2Q19 REVIEW & 2019 OUTLOOK

Commonwealth Bank & Trust Company

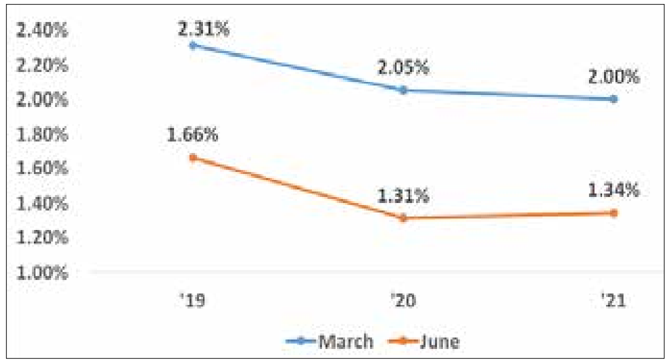
4350 Brownsboro Rd.
Suite 210
Louisville, KY 40207

p (502) 259-2500
f (502) 259-1501
www.cbandt.com

SUMMARY: BACK TO THE FUTURE – THE RETURN OF QE (AND TRADE WAR)

The S&P 500 followed its best first quarter in ten years (13.7%) by posting its best first half in 20 years (18.5%). The market rally continued in July increasing 1.7% for the month, bringing the YTD return to 20.2%. The strength in U.S. markets largely results from a series of changes in posture by the Fed. In early January the Fed declared it would pause its rate hike agenda, and by quarter end signaled that it would cease hiking rates. In early June, the Fed committed itself to be accommodative if the economy weakened as a result of uncertainties related to trade disputes. By the end of June, Fed language became more dovish, signaling a rate cut as early as July. Meanwhile, the administration called a truce for new tariffs after President Trump met with Chinese President Xi Jinping at the G-20 at the end of June, which led the market to post its strongest June result (+7.1%) since 1938. On July 31, the Fed announced a 0.25% rate cut, its first cut in over a decade, and immediately ended the drawdown of its balance sheet. The Fed will now reinvest funds from maturing Treasuries and mortgage-back securities in a step back to quantitative easing. Alas, the June trade truce was short-lived. Due to a lack of progress with trade talks, President Trump announced a 10% tariff on $300 billion of additional Chinese goods on August 1. The Chinese retaliated by enabling the Chinese Yuan to devalue against the dollar. In response, the S&P 500 fell roughly 4% in the early days of August.

Figure 1: Fed Funds Expectations in June

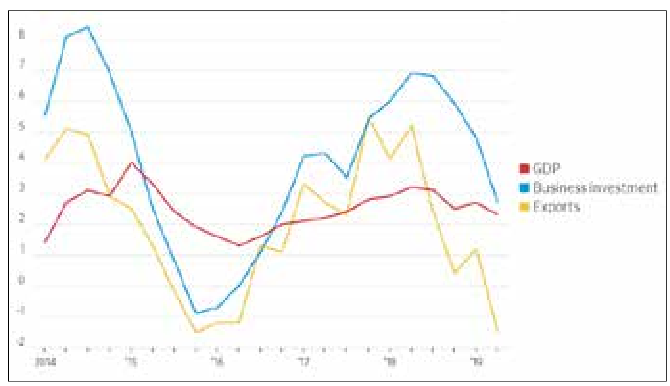


Source: CB&T, Federal Reserve

Why Are Rate Cuts Needed Now?

Unemployment remains near fifty year lows, U.S. GDP is growing, retail sales remain strong and consumer confidence remains high. Why does the Fed need to cut rates? As the Fed stated as it made the rate cut, its "one over-arching goal: to sustain the economic expansion." Furthermore, in his Congressional testimony in early July, Fed Chairman Powell pointed to wage data of the bottom 20% of the population as additional rationale. The rural and urban poor have only begun to experience their first increase in wages since the financial crisis during the last few quarters. An economic slowdown would halt the recovery to the country's most economically vulnerable group.

Figure 2: U.S. Business Conditions Deteriorating



Source: U.S. Commerce Department

There tends to be a predictable sequence to the data leading up to a recession. Employment and consumer data are often the last data to begin falling as the business cycle slows and moves toward recession. The manufacturing sector tends to demonstrate weakness first. Manufacturers will react to a slowdown or uncertainty by halting reinvestment (capital expenditures), tightening spending (cost cutting) and postponing hiring. Eventually, the services sector begins to demonstrate similar weakness. Manufacturing and services companies may continue to weaken for some time until they eventually make layoffs. When layoffs start to increase, unemployment and consumer data begin to reflect problems in the economy. Manufacturing and service sector data weakened significantly in the first half of 2019 (please see Figure 2). Arguably some of the weakness is a result of trade tensions and supply chain disruption starting in 2018. The Fed was prompted to become more proactive in the event trade talks became more tenuous as

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they did in August. Since inflation has been running at 1.6%, below the Fed's 2.0% target, the Fed should have the ability to lower rates in a full-employment economy without inflation spiking to a counter-productive level.

The "Trade" Off for the Market Outlook

Absent trade tensions, the investment playbook would be to overweight equities in markets where Central Banks are easing – the "Don't Fight the Fed [or Central Bank]" trade. If there were no trade conflict in play, we would overweight global equities (U.S., Europe, Japan and Emerging Markets). As the trade conflict leads to currency actions (e.g. China) and other measures, however, it makes some equity markets less attractive than others in the near term. Trade conflicts have been going on for over a year in several regions. In some cases this may not have been enough time to mitigate some of the potential impacts. In other cases, the impact on particular businesses, sectors or countries have played out and the equities have bottomed. Revenues and earnings for these companies will begin to "comp" out of the prior year's weakness. Although cheaper than U.S. equities, international and emerging market equities will likely be more volatile in the near term until trade conflicts subside. In the near-term, the U.S. is likely to be the "cleanest dirty shirt" among those impacted by trade, because monetary stimulus is moving faster and stronger than indicated by Fed action. The 10-year treasury rate fell from approximately 2.75% in January to 2.02% just after the rate cut on July 31. The trade conflict is pushing rates down further in August to 1.74%. So the Fed has cut rates by 0.25% in July, but market expectations and trade fears have cut the 10-year treasury yield by 100bps or 1 percentage point since the beginning of the year. Once the market bottoms in the near term from the trade pull back, we believe economic data spurred by lower rates will improve as will earnings. We believe the pick-up in economic and earnings growth should enable the market to recover to recent levels or move higher by early next year.

Figure 3: IMF Global Growth Forecast

Source: IMF, Statista

Table 1: Index Returns

Index Returns as of 07/31/19	July 2019	2Q19	1Q19	YTD	Last 12 Months
S&P 500	1.44%	4.30%	13.65%	20.24%	7.98%
Russell 2000 (Small Cap)	0.57%	2.09%	14.57%	17.64%	-4.45%
MSCI EAFE (International)	-1.25%	3.93%	10.15%	13.10%	-1.99%
MSCI EME (Emerging Markets)	-1.15%	0.73%	9.90%	9.46%	-1.83%
BBG BARC Aggregate Bond	0.20%	3.08%	2.94%	6.35%	8.08%
Oil bbl. Price Changes	0.19%	-2.78%	32.44%	29.00%	-14.81%
Gold Returns	0.32%	9.07%	0.77%	10.25%	15.51%
Commodities Returns (CRB Index	-1.39%	-1.48%	8.22%	5.14%	-8.23%

Source: Informa & Bloomberg

Table 2: Sector Returns

Index Returns as of 07/31/19	July 2019	2Q19	1Q19	YTD	Last 12 Months
Info. Tech	3.33%	6.06%	19.86%	31.36%	15.72%
Healthcare	-1.59%	1.38%	6.59%	6.35%	4.29%
Financials	2.45%	8.00%	8.56%	20.12%	3.45%
Communication Services	3.37%	4.49%	13.98%	23.10%	14.82%
Consumer Staples	2.50%	3.72%	12.01%	19.08%	14.63%
Consumer Discretion	0.96%	5.28%	15.73%	23.00%	9.22%
Industrials	0.67%	3.57%	17.20%	22.19%	3.54%
Energy	-1.78%	-2.83%	16.43%	11.11%	-15.99%
Materials	-0.37%	6.31%	10.30%	16.83%	-0.14%
Utilities	-0.28%	3.48%	10.84%	14.38%	16.53%
Real Estate	1.74%	2.46%	17.53%	22.52%	17.56%

Source: Informa & Bloomberg

2Q 2019 MARKET REVIEW:

U.S. Stock Markets: The S&P 500 posted its best first half in 20 years (18.5%). Much of the rally occurred in June (7.1%) making it the strongest June performance since 1938. The market fell in April and May as the Chinese walked

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away from the negotiating table and the U.S. threatened additional tariffs, so the quarterly return was lower at 4.3% than the June return. In early June, the Fed stated that it would be accommodative, if the economy weakened as a result of uncertainties related to the trade dispute. By the end of June, Fed language became more dovish signaling a rate cut as early as July, while the administration called a truce for new tariffs after President Trump met with Chinese President Xi Jinping at the G-20 at the end of June. The market increased by 1.7% in July for a YTD increase of 20.2%, however, the market has dropped between 4% and 5% in early August over renewed trade hostilities.

The higher volatility small cap (Russell 2000 +3.0% 2Q19; +17.6% YTD July) and mid-cap (S&P 400 +2.1% 2Q19; +___% YTD July) indices lagged the large cap S&P 500 after performing better in 1Q19. Secular growth and cyclical stocks continued to perform stronger than the overall market in the second quarter and first half of the year underscoring that the market believes the business cycle and bull market will continue with the help of Fed action. Small and mid-cap stocks continue to underperform in July and with the August sell-off

Global Stock Markets: The International EAFE (+3.7% 2Q19; 13.1% YTD July) and the emerging market EME (0.6% 2Q19; 9.5% YTD July) indices generated positive returns, but continued to trail the S&P 500 during the quarter and for the year. Developed international and emerging market equities still remain cheaper than U.S. stocks by many valuation metrics, but there is greater uncertainty regarding their economic fundamental strength relative to the U.S., because the underlying companies in the indices are experiencing a greater impact from trade disruptions.

Global Bond Markets: U.S. bond indices returned 3.08% in 2Q19 and 6.35% year-to-date through July. A surprisingly good year so far for bonds. In the first quarter, bonds benefited from yield curve inversion and then benefited from a shift in the curve downward during the second quarter as rates dropped in anticipation for a series of rate cuts. During the second quarter, the yield on the 10-year treasury fell below 2% for the first time in almost three years.

The dollar was volatile during the second quarter making several up and down moves around trade and rate headlines, but remained in a tight 2% range. International bond indices outperformed U.S. indices during the second quarter as the BBG Global and EM Aggregate indices returned 3.29% and 4.20%, respectively, vs. 3.08% for the Barclays Aggregate. Taking out the currency impact, the BBG Global return was a little lower than the U.S. return at 2.92%, while the EM bond index outperformed returning 3.75% during the quarter. The EU, China and Japan all signaled greater stimulus via quantitative easing and/or fiscal policy.

2019 ECONOMIC OUTLOOK – Partly Sunny with a Chance of Trade War

U.S. GDP growth was a healthy 2.9% in 2018 peaking with a 4.2% reading in 2Q 2018. Last year benefited from tax cuts and a surge in orders and purchases made ahead of tariffs going into effect. Economic forecasters have continued to lower forecasts since the fourth quarter as financial conditions tightened and trade concerns started to impact business investment. A stronger than expected first quarter growth rate of 3.1% enabled the 2019 growth forecast to increase from 2.1% to 2.2% in the last 90 days. The 2.2% forecast, however, remains lower than forecasts that were made in 2017. The 2Q19 GDP estimate fell from 2.6% to 2.1% on its first reading. We think the 2019 GDP estimate of 2.2% may be too low and could be revised upward to a range of 2.3% to 2.5%, because we think lower rates brought on the expectations of a series of Fed cuts and trade tensions will help U.S. growth, while stimulative efforts overseas will aid global growth in the second half of 2019.

Table 3: GDP Growth

	Q1	Q2	Q3	Q4	Year
2016	**0.6%**	**2.2%**	**2.8%**	**1.8%**	**1.5%**
2017	**1.2%**	**3.1%**	**3.2%**	**2.8%**	**2.5%**
2018	**2.2%**	**4.2%**	**2.9%**	**1.1%**	**2.9%**
2019	**3.1%**	**2.1%**	*1.9%*	*1.6%*	*2.2%*
2020	*1.8%*	*1.8%*			*1.8%*
2021					*1.8%*

Source: Actual (Bold) Bureau of Economic Analysis as of 3/19. Projected (Italics) WSJ Economic Survey July 2019

Over the course of the last twelve months, the OECD and IMF have steadily lowered their global growth forecasts from 3.9% to 3.2%. In 2017 and 2018, China's reforms aimed at its shadow banking system and other measures used to deflate a growing debt bubble slowed China growth. The speed of deceleration picked up as the trade conflict

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began to disrupt supply chains. China halted reforms and reversed course in late 2018. The government has steadily lowered bank reserve requirements, which allows banks to lend more. In January, the government issued a tax cut, announced large public works projects and promised more stimulus. Economic data remains mixed for China. GDP growth has fallen to its slowest rate in decades (+6.2%). Credit is expanding again and other economic data points appear to be slowly improving. Some of our EM sources believe the unofficial or true growth rate for China fell below 5% in 4Q18, but think growth is picking up and should show significant improvement in 2H19 helping markets. It is difficult to determine the impact of 10% tariffs on $300 billion of goods and services implemented in September will have on China, particularly since China has signaled it will let its currency fall, which will partially offset tariffs.

EU growth declined for much of this year but started to rebound in the second quarter. Manufacturing countries, such as Germany, are sensitive to trade and have seen their PMIs fall below 50 signaling contractions. Germany's economy almost fell into recession, contracting -0.2% in the third quarter and held steady with 0% growth in 4Q18. The economy rebounded to 0.4% growth in the first quarter. The German 10-year bond now yields -0.4%. Low rates have probably helped Germany recover in the face of trade disruption. Equity markets' response suggests recovery will be muted by new trade actions.

2019 MARKET OUTLOOK – Global Growth Should Rebound

China is stimulating its economy. The Fed cut rates by 25bps (0.25%) on July 31 and immediately ended the drawdown of its balance sheet, where it was not reinvesting its massive holdings of Treasuries and mortgage-back securities purchased as a support mechanism after the financial crisis. In July, the ECB also signaled it would be cutting rates. Traditionally, these signs are favorable for global equities. Generally, as the old investing adage states, investors should not "Fight the Fed" or other global bankers (please see Figure 3). Nevertheless, we are a little more cautious on international and EM equities in the short term, until either deal/truce occurs or data suggest trade-impacted economies have bottomed and can grow through trade negotiations.

Figure 4: Don't Fight the Fed (Central Bankers)

Source: Ned Davis Research

Figure 5: Corporate Profits Weakening

Source: WSJ, The Daily Shot

U.S. Stock Markets: We are modestly more bullish on the U.S. stock market now than at the beginning of the year, however, investors may be pricing in much of the benefits from lower rates. On the one hand, we think EPS estimates for 2019 may have been cut too low, particularly for the first two quarters. At the end of 3Q18, 2019 S&P 500 earnings were expected to grow 10% to $178 per share. Currently the 2019 estimate has fallen to $167 per share projecting 3% growth. Mid and small cap earnings were expected to grow 13% to 15% in 2019 at the end of the third quarter are now expected to deliver only 3% to 4% earnings growth. We expect 2019 estimates to be raised in coming quarters. On the other hand, 2020 estimates may still be too high expecting 12% to 13% growth for U.S. equities. Improving fundamentals should argue for the market to hold onto the gains made in the first half of the year. A materially higher market is more likely to be driven by sentiment pushing the multiple higher than a strong uptick to forecasted earnings growth. Lower rates resulting

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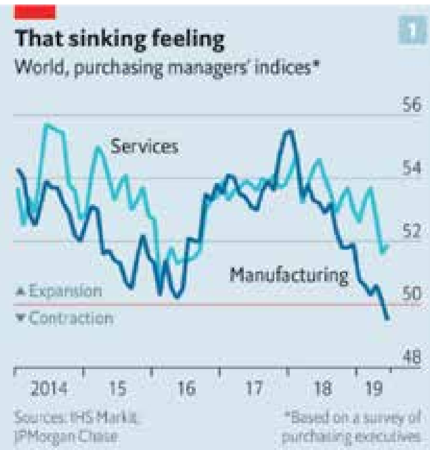
from a dovish Fed are constructive for higher market multiples. Please see market valuation section below for our estimate of market returns for 2019.

U.S. Bond Markets: Over the last twelve months we have moved from underweighting U.S. bonds to closer to equal-weighting as we thought the Fed may be nearing the end of its rate hiking cycle. For the past three years we have been underweight duration favoring short term bonds, which are less volatile when rates are rising. The rate hikes and stronger economic data enabled the 10-Year Treasury to reach about 3.25% during the fourth quarter of 2018. Rates reversed course during the first quarter and fell to a low yield of 1.74% for the 10-year treasury in early August – a drop of almost 150bps in less than 9 months. After barely breaking even in 2018 (+0.01% return), the Bloomberg Barclays Aggregate Bond index returned +6.35% for 2019. Through early August, bonds have priced in more cuts than the Fed is expected to carry out over the next 6 to 12 months. We believe bond returns are likely to fall below our 2% to 3% estimated range for the next 6 to 9 months before returning to that range for remainder of 2020.

Figure 6: Global PMIs



Source: The Economist

International Stock and Bond Markets: Both developed market equities and emerging market equities have rebounded from fourth quarter lows, but are still trading below average historical Price/Earnings multiples of 14x and 12x forward 2019 earnings, respectively. The trade negotiations had been the biggest obstacle to sentiment for the asset class and this concern was largely removed in early March. China remains the key lynch pin for returns. Its many stimulus efforts are beginning to result in signs of improving fundamentals and its stock indices rallied almost 30% in 2019, but have now corrected 15% in July and August. We believe the fundamental outlook for emerging economies and earnings will continue to improve, but EM equities have been placed in the penalty box by investors as a result of the renewed trade fight in July and August. Investors are exiting EM equities as they did in May, when China walked away from the negotiating table. In June and July EM equities rebounded as trade discussions resumed. The latest move by China in August to devalue the currency is pressuring APAC currencies as well as equities to multi-year lows. Currently, we are trading around our EM positions by halving our EM allocation to sidestep further weakness with the expectation to add to allocations in coming months or as trade discussions become more constructive. The Chines are scheduled back in the U.S. the first week of September to continue talks.

We believe that many developed international markets are likely to move sideways for much of 2019, until the European Central Bank decides to cut rates. Even though manufacturing PMIs are still falling incrementally, the EU appears to be bottoming or stabilizing at this point (please see Figure 5). A stronger rally in European equities may depend on a trade resolution and evidence that China and EM trading partners are beginning to strengthen. We believe signs of a stronger uptick in developed market economic data will lag the improvement in EM countries by a few quarters possibly making the asset class more attractive in late 2019 or 2020 (please see Figure 6). We think emerging market bonds may outperform U.S. bonds in 2H19, but do not have a strong enough risk/return profile for a large weighting. Developed market bonds will likely perform in line with U.S. bonds helped by a weaker dollar.

MARKET RISKS: Will Central Banks Run out of Bullets?

In 2017 and 2018, global markets attempted to transition from a prolonged period of massive Quantitative Easing to a period of "Quantitative Tightening" to normalize rates closer to historic levels and deflate potential asset bubbles. A big concern for markets has been, "Can Central Bankers tighten without making a policy mistake?" With the backdrop of trade disputes, tighter policy quickly led to a global slowdown in 2018.

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Reversing Course: Spurring investment concern is that none of the Central Banks were able to move rates back to "normal" historical rate levels. The U.S. was probably the closest, but the EU has not yet started to hike rates. EU rates started to drift higher as GDP improved and the ECB started to buy back fewer bonds over time. Now that the ECB has signaled it will cut rates in upcoming meetings, sovereign bond yields have plunged into negative territory across Europe and Japan (please see Table 3).

Table 4: Negative Sovereign Rates - "The Red Tide"

Negative Bond Yields as of July 15, 2019									
Country	1-Year	2-Year	3-Year	4-Year	5-Year	10-Year	15-Year	20-Year	30-Year
Switzerland	-0.99	-0.96	-0.96	-0.92	-0.88	-0.57	-0.29	-0.13	0.02
Germany	-0.69	-0.74	-0.74	-0.69	-0.60	-0.25	-0.08	0.11	0.33
Japan	-0.19	-0.19	-0.19	-0.21	-0.22	-0.13	0.07	0.24	0.38
Austria	-0.64	-0.68	-0.62	-0.57	-0.47	-0.04	0.30	0.40	0.68
Netherlands		-0.72	-0.72	-0.64	-0.55	-0.13	0.03	0.30	0.33
France	-0.62	-0.68	-0.67	-0.63	-0.51	-0.01	0.36	0.48	0.96
Finland	-0.67	-0.68	-0.63	-0.56	-0.52	-0.02	0.24		0.55
Denmark		-0.77	-0.71		-0.66	-0.23		0.08	
Sweden		-0.57		-0.54	-0.46	0.09	0.28	0.59	
Belgium	-0.61	-0.65	-0.63	-0.52	-0.40	0.07	0.41	0.65	1.04
Ireland	-0.60		-0.47	-0.44	-0.35	0.18	0.56	0.75	1.12
Spain	-0.46	-0.48	-0.43	-0.25	-0.16	0.48	0.94	0.94	1.46
Italy	-0.14	-0.05	0.40	0.54	0.86	1.60	2.11	2.29	2.67
United States	1.77	1.61	0.16		1.55	1.74			2.25

*United States yields as of August 7, 2019

Diminishing Returns to Monetary Policy?

The fear by many in the market is that monetary policy may be rendered ineffective, because rates can only be pushed so low. We believe this partially explains why the ECB has not taken stronger action as the GDP growth rates of EU economies and inflation fall to levels below the U.S. Some also point to problems evidenced by the growing shadow banking system in Europe made up of U.S. and European hedge funds. Banks are lending to only their most creditworthy clients, for fear that thin lending margins ("spreads") could be wiped out if rates rise and defaults increase. Creditworthy small and mid-cap European companies that would normally access bank loans have been driven to higher cost (8% to 12%) loans underwritten by hedge funds. The bifurcation of credit markets is defeating the primary intent of monetary policy to increase credit, so more projects will be funded, which promotes economic growth. We believe that new monetary policies will be tried by the ECB to increase growth and fend off deflation as conditions worsen and rates drift lower (more negative). The EU may be hamstrung by the political calendar. A new EU parliament was elected this summer and a new ECB President was named (former IMF President, Christine Lagarde). There is much debate in the U.S. as to whether rates may have to fall into negative territory to keep the economy out of recession. China has used a mix of monetary policies from lower rates and cuts to bank reserve requirements as well as fiscal policies such as tax cuts and large infrastructure spending projects to maintain GDP growth of higher than 6%. China needs this higher growth to transition its economy from one of exports and government transfer payments to a consumer based economy that can rely on its own economy for growth.

MARKET VALUATION, EXPECTED RETURNS & PORTFOLIO STRATEGY

Earlier this year S&P 500 earnings were revised downward from $178 (10% growth) to $167 (3% growth - please see Figure 9). After second quarter earnings, the estimate fell to $166 as third quarter earnings were lowered by 1.6%,

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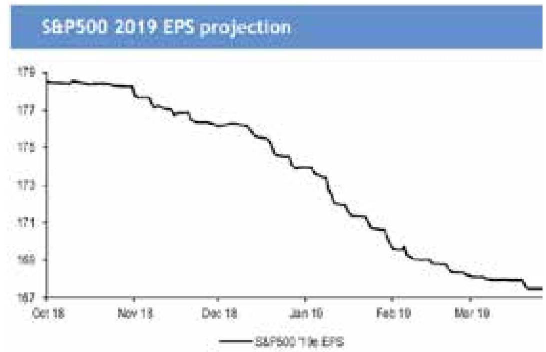
suggesting that estimates are bottoming. Energy and materials, which are impacted by lower oil prices, experienced the sharpest revisions after the second quarter. If oil can return to the $60 price level, we would expect $2 to $3 of earnings to be added back to the estimate later in the year. Third quarter earnings are expected to deliver low single digit growth with high single digit growth not expected until 4Q19, which will be reported in January and February of 2020. Revenue growth guidance, however, has remained relatively stable for much of the S&P 500. Prior to rate cuts we thought the 2020 estimate may be too high and may only exhibit 6% to 7% growth knocking the estimate down to $177 from $184 currently. We think 10% earnings growth is possible if the rate cuts spur growth and the trade conflict is resolved or suspended for the election. We believe the former is more likely. Even if suspended, trade overhang makes capital investment decisions difficult for companies and is a drag on economic growth, which impacts earnings growth. We think it may take 9 to 12 months to see the impact of lower rates in earnings.

Figure 7: Drop in 2019 S&P 500 EPS Estimates



Source: JP Morgan Cazenove

If our earnings estimates are correct, the market should be able to hold ~15% gains made through early August, which places an average 15.7x multiple on our estimate for next year's earnings. In one view, the 10-year Treasury represents the risk free rate. As the risk free rate is lowered, the overall market discount or hurdle rate falls. Price to Earnings multiples represent the inverse of this rate. Therefore, we would expect multiples to move higher as they did in July. In order for the multiple to go higher on lower rates, economic fundamentals and earnings have to improve. The pullback in August implies that the market fears the negative impact on economic and earnings growth from the trade conflict will be greater than the positive impact resulting from lower rates. We are not so sure and think 2020 earnings estimates may weather this latest round of disputes with help from lower rates. If earnings can weather any trade storm next year, we think the S&P 500 may generate earnings between $175 and $180. We believe that could result in 5%-8% upside next year (please see Table 4).

Table 5: S&P 500 Valuation

- S&P 500 Value 08/07/19:	2,881
- S&P 500 Multiple 18A:	17.8x
- S&P 500 Forward Multiple 19E:	17.4x
- S&P 500 Forward Multiple 20E:	15.7x

		Growth %
- 2017 Actual:	$132	11.8%
- 2018 Actual:	$162	22.7%
- 2019 Estimate:	$166	2.2%
- 2020 Estimate:	$184	11.2%

Implied S&P 500 Valuation

	$155	$160	$165	$170	$175	$180	$185	$190
13.0x	2,015	2,080	2,145	2,210	2,275	2,340	2,405	2,470
13.5x	2,093	2,160	2,228	2,295	2,363	2,430	2,498	2,565
14.0x	2,170	2,240	2,310	2,380	2,450	2,520	2,590	2,660
14.5x	2,248	2,320	2,393	2,465	2,538	2,610	2,683	2,755
15.0x	2,325	2,400	2,475	2,550	2,625	2,700	2,775	2,850
15.5x	2,403	2,480	2,558	2,635	2,713	2,790	2,868	2,945
16.0x	2,480	2,560	2,640	2,720	2,800	2,880	2,960	3,040
16.5x	2,558	2,640	2,723	2,805	2,888	2,970	3,053	3,135
17.0x	2,635	2,720	2,805	2,890	2,975	3,060	3,145	3,230
17.5x	2,713	2,800	2,888	2,975	3,063	3,150	3,238	3,325
18.0x	2,790	2,880	2,970	3,060	3,150	3,240	3,330	3,420
18.5x	2,868	2,960	3,053	3,145	3,238	3,330	3,423	3,515
19.0x	2,945	3,040	3,135	3,230	3,325	3,420	3,515	3,610
19.5x	3,023	3,120	3,218	3,315	3,413	3,510	3,608	3,705
20.0x	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800

Implied S&P 500 Price Change 8/7/2019

	$155	$160	$165	$170	$175	$180	$185	$190
13.0x	-30%	-28%	-26%	-23%	-21%	-19%	-17%	-14%
13.5x	-27%	-25%	-23%	-20%	-18%	-16%	-13%	-11%
14.0x	-25%	-22%	-20%	-17%	-15%	-13%	-10%	-8%
14.5x	-22%	-19%	-17%	-14%	-12%	-9%	-7%	-4%
15.0x	-19%	-17%	-14%	-11%	-9%	-6%	-4%	-1%
15.5x	-17%	-14%	-11%	-9%	-6%	-3%	0%	2%
16.0x	-14%	-11%	-8%	-6%	-3%	0%	3%	6%
16.5x	-11%	-8%	-6%	-3%	0%	3%	6%	9%
17.0x	-9%	-6%	-3%	0%	3%	6%	9%	12%
17.5x	-6%	-3%	0%	3%	6%	9%	12%	15%
18.0x	-3%	0%	3%	6%	9%	12%	16%	19%
18.5x	0%	3%	6%	9%	12%	16%	19%	22%
19.0x	2%	6%	9%	12%	15%	19%	22%	25%
19.5x	5%	8%	12%	15%	18%	22%	25%	29%
20.0x	8%	11%	15%	18%	21%	25%	28%	32%

Source: Yardeni Research & CB&T. Note add ~2% in dividends for S&P 500 total return
Pink Shade - Bear Market from 3028 2019 peak; Yellow Shade - Expected Levels; Green Shade - Irrational Exuberance

Commonwealth Bank & Trust Company

4350 Brownsboro Rd.
Suite 210
Louisville, KY 40207

p (502) 259-2500
f (502) 259-1501
www.cbandt.com

ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	ACTIONS TAKEN →	RESULTS	WE BELIEVE →	ACTIONS WE ARE TAKING
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
Expected market to hold 15% gains made in 2019 YTD. Possible upside of 4%-8% in next 9-12 months.	Maintained current U.S. equity weights despite recovery.	**Large Cap 4.3% in 2Q19 (18.5% YTD), Small 2.1% (17.0% YTD) and Mid cap 3.0% (18.0% YTD).**	U.S. growth likely to rebound from monetary stimulus, despite trade uncertainties.	Trimming international and reallocating to U.S. equities in light of trade conflict, currency concerns and slower growth overseas.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
We saw Chinese stimulus beginning to improve China and EM growth. Brazil and India improv-ing. Expected dollar to fall on lower U.S. rate picture.	We added to EM positions and used developed international equities as a source of funds.	**International equities slightly underperformed U.S. 3.7% (14.0% YTD) v. 4.3% (18.5%). EM underperformed 0.6% (10.6%). EM fell as trade conflict was flared up.**	Even though China stimulus is helping, the trade conflict has taken a darker turn. Currencies are weakening and capital is flowing out of EM.	We are cutting our EM al-location in half and trimming developed international to re-allocate to U.S. equities in light of trade conflict, currency concerns and slower growth overseas.
FIXED INCOME			FIXED INCOME	
We thought the Fed would not raise rates in 2019 and the next move was more likely a rate cut. A rate cut is unlikely anytime soon as employ-ment remains below 4%. We thought rates would rise off March lows.	We maintained an underweight allocation to fixed income and kept a large overweight to short duration securities.	**At first rates rose off of March lows, but the Fed became more dovish throughout the quarter and surprised markets by signaling a rate cut despite low unemployment and above cycle GDP growth. Rates fell further helping longer duration positions. The BBG Aggregate returned 3.1% (6.1% YTD).**	The Fed cut rates 0.25% in July. We believe the Fed will continue to cut rates in September and beyond. The market has priced in 100bps of cuts. We believe 3 ad-ditional rates are likely in the next 9-12 months.	We remain underweight fixed income and believe much of the near term returns have been priced in, but have halved our short duration position and moved it in line with the duration of the BBG Aggregate index.
We believed munis were at fair value.	We maintained an equal weight to munis.	**Munis slightly underperformed core bonds in the quarter (+2.14% vs. +3.08%) and for the year (5.09% v. 6.11%).**	We believe munis are at fair value.	We are maintaining an equal weight to munis at this time.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We expect volatility to be about average as we believe global growth will start rebounding from QE in the face of trade uncertainty.	We maintained a 10% allocation to alternative strategies.	**Volatility spiked in May after the Chinese walked away from trade negotiations. Managed futures alternatives, which makes up the heaviest weight of our alternatives, returned 2.8% (4.7% YTD).**	We expect volatility to remain elevated in the back half of the year. QE should be constructive and reduce volatility, if trade issues are removed.	We are maintaining our 10% allocation continuing to focus on strategies with no structural correlation to equities.
For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.				