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Dear Partners in Ministry,

Online (or enclosed, if mailed) is the 2019 2nd quarter statement for your account(s) at the United Methodist Foundation of Northern Illinois. Net of fees, the returns of the three fund models are:

	2nd Qtr 2019	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	4.24%	15.88%	8.20%	11.61%	5.81%	8.98%
benchmark*	3.74%	15.60%	7.15%	11.08%	6.23%	9.56%
Moderate Fund	3.67%	12.20%	7.50%	8.79%	4.51%	7.38%
benchmark*	3.61%	12.77%	7.57%	8.64%	5.43%	8.05%
Conservative Fund	2.87%	8.19%	6.42%	5.64%	3.26%	6.10%
benchmark*	3.43%	9.76%	7.74%	6.05%	4.47%	6.40%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized.

Market Commentary from Envestnet|PMC

Writing for Envestnet's 2019 2nd quarter "Economic and Market Overview," Brandon Thomas, Chief Investment Officer, Envestnet | PMC, summarizes the consensus economic outlook and possible impact on stock prices:

> "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."[1]

There is an adage that "bull markets do not die of old age." Many commentators have referred to this adage over the last couple of years as they do their best to explain the continued rise of stock prices. I mention this adage not to grapple with its validity (anyway, it shouldn't drive our investment decision-making), but I mention the adage because the stock market is forward-looking, not backward-looking. The market does not care about how "old" is the "bull." The market does not care about the S&P 500 crossing 3000 for the first time. The market does not care about how much time has passed with or without 10% market declines (a so-called "correction") or 20% market declines (a so-called "bear market"). Technically, the S&P 500 did decline 20% from its 2018 high to its December 2018 low, just barely and just briefly, but I digress. And then look where the market has gone this year … to new highs. Hindsight is always 2020, of course, but history, even the immediate past, as with 2019, shows us that to make big changes in asset allocation based on emotions is almost always the wrong thing to do. The S&P 500 is up nearly 28% from the December 2018 low.

Having said all of that, the din of the business media's concern about the end of this prolonged cycle is growing louder. Long bull markets peak on FOMO (fear of missing out), aka "irrational exuberance," which is when retail investors pour in at the highs, think of the buying in 1999 and 2000 to blow up the tech bubble. I don't see many signs of FOMO or irrational exuberance … yet. Some large cap stocks are near or are hitting all-time highs in market cap values. For example, Microsoft now has a trillion-dollar market cap (of course the market does not care about a word like "trillion"). Microsoft trades at a trailing twelve month PE of about 30. The TTM PE of the S&P 500 is about 22. Apple trades at a 17 PE ratio. These are not unreasonable valuations. Elevated in some cases? Yes, but reasonable.

The market may be heading for some decline in the near future just to let off some steam. We should expect that and maybe even hope for that because declining from an even higher position can hurt our fragile emotions more than a minor tumble.

<u>Thoughts for Summer</u>

As I write these words we are in store for several days of 90+ degree heat, possibly peaking over 100 degrees on Friday, July 19. Yuk. I am not a fan of hot weather, especially when you add in high humidity. Whether it's high heat outside or high stock prices that make us fearful of a possible dramatic decline, let us remember how we deal with both: moderation. Don't overdo it outside when gardening, cutting the lawn, or going for a walk, jog, or bike ride. Drink lots of water! Dress appropriately. Use SPF 50+ sunscreen. Get in the shade. Take a break inside. But you can still enjoy the sunshine! Likewise with investing, don't overdo it. Don't buy more stocks due to FOMO. Enjoy the returns of 2019 so far, but look for the shade if you're feeling overheated.

Respectfully,

Chris Walters

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[1] https://www.investpmc.com/insights/commentaries/economic-and-market-overview-second-quarter-2019