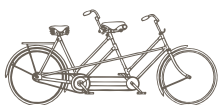


Quarterly Outlook

JULY 2019

The US economy remains the healthiest in the world, buoyed by a resilient labor market.



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Second Quarter 2019

Unspectacular, but steady, the current US expansion will become the longest on record in July. After a spurt of growth above 3% induced by last year's tax cuts, GDP is moderating towards its trend growth rate, just above 2%. The Federal Reserve is therefore in the hot seat to keep the expansion from faltering. In a difficult position, the Fed must recalibrate monetary policy against a backdrop of erratic trade policy, slowing global growth and negative global yields.

Both equities and fixed income rallied in the second quarter. Softer monetary policy rhetoric and trade optimism lifted equities, while bonds gained on amplified slowdown fears. Domestic equities were led by the Financials and Information Technology sectors, with all economic sectors producing positive returns in the quarter except Energy. Developed international stocks performed similarly well, while emerging markets were flat for the quarter. As bonds rallied, the yield on the 10-year US Treasury slid to 2% to close the quarter, its lowest level since 2016.

The June jobs report surprised to the upside, a signal that consumer spending can remain strong. While businesses have curbed investment and residential construction lags, the economy remains overly reliant on personal consumption. The June labor report was a welcome sign, but the economy is currently producing fewer jobs than it did last year. Wage gains have been limited but steady at 3.1% year over year, with no inflation being generated from a hot job market. Labor force participation has ticked up, a sign that there may still be some slack in the economy, calling the wisdom of the Fed's last interest rate increase into question.

Because the expansion has been so lackluster, it has not built up some of the excesses that typically precede a downturn. The US economy is on sound footing yet has experienced a cooling trend. Corporate profits have been down for the last two quarters following a strong showing in 2018. Both the Institute for Supply Management (ISM) Non-Manufacturing Business Survey and Manufacturing Survey Indices have been softening since last September yet remain above contractionary territory. Additionally, global manufacturing took a hit at the end of June as factory activity in both Asia and the Eurozone worsened.

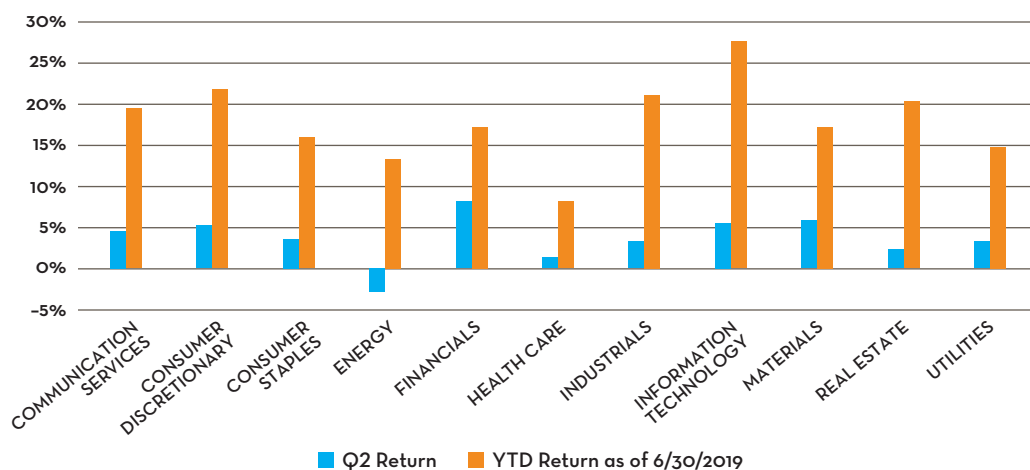
Following its June meeting, the Fed indicated a willingness to reduce interest rates. Their messaging demonstrated a heightened sensitivity to both market and economic signals as well as continued data dependence. Additionally, the Fed must deal with political pressure and an unfavorable global picture. The Fed will reduce short-term interest rates, but the strong June jobs report may allow them to delay the onset of a mini-easing cycle.

Quarterly Outlook

JULY 2019

Index/Instrument	Category	Q2 Total Return	YTD Total Return (as of 6/30/2019)
S&P 500	Large-capitalization US stocks	4.30%	18.54%
S&P 400	Mid-capitalization US stocks	3.03%	17.96%
Russell 2000	Small-capitalization US stocks	2.09%	16.97%
MSCI World Index	Developed markets international stocks	4.18%	17.39%
MSCI Emerging Markets Index	Emerging markets international stocks	0.69%	10.69%
Bloomberg Barclays US Aggregate Bond Index	Broad investment-grade, US bonds	3.08%	6.11%
US Treasuries	US government bonds	3.01%	5.18%

Q2 2019 Sector Performance

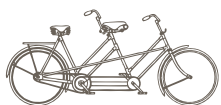


Going Forward: Tandem's Outlook

The US economy remains the healthiest in the world, buoyed by a resilient labor market. We expect the Fed to ease reluctantly due to the low starting level compared to prior cycles, limiting its ability to respond effectively should a severe downturn emerge. How far and fast the Fed moves is largely being driven by low and declining global rates, not declining domestic prospects. In the long run, central bank potency will continue to be hindered by structural factors – slower productivity, population and labor growth, and excess capacity.

The June G-20 summit in Osaka brought a trade truce between the US and China, yet we suspect a new deal may take time and could remain a headwind to global growth into 2020. Going forward, economists expect US GDP to moderate to 2.5% this year before falling to 1.8% in 2020, slightly below the Fed's longer-run median rate of 1.9%

Tandem announced the addition of Amy Bush, CFA to our team of investment professionals during the quarter. Drawing on decades of investment management experience, Amy's addition compliments and enhances Tandem's balanced and diversified approach to portfolio construction.



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