SECOND QUARTER 2019

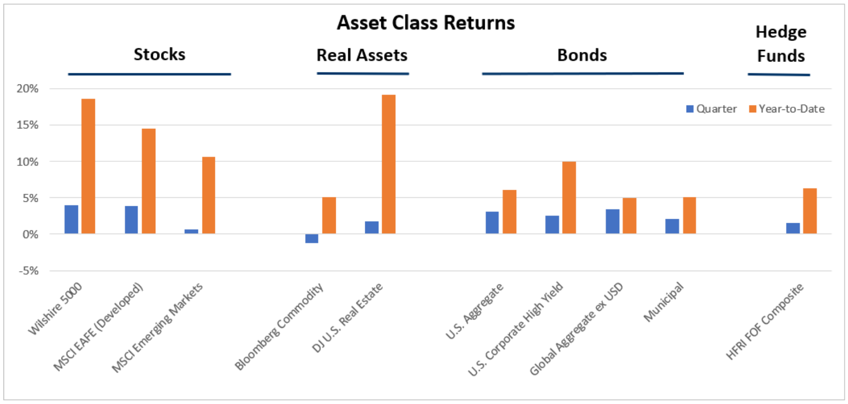
Investment Newsletter

EXECUTIVE SUMMARY

The longevity of the market recovery that characterized the first quarter quickly came into question as global trade tensions escalated early in the second quarter. These concerns reintroduced volatility into capital markets as investors worried that renewed tensions could further limit global growth. While it's unclear if the world is any closer to a trade resolution, global central banks quickly indicated their willingness to step in with further easing. This was a stark change of pace for the U.S. Federal Reserve, which many investors expected to raise rates throughout the year. The prospect of lower interest rates, as well as better than expected corporate earnings, helped revive sentiment and boosted most asset classes.

Overall global growth appears healthy but remains vulnerable. Outside of the trade conflict, investors have plenty to worry about including potential missteps in central bank policy, perplexing economic data and declining global trade.

At the writing of this commentary, the U.S. has entered it's eleventh year of expansion, making it the longest ever. While the duration of this expansion is remarkable, the pace isn't, as it's been one of slowest recoveries in U.S. economic history.



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

Despite heightened volatility, most global equity markets produced modest gains and U.S. markets closed the quarter near all-time highs. Developed markets, led by the U.S., continued to outperform emerging markets so far this year. Within the U.S., large-cap securities maintained a lead over small-caps. Growth also outpaced value for the quarter and so far this year.

Most global bond yields fell over the quarter, and the notion of rate hikes quickly turned to expectations of further stimulus. The decline in global rates aided most fixed income asset classes. Credit fundamentals were also robust and corporate spread measures stayed below long-term averages. Commodity returns were negative due to an outlook for slower growth and reduced demand.

U.S. economic data remains mixed as the benefits of tax-reform fade. The unemployment rate is at historic lows and consumer balance sheets are at much improved levels relative to before the Global Financial Crisis. At the same time, business sentiment and most leading economic indicators have come down. Outside of the U.S., growth remains slow although expectations, and thus stock market valuations, are commensurately lower.

Europe continues to grapple with Brexit confusion and the rise of nationalism across the continent. Emerging markets, particularly in Asia, struggled to breakout from a global trade uncertainty overhang.

With an unchanged outlook for slower growth, low prospective returns in fixed income, and fair-to-expensive equity market valuations, future returns will likely struggle to match levels reached over the last decade. A well-diversified portfolio that is appropriately tied to a client's risk tolerance is the best method of achieving long-term investment goals and maintaining purchasing power.

SUMMIT FINANCIAL

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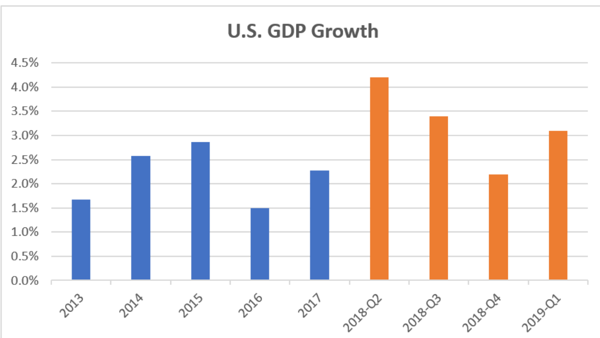
ECONOMIC GROWTH

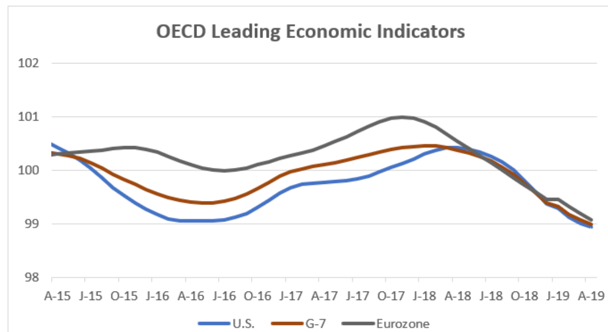
The U.S. economic expansion entered it's eleventh year in July, making it the longest on record. While long in duration, the expansion's growth rate has been one of the slowest. The sluggish pace of growth is partially attributable to coming out of one of the worst recessions in U.S. history. So far this year, the pace of economic growth has continued. U.S. GDP expanded just over 3% during the first quarter, and second quarter growth is expected to be below 2%.

Despite the length and rate of this expansion, the economy appears to be on solid footing. Consumer balance sheets are healthy, household net-worths near all-time highs have boosted sentiment, and there are few obvious areas of excess within the economy. With that said, uncertainties introduced by increasing trade tensions, falling global growth, and the unwinding of unprecedented central bank intervention suggest a cautious outlook is appropriate.



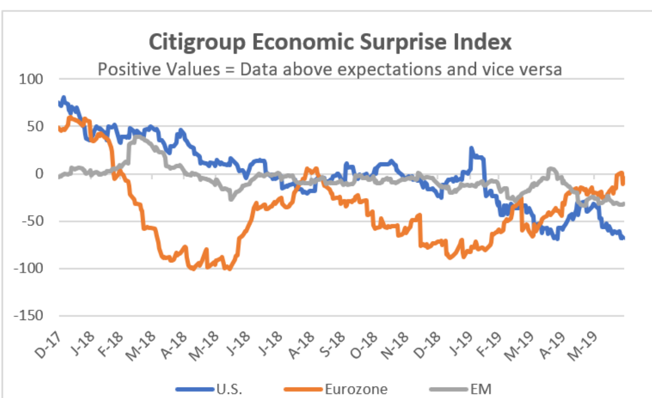
U.S. Department of Commerce

Following a strong print in the first quarter of 2019, economic growth is likely to fall as the benefits of tax reform fade. The Atlanta Fed's latest "GDPNow" estimate for second quarter growth is 1.3%.



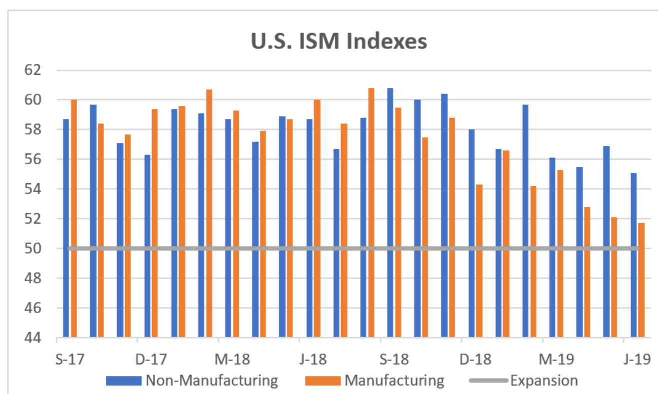
Organization for Economic Cooperation and Development

Leading economic indicators (LEI) designed to identify inflection points in economic growth, continued to decline for nearly all developed markets in recent months. This decline supports the notion of easing levels of growth globally.



Citigroup

Recent U.S. data releases have been more disappointing relative to data out of international and emerging markets. Notably, non-U.S. markets are likely benefiting from lower expectations entering 2019.

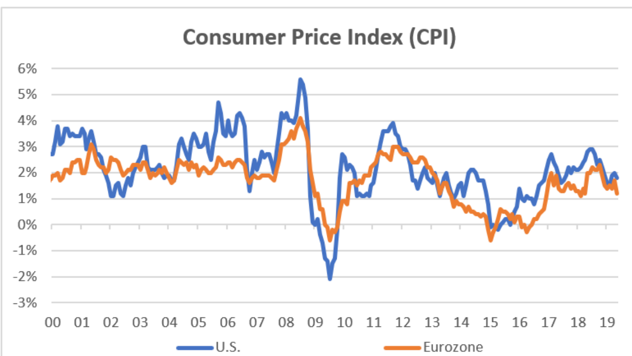


Institute for Supply Management

The U.S. service and manufacturing sectors expanded over Q2 according to the ISM indexes, which use industry surveys to evaluate economic activity. While still in expansion, the pace of growth has come down from previously higher levels.

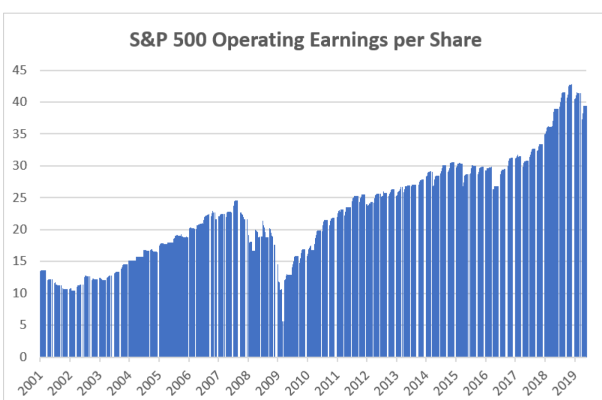
ECONOMIC GROWTH

The U.S. Federal Reserve (the 'Fed') and global central banks appear to be at a crossroads. In the U.S., growth is healthy and inflation is benign, yet both are vulnerable to a variety of threats. This was quickly apparent at the start of the second quarter when global trade tensions escalated. Amongst this escalation, the Fed indicated a willingness to act, to the point where consensus expectations priced in at least one rate-cut by the end of 2019. This is a stark contrast to the start of the year, when most economists expected several rate increases. The same is true internationally, where central banks have openly indicated a willingness to intervene should growth fall short of expectations. Slower growth and the prospect of additional stimulus has pushed global bond yields lower. This creates a challenging backdrop of low returns in most fixed income asset classes for investors seeking to de-risk their portfolios.



U.S. Bureau of Labor Statistics

U.S. inflation remains benign despite recent increases in wages. With inflation at just below the two percent target, the Fed can take a more measured approach to raising rates.



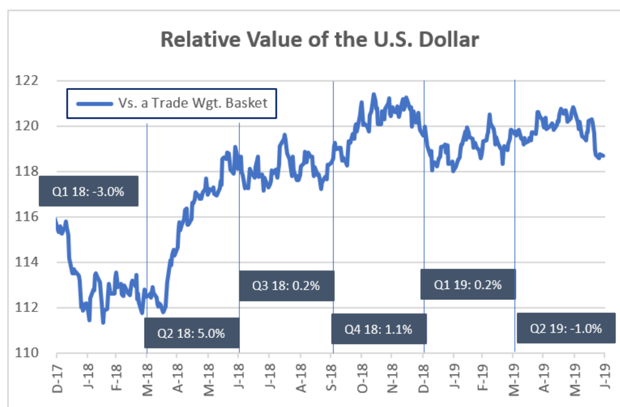
Bloomberg

S&P 500 corporate profits have come down but remain near all-time highs. The fading benefits of tax reform and vulnerable margins have the potential to slow earnings growth.

Global Growth Rates					
	2016	2017	2018	2019	2020
Advanced	**1.7%**	**2.4%**	**2.2%**	**1.8%**	**1.7%**
Euro	1.8%	2.5%	2.2%	1.6%	1.8%
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

Most advanced market forecasts call for lower growth into the future. It's expected that an increasing amount of global growth will come from emerging market countries with more favorable demographics.



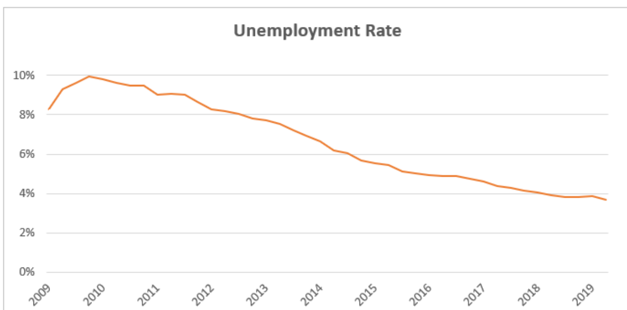
U.S. Federal Reserve and Bloomberg

The U.S. Dollar is at elevated levels compared to recent history. Higher interest rates relative to other developed markets, and general economic strength, have contributed to its current position. The Fed's pause on raising rates and a large trade deficit could weaken the U.S. Dollar in the future.

EMPLOYMENT AND CONSUMER

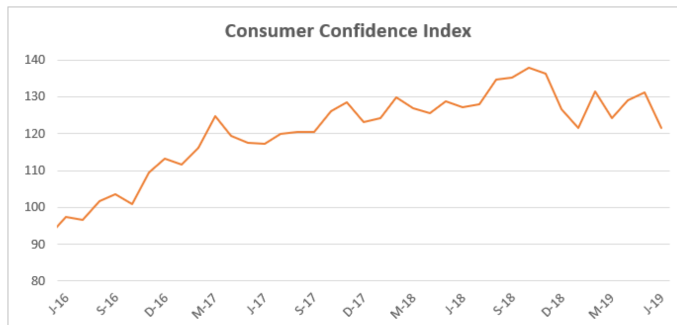
Helping provide reassurance that the U.S. economy and labor markets are operating near peak efficiency, the unemployment rate has continually trended lower over the past decade. It has remained at or below the natural unemployment figure of 4% for the past 12 months, a remarkable statistic. Supporting this broader theme, the Consumer Confidence Index has been rising over the past few years, but also experienced volatility so far in 2019. This fluctuation raises some concerns that consumer sentiment may further weaken over time. Despite a strong employment environment, increases in wages had been modest. This changed last year with U.S. wage growth picking up to over 3%. Wage growth is attractive relative to core inflation, which has hovered around 2%.

Other employment indicators follow the same storyline. The total net number of jobs created in the second quarter totaled about 512,000, largely within the business services, healthcare, and transportation sectors. The monthly average of net jobs created for the second quarter tallied in at roughly 170,000 per month. This monthly average was modestly lower compared to past quarters, but still a material positive number, emphasizing that new jobs continue to be added to the economy at a steady pace.



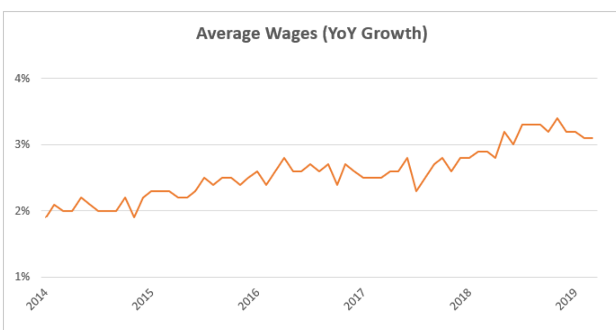
U.S. Bureau of Labor Statistics

The unemployment rate has been representative of a full-employment economy, remaining at or below 4% for the past 12 months.



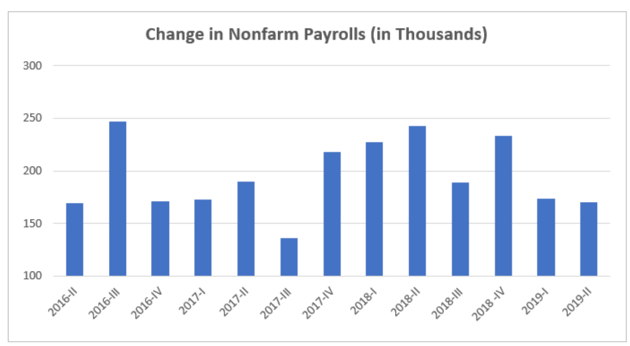
Conference Board

The Consumer Confidence Index has been above 100 since late 2016, indicating consumer confidence has been rising. It has experienced more volatility of late, with concerns over trade tensions and the employment outlook dampening expectations.



U.S. Bureau of Labor Statistics

U.S. companies' average wages have continued to trend higher with the year-over-year growth rate remaining above 3% in 2019.



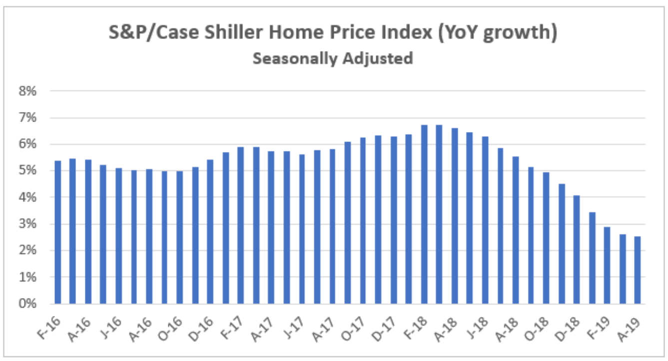
U.S. Bureau of Labor Statistics

Nonfarm payrolls have continued to increase in 2019, indicating that job creation in the U.S. is healthy. The magnitude of the change is the lowest since 2017.

HOUSING AND COMMERCIAL REAL ESTATE

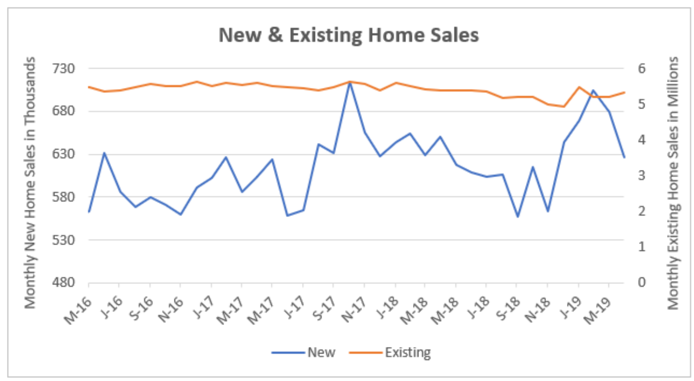
Continuing the recent trend, the S&P Case-Schiller Price Index increased on a year-over-year basis, although at a slowing pace. This index measures residential real estate values in twenty of the largest U.S. metropolitan cities. A possible explanation was higher prevailing mortgage interest rates earlier in the year, which can curtail demand. The recent decline in borrowing rates should provide a tailwind and somewhat offset this moving forward. Within the market, the pace of existing home sales outpaced new home sales by a sizeable margin. In April and May, the sale of new homes fell, while the sale of existing homes maintained a steady pace. Strengthening the housing story, new private housing building permits have hovered around a healthy 1.3 million per month since the start of 2017 through 2019.

Within the past 36 months, all major housing sectors have sustained at, or above, 90% occupancy. Apartments, retail, and industrial locations are currently operating at occupancy rates near 95%, while office occupancy rates are slightly lower, at closer to 93%. Although U.S. REIT fundamentals have deteriorated somewhat, recent performance has been strong and they continue to play an important role in portfolios with notable diversification benefits.



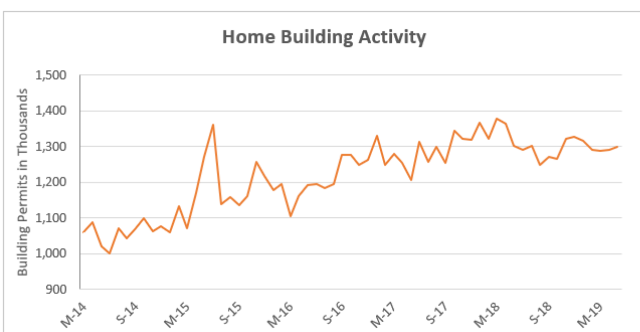
S&P/Case Shiller

The decline in the pace of home price increases could be supportive to buyers looking to enter the market.



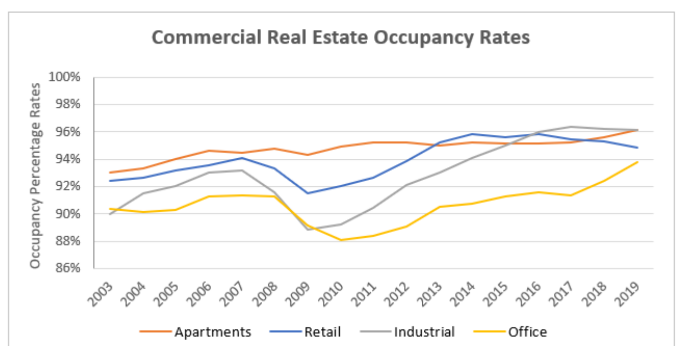
U.S. Bureau of the Census, U.S. Department of Housing and Urban Development and National Association of Realtors

Existing home sales continued at a healthy pace while new home sales have recently declined.



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

New private housing building permits have fluctuated around 1.3 million per year since 2017, indicating a high level of ongoing demand for home construction.



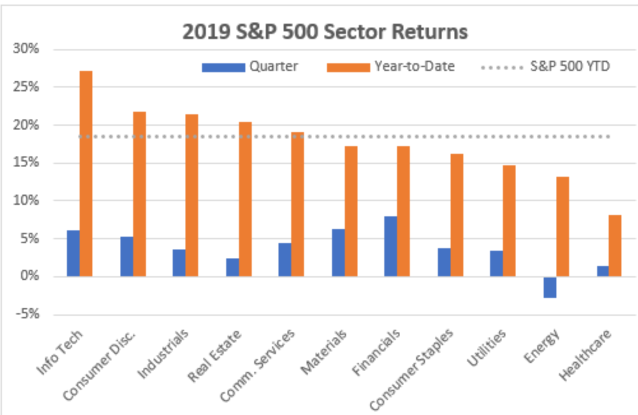
Nareit

High commercial real estate occupancy rates are a positive attribute for rental income and suggests demand for the creation of additional inventory.

EQUITY MARKETS

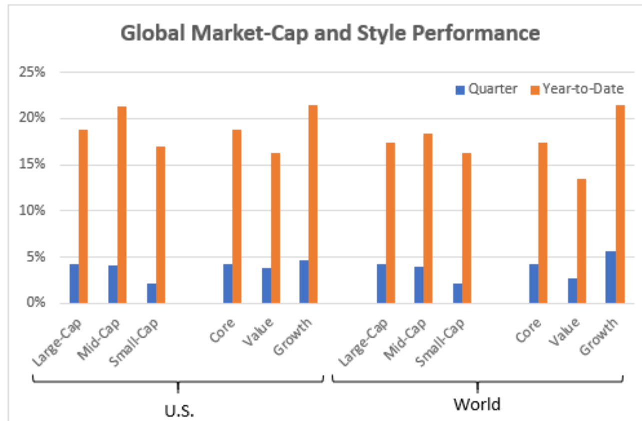
Most global equity markets posted positive second quarter returns, bringing year-to-date performance to impressive levels. Developed markets outperformed emerging markets again, though both areas produced attractive returns. From a style perspective, growth outperformed value, continuing the decade long-trend. Large- and mid-cap stocks also outperformed small-cap stocks. All U.S. equity market sectors produced positive returns for the second quarter outside of energy.

Financials and materials led the charge over the quarter, driven by strong earnings growth, while energy fell behind due to slower global growth expectations. In terms of valuation, U.S. equities are generally more expensive than non-U.S. markets, although some would argue for good reason as both economic growth and corporate earnings have been beating expectations.



Bloomberg

The financial sector was the top performer in Q2, adding to the positive Q1 return. Materials and information technology followed close behind.

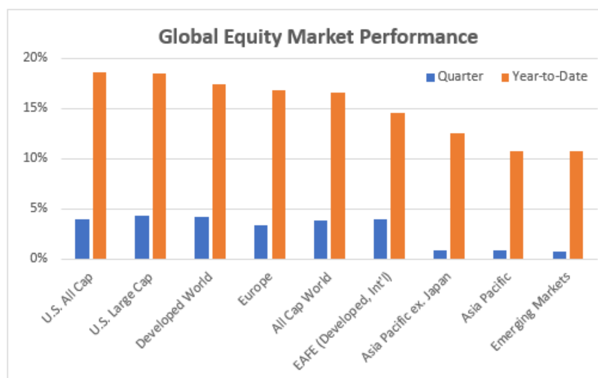


Bloomberg; U.S. indices from Russell and World indices from MSCI

Growth's lead over value continued throughout Q2. Although small-cap securities had positive returns, they lagged both large and mid-cap securities across markets.

S&P and MSCI

U.S. equities remain more expensive relative to international markets on a P/E basis. The valuation gap between these markets is also large relative to history.



S&P and MSCI

The U.S. and developed world markets led Q2 returns, while emerging markets and most of Asia lagged.

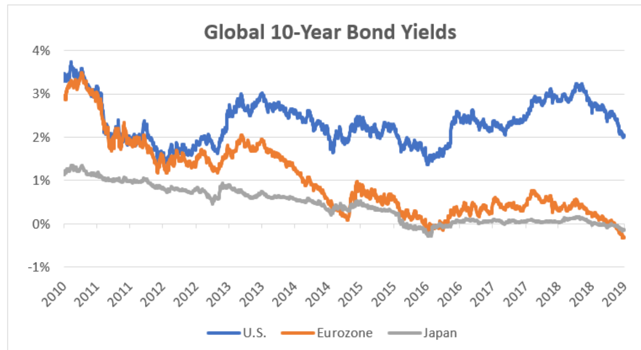
CREDIT AND ALTERNATIVE MARKETS

Most fixed-income markets generated positive returns over the second quarter, benefiting from the surprise decline in interest rates. In the U.S., the 10-year Treasury yield fell below the symbolic 2% level for the first time since 2016. Credit fundamentals also were supportive, although high-yield spreads widened marginally. Municipal bonds continued their strong run, fueled by net negative supply against record levels of demand.

Most commodity markets lagged, although turbulent geopolitics caused the price of oil to recover late in the quarter. Hedge funds (as represented by the HFRI Fund of Funds Index) produced positive, albeit, muted returns relative to comparable long only indices.

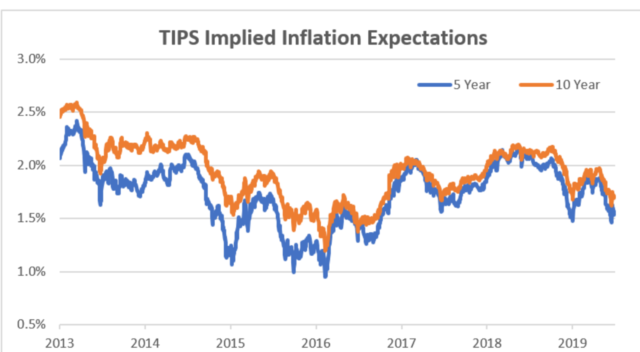
Barclays Capital

U.S. corporate high yield spreads finished the quarter just below last quarter's level, but remain beneath the 10-year average. Broad demand for yield and a supportive fundamental backdrop has been accommodating for the asset class.



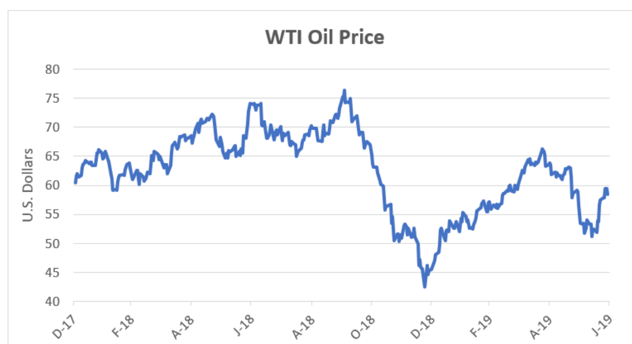
Bloomberg

Most global bond yields declined during the quarter, following a willingness of global central banks to offer additional easing to counter slowing growth. In addition to the U.S. Treasury 10-Year yield falling below 2%, German 10-year bund yields reached their lowest level ever.



U.S. Department of the Treasury

Inflation expectations continue to be manageable and have come down marginally relative to earlier in 2019. This reflects recent CPI data as well as an outlook of slower global growth.



U.S. Energy Information Administration

Oil prices (as measured by WTI) fell earlier in the quarter but have recently recovered, stemming from increased conflict in the Middle East. A recent agreement with O.P.E.C. and Russia to maintain supply cuts, in response to slowing growth, also boosted oil prices.

CAPITAL MARKET RETURNS

	2nd Quarter	YTD 2019
Cash and Fixed Income		
U.S. Treasury Bills	0.6%	1.2%
Barclays U.S. Aggregate Bond Index	3.1%	6.1%
Barclays Municipal Bond Index	2.1%	5.1%
Barclays Global Aggregate ex. USD	3.4%	5.0%
Hedge Funds and Alternatives		
Bloomberg Commodity	-1.2%	5.1%
DJ U.S. Real Estate	1.8%	19.2%
HFRI FOF Composite	1.6%	6.3%

	2nd Quarter	YTD 2019
U.S. Equity		
Wilshire 5000	4.0%	18.7%
S&P 500	4.3%	18.5%
Russell 2000	2.1%	17.0%
International Equity		
MSCI ACWI ex. U.S.	2.7%	13.3%
MSCI EAFE (Developed)	3.7%	14.0%
MSCI Emerging Markets	0.6%	10.6%

Morningstar & Hedge Fund Research, Inc.

DISCLAIMER

This commentary was written by Craig Amico, CFA,® CIPM,® Senior Investment Analyst, Noreen Johnston, CFA,® Director of Portfolio Management and Steven Melnick, CFA,® Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data; the Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market; the MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada; the MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets; the Bloomberg Commodity Index measures the performance of an unleveraged, long-only investment in commodity futures that is broadly diversified and primarily liquidity weighted; the HFRI Fund of Funds Composite Index is an equally-weighted benchmark composed of over 400 domestic and offshore constituent funds having at least $50 million under management or having been actively trading for at least 12 months; the Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S.; the Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-dominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. **Diversification/asset allocation does not ensure a profit or guarantee against a loss.**