Market Update - July 2019

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For actual results that are compared to an index, all material facts relevant to the comparison are disclosed herein and reflect the deduction of advisory fees, brokerage and other commissions and any other expenses paid by Kaizen Financial Strategies, LLC 's clients. An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly.

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Key Dynamics Impacting Markets

- The longest bull market (10 year+) – rebound from Q4'18
- Interest rates changing direction? Rate increase -> rate cuts
- Trade war in play – expectation for resolution
- Corporate earnings growth slowing/trade war impact
- Election year coming up…

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U.S. Stock Market

Stock Market Performance

S&P 500 Index, recent period

Latest data point is Jul 8, 2019

Source: Standard & Poor's

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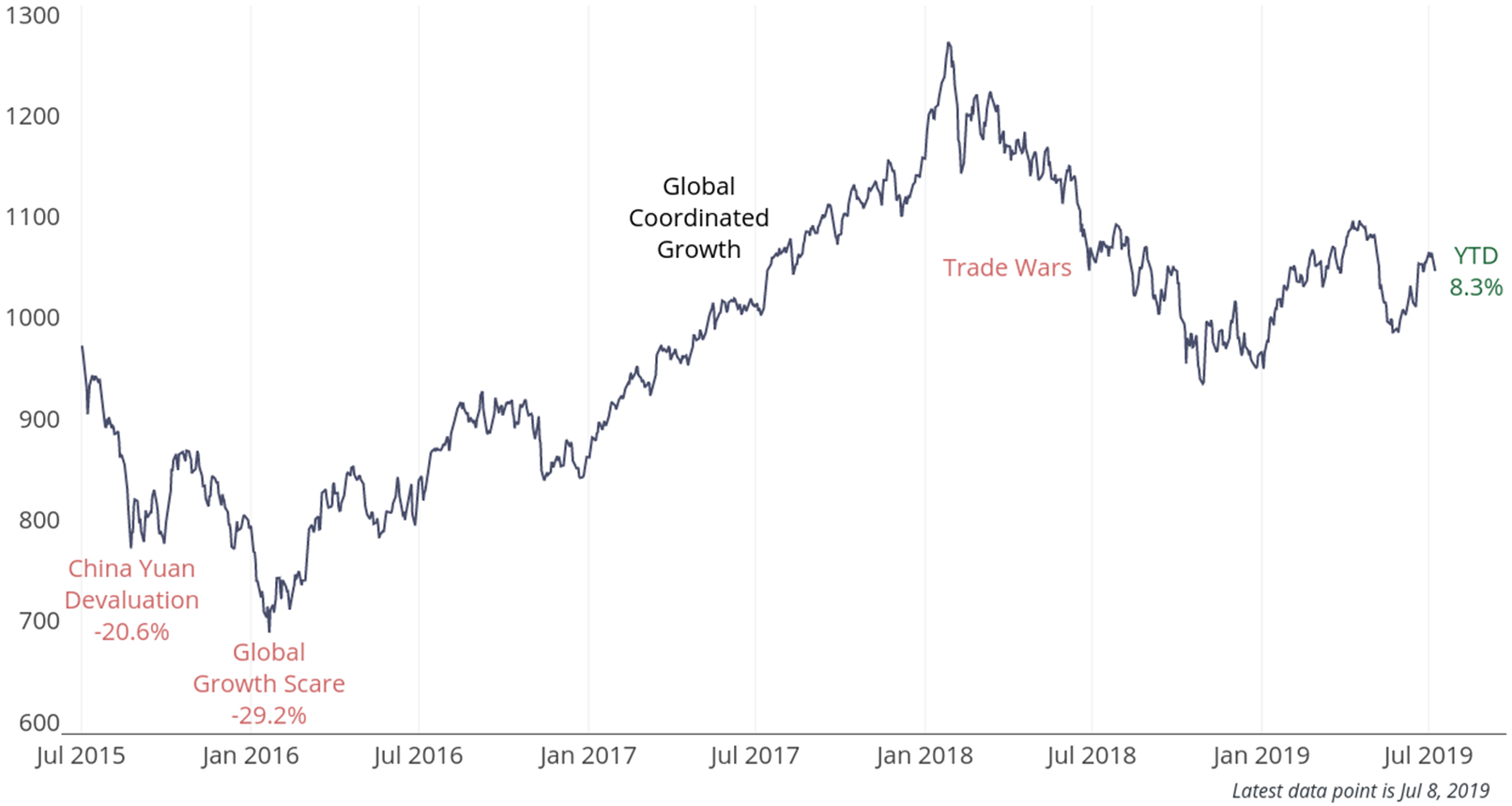
Developed Market Recent Performance

MSCI EAFE Index (USD)

Source: MSCI

Emerging Market Recent Performance

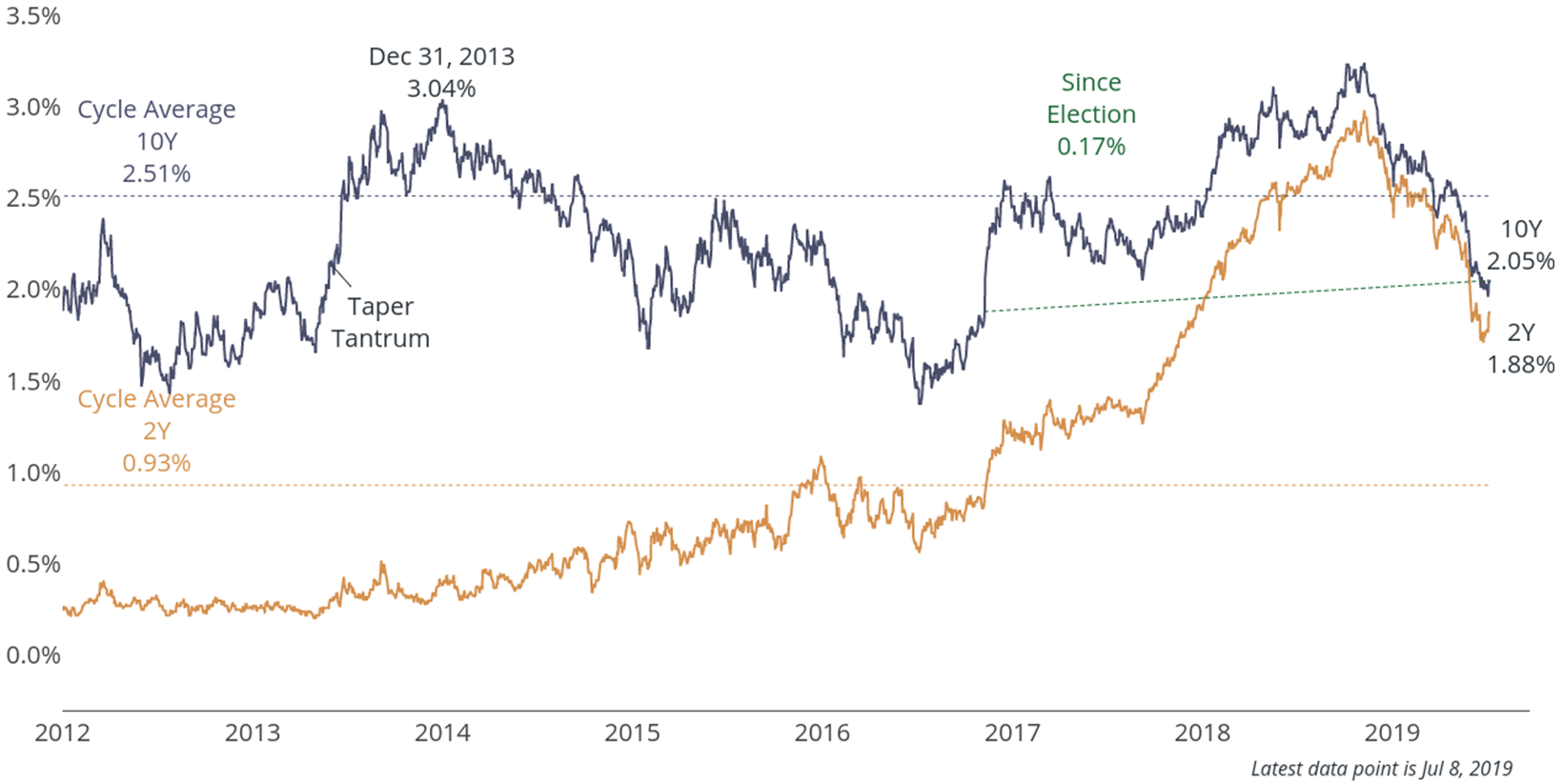
MSCI EM Index (USD)



Source: MSCI

Interest Rates

10-year and 2-year yields since 2012



Source: Federal Reserve

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Historical Interest Rates

10-year and 2-year yields since 1960

Source: Federal Reserve

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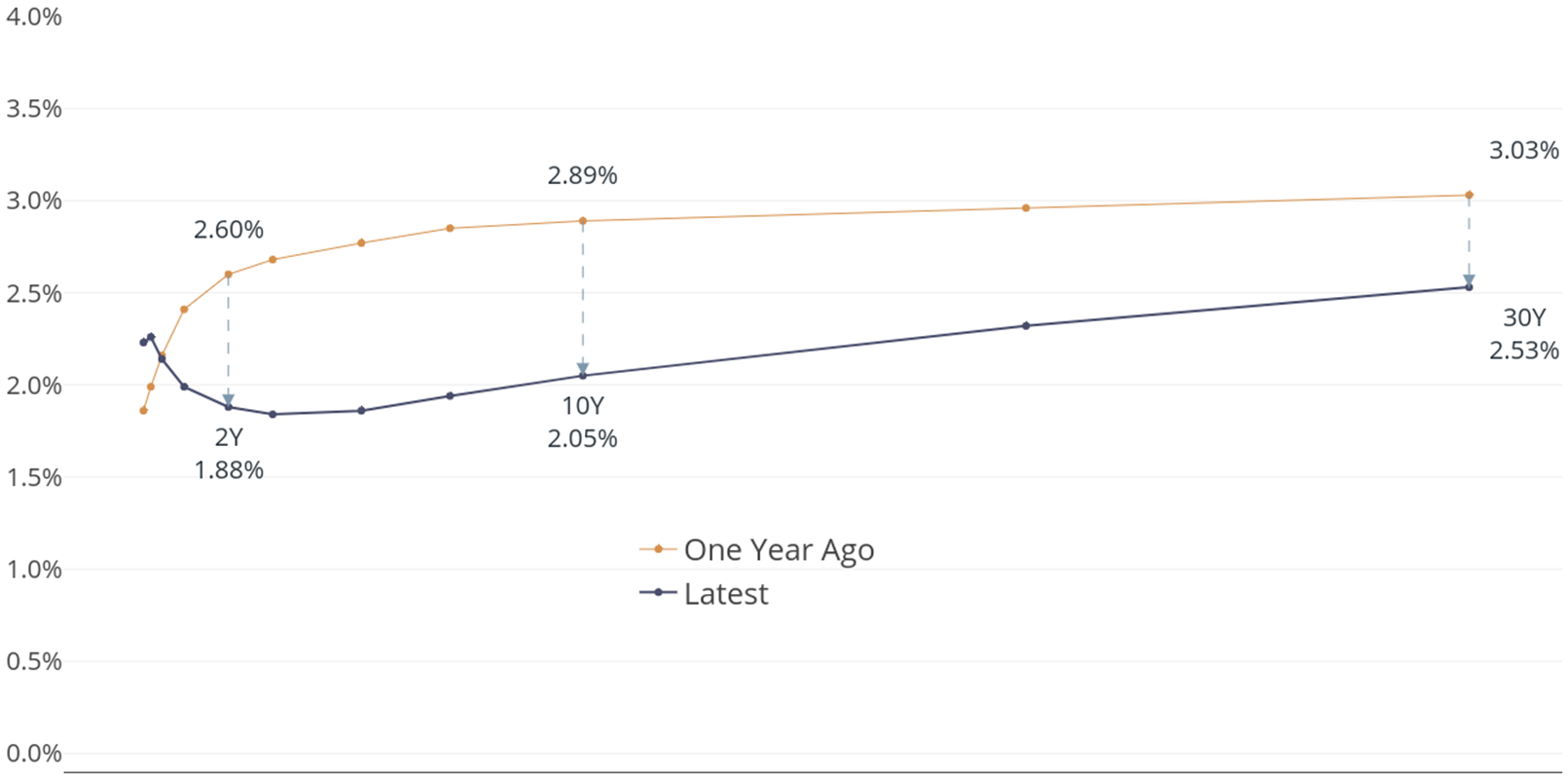
Interest Rates

Treasury Yield Curve



Latest data point is Jul 8, 2019

Source: Federal Reserve

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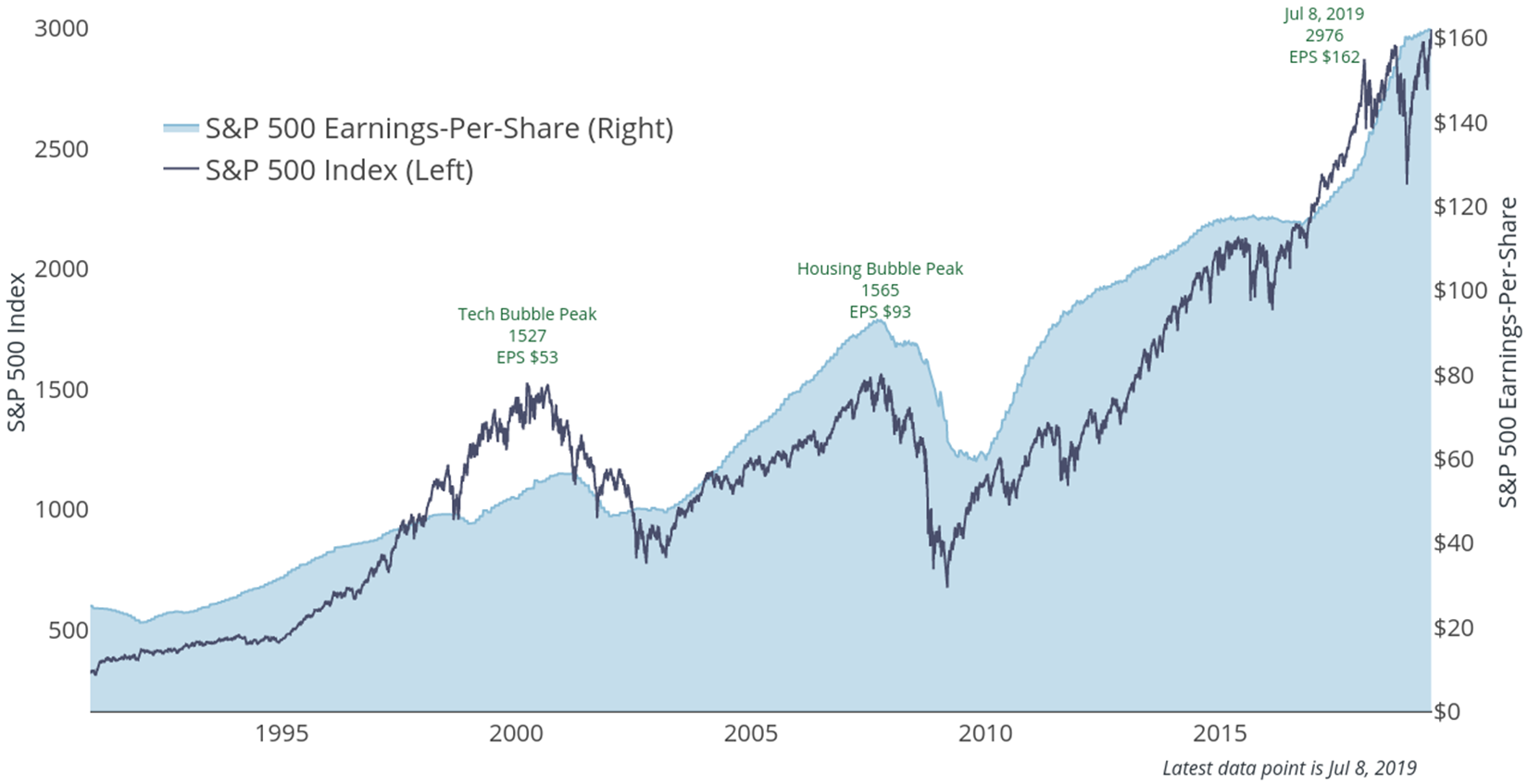
The Stock Market and Earnings

S&P 500 Index price and trailing earnings-per-share since 1990



Source: Refinitiv, Standard & Poor's

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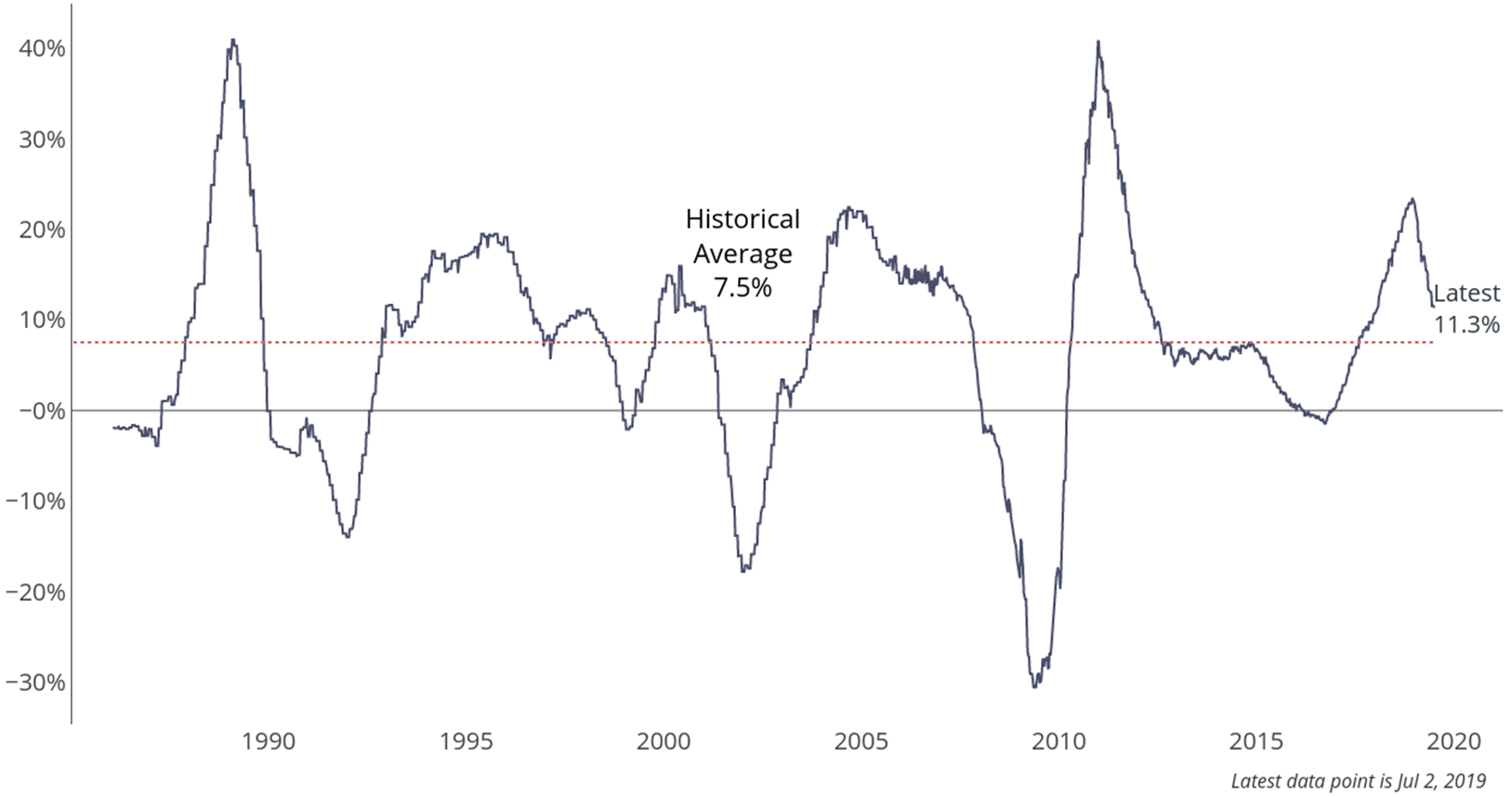
S&P 500 Earnings Growth Rate

Trailing 12 month earnings per share



Latest data point is Jul 2, 2019

Source: Refinitiv

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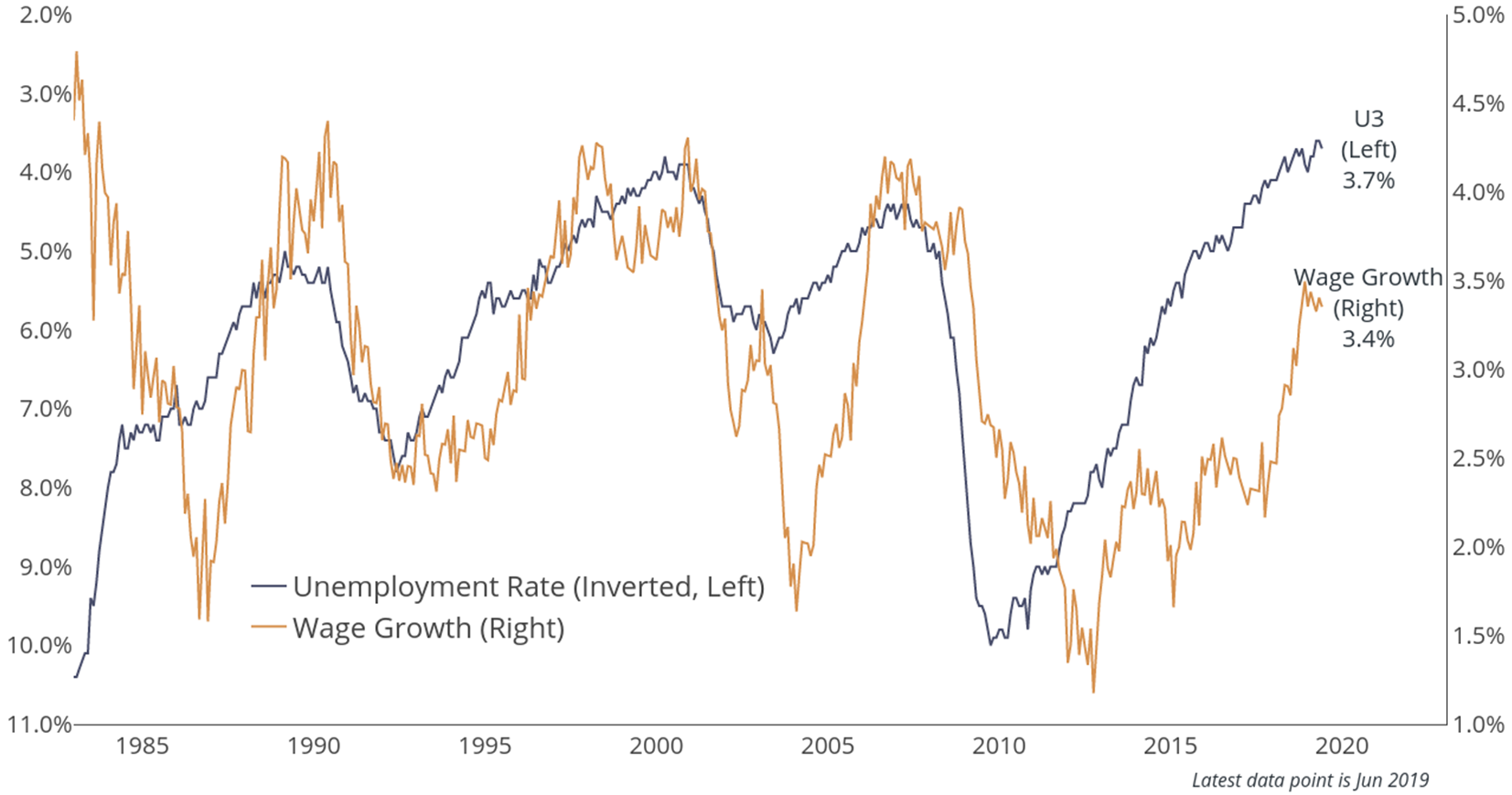
Economics

Unemployment Rate and Wage Growth

U3 (inverted) and average hourly earnings growth



Source: Bureau of Labor Statistics

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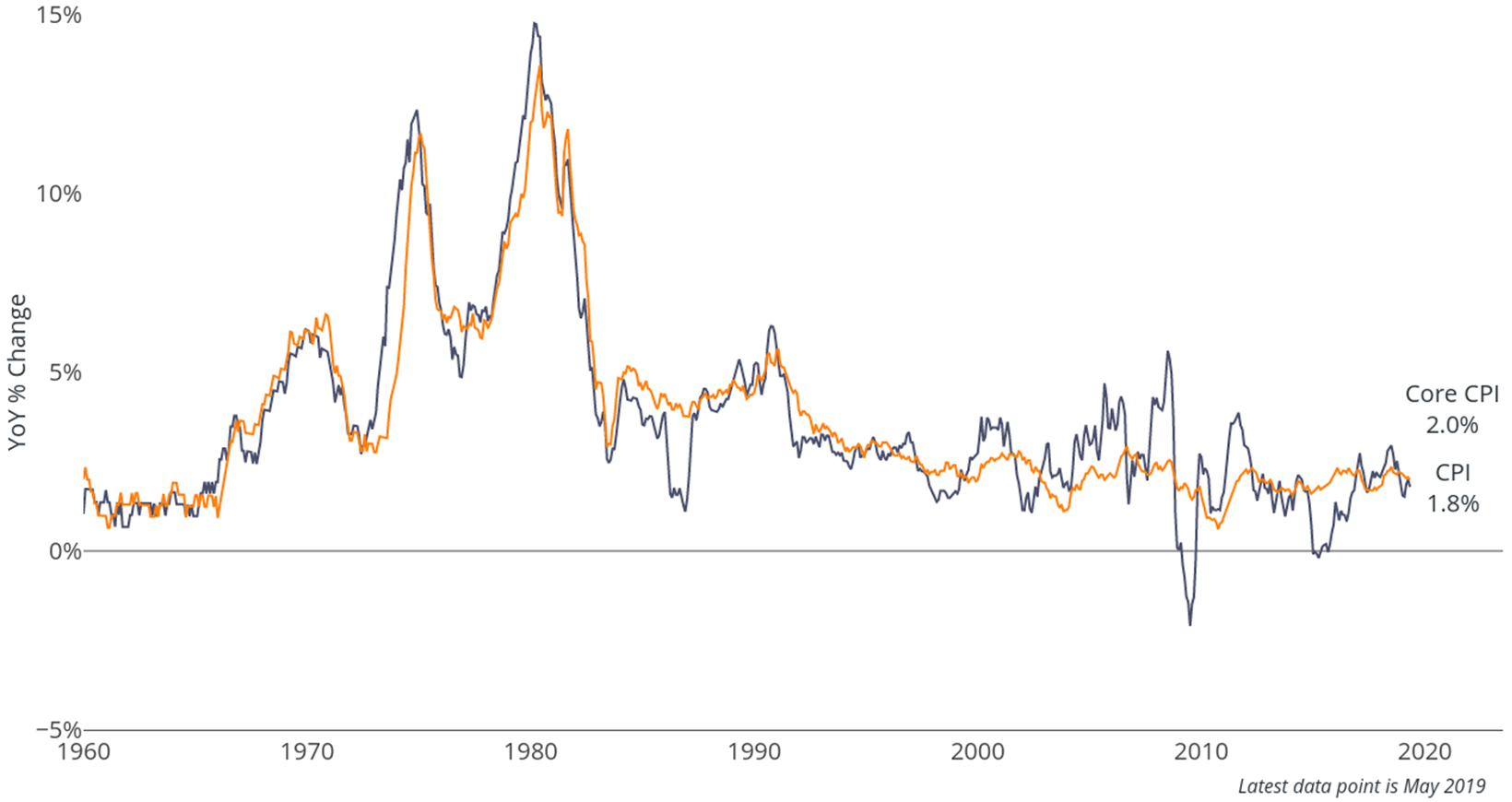
Inflation

Consumer Price Index

CPI and Ex Food and Energy, YoY % Change



Source: U.S. Bureau of Labor Statistics

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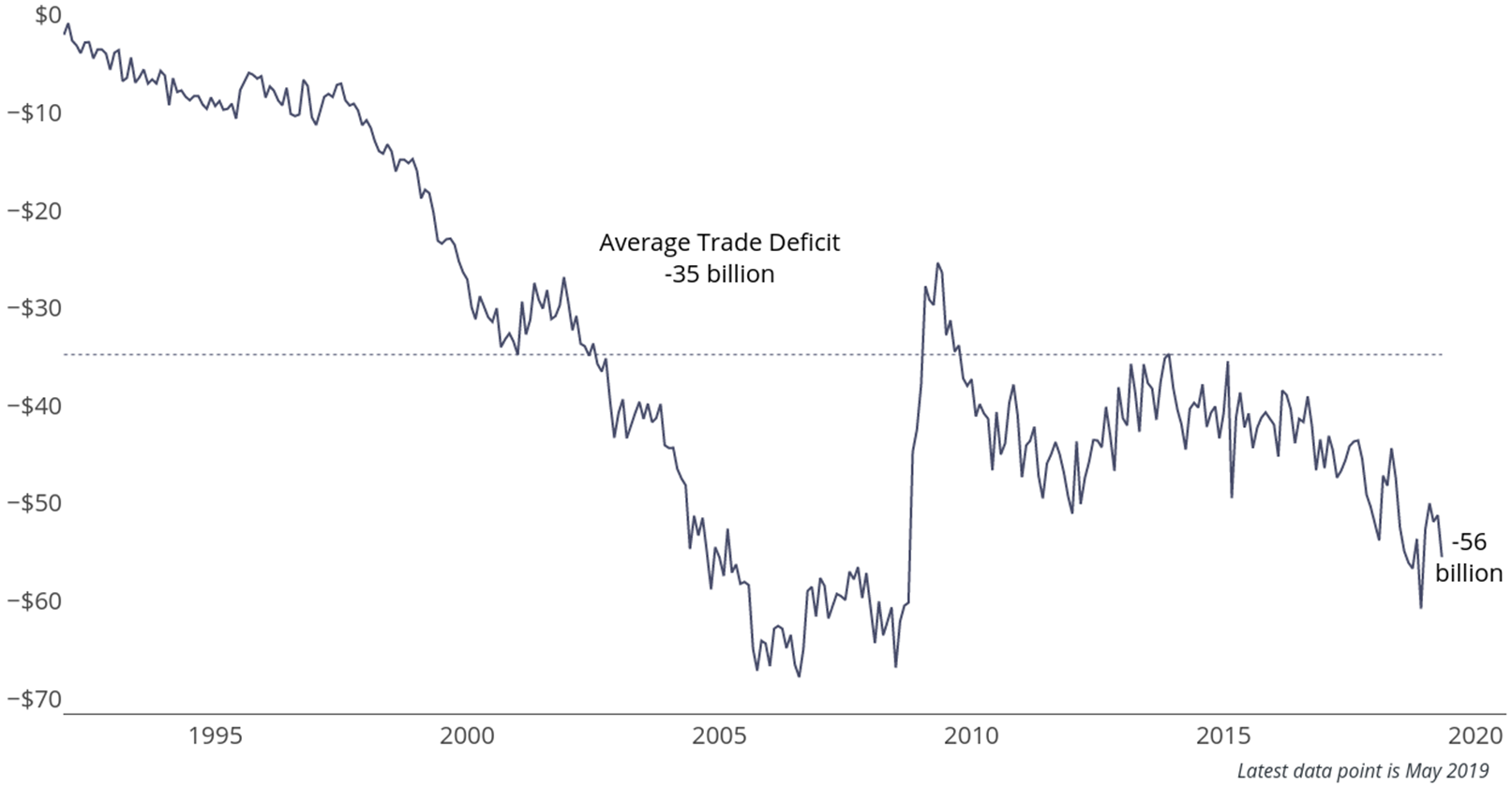
Economics

U.S. Trade Balance

Goods and Services, Monthly



Source: U.S. Bureau of Economic Analysis

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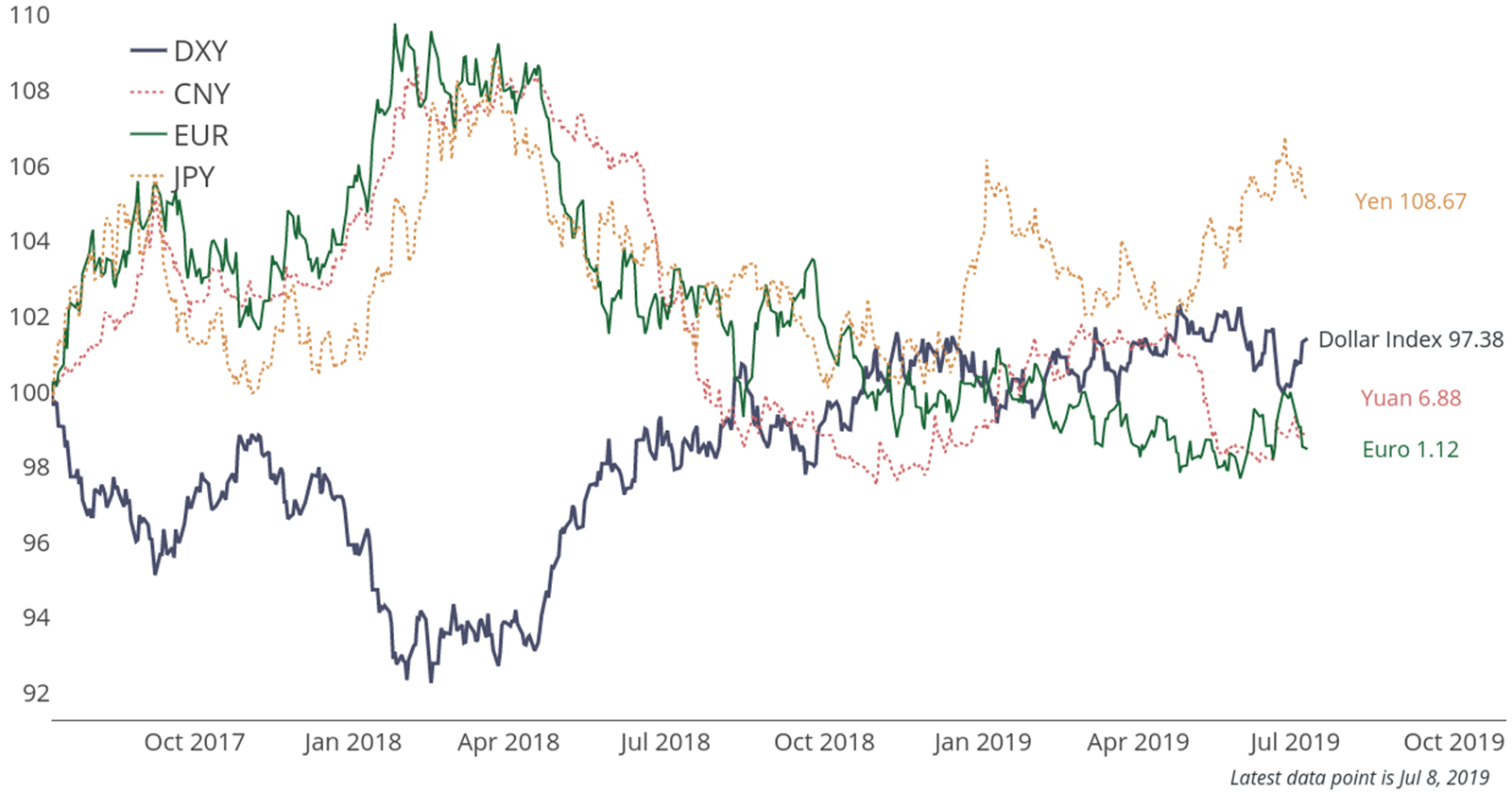
Major Currencies

Relative change over the past 24 months



Source: Refinitiv

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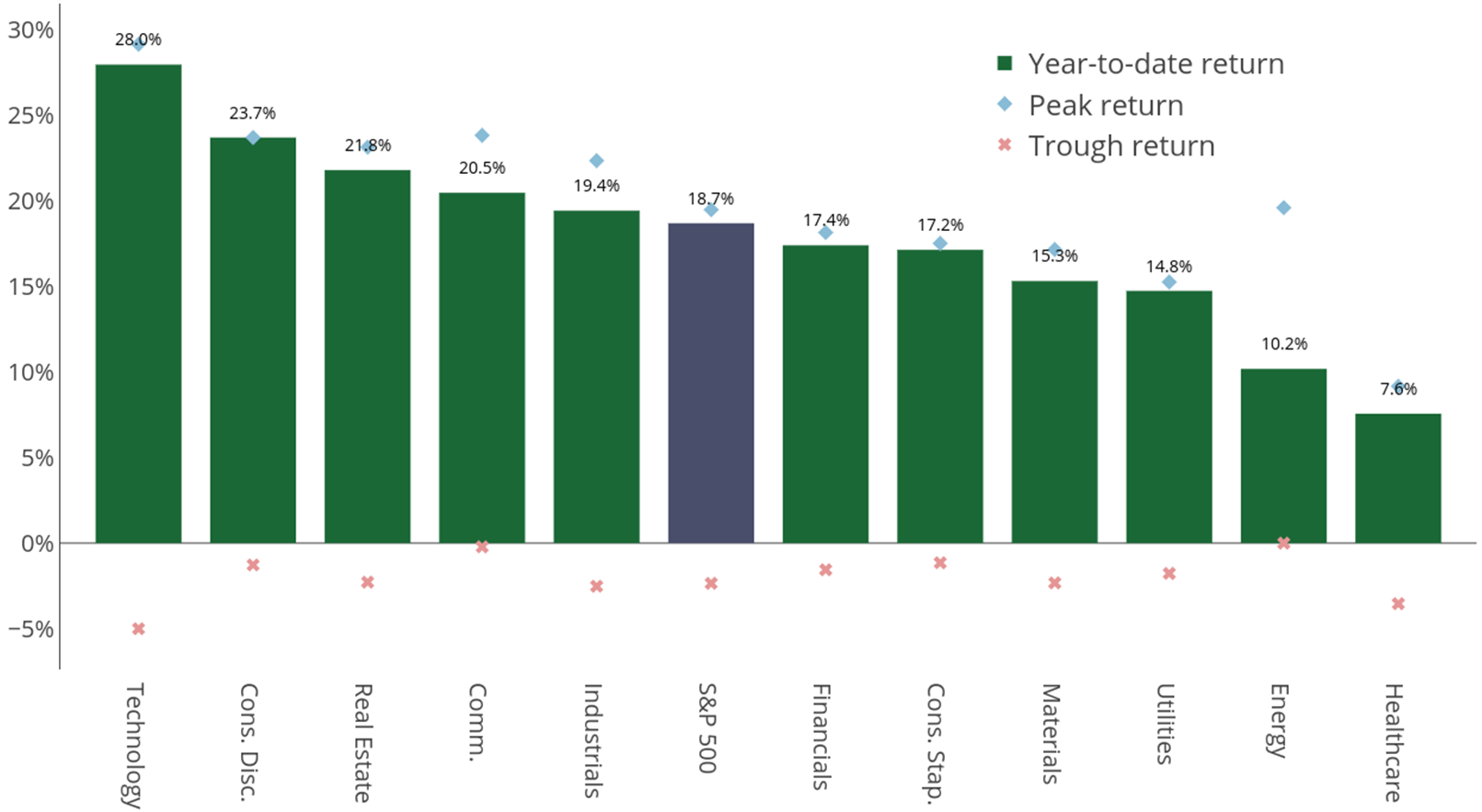
Sector Returns – Year-to-Date

S&P 500 sector year-to-date, peak and trough returns



Source: Clearnomics, Standard & Poor's, Refinitiv

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Summary of Portfolio Changes This Quarter

Portfolio components	Directional changes	Comments
Market Geographies	• US – maintain • Developed Intl. – reduce • Emerging – slight increase	• Brexit, trade war, weaker international currencies, global economy slowing
Size (Market Cap)	• Large – maintain • Medium – maintain • Small –slight reduction	• Stability, dividends during troughs, potential recession • Small/Mid cap has more volatility risks
Sectors	• Technology – long term growth focus • Industrials & Financials – maintain • Healthcare & utilities – increase • Consumer disc. – reduce in coming weeks? • Energy & real estate – maintain or reduce, no new positions	• No strong convictions • Defensive where appropriate
Fixed Income	• High yield – reduce • Investment grade – increase • Treasuries – short to intermediate term direction	• Interest rates reversing directions in short to medium term?
Cash	• Maintain or slight increase	• Depending on client's income needs (or readiness for investing during dips)

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Investors' Potential Approach to Current Market

- Continued focus on long term financial goals
- Ensure emergency reserves (Don't sell when it is low)
- Revisit risk tolerance (volatility and declines)
- Stack-rank Portfolio objectives
  - Growth, Stability, and Income
- Stay in communication with us

Thank you!

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Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

MSCI EME is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAII Investor Sentiment** index is based on a weekly survey conducted by AAII.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

Consumer sentiment indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

Asset Class Performance and Asset Classes Relative to U.S. Stocks charts: The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 30% U.S. Large Cap, 10% Small Cap, 15% International Developed Equities, 5% MSCI Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

Portfolio Risk/Reward and Portfolio Drift Since 2009 charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.

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