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A VIEW FROM THE SUMMIT

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SGI Equity Strategies 3rd Quarter Summary

Third quarter of 2019 was a good period of performance for the firm. All three of the equity strategies posted positive returns and excess returns over their respective benchmarks. Here are some highlights:

- The U.S. Large Cap equity strategy returned 4.16%, outperforming the S&P 500 Index on a gross basis by 2.46%, while maintaining significantly lower overall portfolio risk.
- The U.S. Small Cap equity strategy returned 2.64%, while significantly outperforming the Russell 2000 Index on a gross basis by 5.05% and maintaining significantly lower overall portfolio risk
- The Global equity strategy returned 2.01%, significantly outperforming the MSCI ACWI Index on a gross basis by 1.92%.

SGI Performance	3Q19	YTD	1 Yr	3 Yrs	5 Yrs
US Large Cap Gross	4.16%	23.56%	7.59%	14.33%	12.76%
US Large Cap Net	3.95%	22.82%	6.71%	13.52%	11.90%
S&P 500 Total Return	1.70%	20.55%	4.25%	13.38%	10.83%
US Small Cap Gross	2.64%	16.93%	-6.00%	9.83%	12.84%
US Small Cap Net	2.45%	16.27%	-6.71%	9.10%	12.36%
Russell 2000 Total Return	-2.41%	14.15%	-8.92%	8.21%	8.17%
Global Large Cap Gross	2.01%	20.55%	9.96%	12.12%	10.67%
Global Large Cap Net	1.83%	20.04%	9.30%	11.48%	10.29%
MSCI ACWI Total Return	0.09%	16.72%	1.96%	10.32%	7.26%

Please review our separate one-page commentaries covering each strategy for additional details about portfolio positioning and attribution.

All SGI equity strategies implement a managed risk approach to equity investing. This managed risk focus has historically allowed investors to enjoy **competitive equity returns** while taking **meaningfully less overall portfolio risk**. For example, historically, our large cap strategy averaged 25-30% less portfolio risk than the S&P 500 Index (5yr as of 9/30/2019).

MARKET COMMENTARY

Negative Yields

While yields in the U.S. are still positive, there are now approximately $15 trillion in government bonds trading with negative yields - that's over 27% of all such bonds issued globally. The degree varies by market. In Germany, negative yields run across the entire yield curve, from 0 to 30 years, while in Japan it's largely the short end of the yield curve that's affected. Investors don't physically pay the issuer when yields are negative. Instead, the bond's new issue price trades at a high premium to par, which results in a negative yield. For example, in May, the German government issued a 2-year bond with a 0% coupon and an issue price of €101.33. Over the course of the bond's life it will not distribute any coupons payments but will payout a final maturity of €100. Consequently, this bond has a yield of -0.65% at issuance because an investor paid €101.33 to receive €100 two years later.

Economy

The rate of U.S. and global GDP growth is slowing but remains positive. Construction spending in the U.S. continues to be in a mild contraction for the first time since it went positive after the subprime mortgage crisis. Year-over-year industrial production has hit zero for first time since its 2016 dip. In fact, the September 2019 Manufacturing PMI is 47.8%, whereas a reading below 50 means contraction. The non-manufacturing NMI for September was 52.6%, a 3.8% decline from the August reading of 56.4%. While auto sales have been slowing worldwide, heavy truck sales are also down for the past two months. Unprofitable companies such as Uber and Lyft had initial public offerings this year that are down significantly since then. In fact, 2019 has had the highest percentage of unprofitable IPO companies since the 2000 dotcom bubble.

Initial jobless claims and unemployment remain strong and have shown no signs of decelerating. The housing market remains robust in many parts of the country. While the economy exhibits signs of slowing, the S&P 500 Index hit new all-time highs during the quarter. Interestingly, small cap stocks did not reach new heights and have failed to surpass their 2018 peak. Finally, the trade war between the U.S. and China shows no signs of abating. Talks are scheduled to resume in October but optimism for a quick and comprehensive resolution of trade disputes are slim.

Levels	2Q19	3Q19	Change
Russell 1000 Index	9367.53	9500.64	1.42%
Russell 2000 Index	7863.89	7675.09	-2.40%
MSCI EAFE	8069.60	7988.98	-1.00%
MSCI Emerging Markets	2395.54	2297.20	-4.11%
U.S. Aggregate*	2.49%	2.26%	-9.18%
US High Yield 2% Cap*	5.87%	5.65%	-3.79%
U.S. Federal Funds Rate**	2.40%	1.90%	-20.83%
U.S. 10 Year Treasury**	2.01%	1.67%	-16.95%
U.S. Dollar Index	96.13	99.38	3.38%
WTI Crude Oil Spot	58.47	54.07	-7.53%

* Yield to Worst **Interest Rate

The Federal Reserve

Investors that have been watching the financial news may know that the overnight bank lending system in the U.S. suddenly broke down in mid-September. Cash was in short supply between banks, and the overnight lending rate spiked to levels not seen since 2008. The Federal Reserve (the “Fed”) responded by injecting cash into the banking system in exchange for collateral, with plans to continue doing so at least into November.

The Fed cut rates twice during the quarter in both July and September. The futures market currently prices in a 79.1% probability of another interest rate cut in October. The yield curve, measured by the 10-year treasury yield minus the 3-month yield, remains inverted. Typically, a sign of future economic weakness.

Many of the highlighted factors are causes for concern, however, our outlook remains cautiously optimistic because major portions of the economy, labor markets, and stock markets remain strong.

SGI Outlook

- The U.S. economy will continue its longest economic expansion in history through the end of 2019.
- Globally, highly indebted major economies will force governments to attempt to keep interest rates lower for a longer time period. Globally, negative yielding debt is here for the foreseeable future, especially in Europe and Japan.
- The Federal Reserve will likely respond aggressively to weakening economic conditions in the U.S. by lowering short term rates and resuming some form of quantitative easing (monetizing debt).
- Negotiations have resumed but a comprehensive U.S. and China trade agreement is unlikely, and talks may take much longer than originally expected.
- Election based rhetoric from President Trump and Democratic candidates will become increasingly sensational and vitriolic, potentially affecting specific sectors such as Technology and Healthcare.
- House democrats pursuing impeachment will continue to dominate the news headlines going into the 2020 election.

We continue to adhere to our disciplined, managed-risk, multi-factor investment process. Over a full market cycle, this approach has historically limited downside risks and allowed for participation in market rallies. We are grateful for the opportunity to help steward your investments.

620 South Main Street, Bountiful, UT 84010
888-251-4847 www.summitglobalinvestments.com