across markets.



S&P and MSCI

Despite not being overly cheap, many traditional valuation metrics suggest domestic equities are close to fairly valued. Within markets, Non-US equities are more compelling from a valuation perspective.



S&P and MSCI

The U.S. remained ahead of most global markets in 2019. While emerging markets lagged many developed markets, China was a standout performer.

CREDIT AND ALTERNATIVE MARKETS

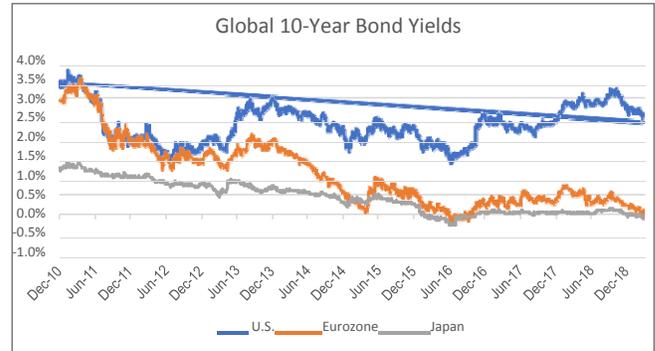
Credit markets also had strong results, boosted by sizeable declines in global rates and a benign default environment. For reference, the U.S. 10-Year Treasury Yield started 2019 at 2.7% and ended Q1 at 2.4%, representing a 12% decline. This move in rates helped the Bloomberg U.S. Aggregate generate a nearly 3% total return while more credit sensitive portions of the market, such as High Yield, realized even

greater returns when encouraged by credit spread compression. Municipal bonds also fared well as investors sought tax refuge following the recent SALT tax deduction changes. Notably, municipal bonds outpaced Treasuries over the first quarter and the spread differential between the two asset classes is at an historically low level.



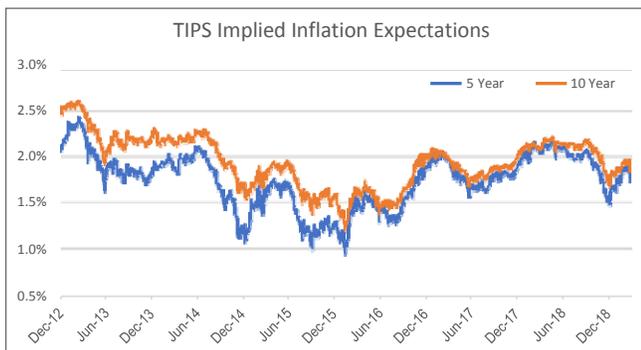
Barclays Capital

Following a spike late last year, credit spreads have compressed to lower levels and remain below their 10-year average. U.S. corporate high yield was among the best performing credit sectors over the quarter.



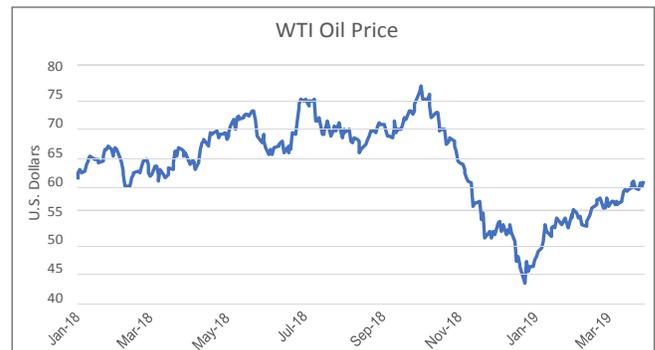
Bloomberg

Sovereign bond yields saw declines this year as notable global central banks adopted a more dovish stance. The U.S. 10-Year yield fell to close to 2.4% and German 10-Year bunds experienced negative yields.



U.S. Department of the Treasury

Inflation expectations have increased slightly relative to the beginning of the year but remain below higher levels reached mid-last year.



U.S. Energy Information Administration

Crude markets tightened this year following sanctions on Iran and Venezuela, and as OPEC withheld supply.

CAPITAL MARKET REVIEW RETURNS

	1st Qtr 2019	Full Year 2018
Cash and Fixed Income		
U.S. Treasury Bills	0.6%	1.8%
Barclays U.S. Aggregate Bond	2.9%	0.0%
Barclays Municipal Bond	2.9%	1.3%
Barclays Gbl Agg. ex. U.S.	1.5%	-2.1%
Hedge Funds and Alts.		
Bloomberg Commodity	6.3%	-11.2%
DJ US Real Estate	17.1%	-4.0%
HFRI FOF Composite	5.0%	-3.5%

	1st Qtr 2019	Full Year 2018
U.S. Equity		
Wilshire 5000	14.1%	-5.3%
S&P 500	13.6%	-4.4%
Russell 2000	14.6%	-11.0%
International Equity		
MSCI ACWI ex. U.S.	10.3%	-14.8%
MSCI EAFE (Developed)	10.0%	-13.8%
MSCI EM (Emerging)	9.9%	-14.6%

Morningstar & Hedge Fund Research, Inc.

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